State of Rhode Island
and Providence Plantations

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2012

Office of the Auditor General
General Assembly

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
oag.ri.gov
86 Weybosset Street • Providence, RI • 02903-2800
tel: 401.222.2435 • fax: 401.222.2111

March 29, 2013

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, 2012. 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
Auditor General

Condensed Table of Contents

Condensed Table of Contents (continued)

Financial Statements

Basic Financial Statements

Table of Contents

PAGE

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
oag.ri.gov
86 Weybosset Street • Providence, RI • 02903-2800
tel: 401.222.2435 • fax: 401.222.2111

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, 2012, 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:

- a component unit which represents 1% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 4% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 64% of the assets and 2% of the revenues of the business-type activities;

- the external investment trust – Ocean State Investment Pool which represents less than 1% of the assets and revenues of the aggregate remaining fund information; 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 these funds and component units, 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 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.

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

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, 2012, 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 6(J), the State has borrowed $225 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 $152 million at June 30, 2012.

As disclosed in Note 12, various lawsuits have been filed challenging pension reforms legislatively enacted in 2009 and 2010 as well as the more recent pension reforms enacted on November 18, 2011. An adverse judgment to the State resulting from these challenges could significantly increase both the unfunded liability of the plans included within the pension trust funds and the State's actuarially determined annual required contribution.

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

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages A-4 through A-22, the Budgetary Comparison Schedules on pages A-103 through A-106, and the Schedules of Funding Progress on pages A-107 through A-108 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the

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

financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described previously, and the reports of the other auditors, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Dennis E. Hoyle, CPA
Auditor General

December 20, 2012

State of Rhode Island

Fiscal Year Ended June 30, 2012

Management's Discussion and Analysis

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, 2012. 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, 2012 by $1,205.9 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, ($1,523.9) million was reported as unrestricted net assets (deficit), $562.2 million as restricted net assets, and $2,167.6 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 $279.0 million in fiscal year 2012. Net assets of governmental activities increased by $280.1 million, primarily because of significant increases in tax revenue due to the gradually improving economy and careful management of expenditures. In addition, operating grants and contributions declined significantly. This is primarily attributable to a decline in Federal funding resulting from the winding down of funding from the American Recovery and Reinvestment Act. Net assets of the business-type activities decreased by $1.1 million due primarily to the operating losses of the R.I. Convention Center and the Employment Security Fund. The latter 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 $966.9 million, an increase of $170.9 million in comparison with the previous fiscal year. This is primarily a result of the increase in the fund balance of the General Fund which is attributable to better than expected revenue and careful management of expenditures. In addition, the fund balance of the Bond Capital Fund increased due to a new bond issue and the fund balance of the R.I. Capital Fund increased as a result of constitutionally mandated transfers to this fund.

- As of June 30, 2012, the State's General Fund reported an ending fund balance of $373.2 million, an increase of $102.3 million as compared to the prior year. This change resulted from increases in general revenue, primarily taxes, in fiscal year 2012 and the implementation of a number of measures to further enhance controls over expenditures which resulted in general revenue expenditures being less than appropriations by $29.0 million.

- As of June 30, 2012, the State's Intermodal Surface Transportation Fund reported an ending fund balance of $108.7 million, a decrease of $23.1 million as compared to the prior year. The decrease was primarily due to expenditures of bond proceeds recorded in prior years as well as a slight decline in gasoline tax revenue.

Proprietary Funds

- The Rhode Island State Lottery transferred $377.7 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $22.8 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 ($151.5) million, as compared with a fund deficit of ($153.1) million at the end of fiscal year 2011. This change was primarily attributable to the level of unemployment benefits paid as a result of the continuing high unemployment rate in the State.

- The R.I. Convention Center Authority ended the fiscal year with a net asset deficiency of ($54.2) million, a deficit increase of $3.3 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, 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). 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, an external investment trust, a private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State's CAFR.

Discretely Presented Component Units

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

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 $1,205.9 million at the end of fiscal year 2012, compared to $926.9 million at the end of the prior fiscal year. Governmental activities reported unrestricted net assets (deficit) of ($1,366.5) 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, 2012
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 1,831,030	$ 1,608,885	$ 126,097	$ 116,487	$ 1,957,127	$ 1,725,372
Capital assets	3,254,026	3,130,020	177,461	187,120	3,431,487	3,317,140
Total assets	5,085,056	4,738,905	303,558	303,607	5,388,614	5,042,512
Long-term liabilities outstanding	2,671,882	2,683,490	464,090	470,452	3,135,972	3,153,942
Other liabilities	994,679	916,985	52,048	44,663	1,046,727	961,648
Total liabilities	3,666,561	3,600,475	516,138	515,115	4,182,699	4,115,590
Net assets:						
Invested in capital assets, net of related debt	2,232,121	2,115,001	(64,492)	(63,156)	2,167,629	2,051,845
Restricted	552,863	462,751	9,308	11,036	562,171	473,787
Unrestricted	(1,366,489)	(1,439,322)	(157,396)	(159,388)	(1,523,885)	(1,598,710)
Total net assets	$ 1,418,495	$ 1,138,430	$ (212,580)	$ (211,508)	$ 1,205,915	$ 926,922

As indicated above, the State reported a balance in unrestricted net assets (deficit) of ($1,523.9) million as of June 30, 2012 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. As of June 30, 2012 approximately $599.0 million of general obligation bonds related to such projects were outstanding.

Examples of these uses of general obligation bond proceeds include, but are not limited to, the following:

- Certain transportation projects funded with bond proceeds that do not meet the State's criteria for capitalization as infrastructure;
- Construction of facilities at the State's university and colleges, which are reflected in the financial statements as discretely presented component units;
- Water resources projects including the acquisition of sites for future water supply resources, various water resources planning initiatives, and funding to upgrade local water treatment facilities;
- Environmental programs to acquire, develop, and rehabilitate local recreational facilities and ensure that open space is preserved;
- Historical preservation initiatives designed to protect and preserve historical buildings as well as to provide funding for cultural facilities.

Other debt that is not for the State's acquisition of capital assets is as follows:

- Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882.4 million 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 to satisfy any deficiency or default of any payment of the bonds. As of June 30, 2012 approximately $779.0 million of principal and $67.0 million of accreted interest are included in the State's debt.

- Historic Tax Credit Bonds - In fiscal year 2009 the R.I. Economic Development Corporation (RIEDC), on behalf of the State, issued $150.0 million of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. As of June 30, 2012, approximately $106.0 million is outstanding.

- The State has entered into certain capital lease agreements, Certificates of Participation (COPS), the proceeds of which are to be used by the State's university and colleges for energy conservation projects or by local school districts to increase electronic communication on a state-wide basis. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly. As of June 30, 2012, approximately $32.0 million is outstanding relating to these projects.

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

Changes in Net Assets

The State's net assets increased by $279.0 million during the current fiscal year. Total revenues of $7,212.5 million were more than expenses of $6,933.6 million. Approximately 39.2% of the State's total revenue came from taxes, while 37.2% resulted from grants and contributions (including federal financial aid). Charges for various goods and services provided 21.7% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 42.8%, and education, 19.2%. In fiscal year 2012, governmental activity expenses exceeded program revenues by $3,011.5 million, with excess expenses being funded through general revenues. Net program revenues from business-type activities in fiscal year 2012 exceeded expenses by $326.7 million.

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011 *	2012	2011 *
Revenues:						
Program revenues:						
Charges for services	$ 508,140	$ 482,652	$ 1,056,285	$ 985,556	$ 1,564,425	$ 1,468,208
Operating grants and contributions	2,194,892	2,387,540	278,671	358,932	2,473,563	2,746,472
Capital grants and contributions	210,720	162,032			210,720	162,032
General revenues:						
Taxes	2,824,368	2,665,169			2,824,368	2,665,169
Interest and investment earnings	4,304	5,561	94	79	4,398	5,640
Miscellaneous	118,506	102,478	16,564	25,439	135,070	127,917
Total revenues	5,860,930	5,805,432	1,351,614	1,370,006	7,212,544	7,175,438
Program expenses:						
General government	653,003	644,194			653,003	644,194
Human services	2,970,269	3,013,081			2,970,269	3,013,081
Education	1,334,355	1,332,453			1,334,355	1,332,453
Public safety	468,098	436,940			468,098	436,940
Natural resources	85,039	80,360			85,039	80,360
Transportation	268,523	300,366			268,523	300,366
Interest	145,964	148,850			145,964	148,850
Lottery			399,421	368,870	399,421	368,870
Convention Center			49,439	48,780	49,439	48,780
Employment insurance			559,440	661,078	559,440	661,078
Total expenses	5,925,251	5,956,244	1,008,300	1,078,728	6,933,551	7,034,972
Excess (deficiency) before transfers	(64,321)	(150,812)	343,314	291,278	278,993	140,466
Transfers	344,386	331,186	(344,386)	(331,186)		
Change in net assets	280,065	180,374	(1,072)	(39,908)	278,993	140,466
Net assets - Beginning	1,138,430	972,714	(211,508)	(171,600)	926,922	801,114
Cumulative effect of prior period adjustments		(14,658)				(14,658)
Net assets - Beginning, as restated	1,138,430	958,056	(211,508)	(171,600)	926,922	786,456
Net assets - Ending	$ 1,418,495	$ 1,138,430	$ (212,580)	$ (211,508)	$ 1,205,915	$ 926,922

***** Certain fiscal year 2011 amounts have been reclassified to conform to the current year presentation.

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2012.

Chart 1 - Revenues and Transfers - Governmental Activities

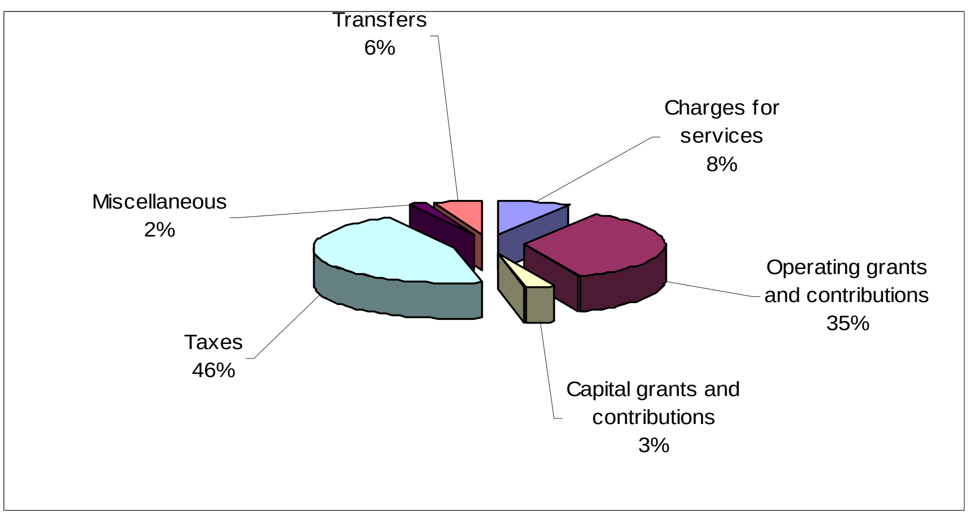
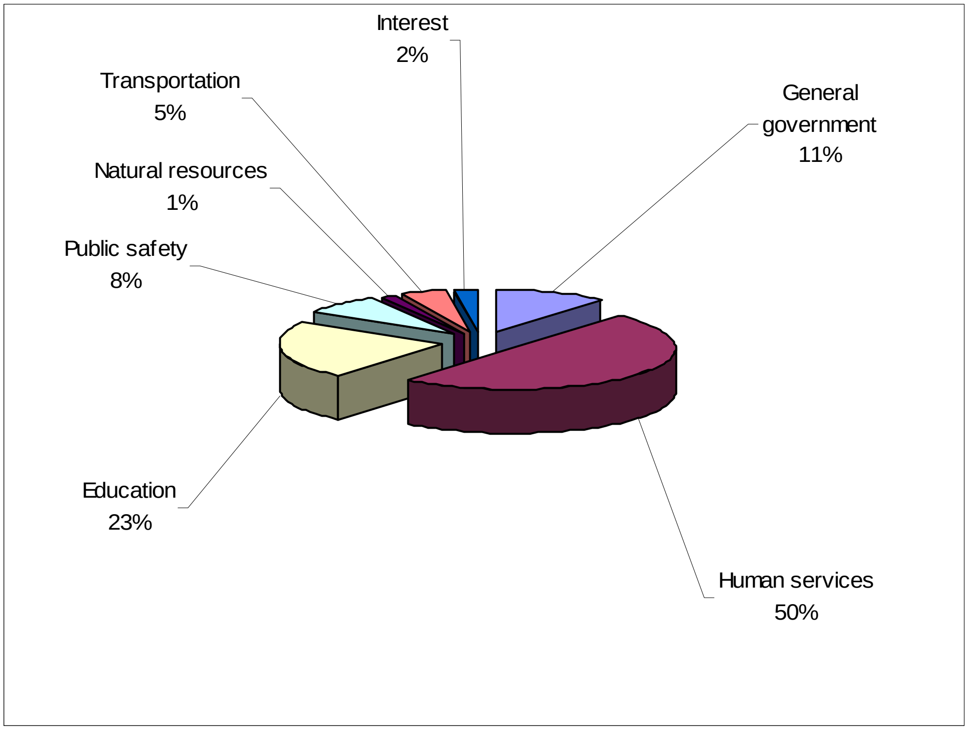


Chart 2 depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2012.

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 $966.9 million, an increase of $170.9 million from June 30, 2011. A breakdown of the components follows (expressed in thousands):

	2012	2011	Change	Percent
Governmental Funds				
Nonspendable	$ 174	$ 53,527	$ (53,353)	-99.67%
Restricted	828,623	726,136	102,487	14.11%
Unrestricted				
Committed	24,535	7,404	17,131	231.37%
Assigned	97,957	8,709	89,248	1024.78%
Unassigned	15,657	238	15,419	6478.57%
Total	$ 966,946	$ 796,014	$ 170,932	21.47%

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.

Significant changes in fund balance are discussed below:

- The reduction in the nonspendable fund balance resulted from improved management of the timing of payment of certain prepaid expenses in fiscal year 2012.
- The increase in restricted fund balance is primarily a result of new debt issues in fiscal year 2012 reflected in certain capital projects funds.
- The increase in the assigned portion of the unrestricted fund balance is primarily attributable to the general fund surplus that has been earmarked as a resource in the fiscal year 2013 budget.

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):

	2012	2011	Change	Percent
Nonspendable	$	$ 53,353	$ (53,353)	-100.00%
Restricted	232,348	197,885	34,463	17.42%
Unrestricted				
Committed	22,793	5,956	16,837	282.69%
Assigned	97,639	8,425	89,214	1058.92%
Unassigned	20,374	5,281	15,093	285.80%
Total	$ 373,154	$ 270,900	$ 102,254	37.75%

Revenues and transfers of the General Fund totaled $5,650.5 million in fiscal year 2012, an increase of $12.5 million or 0.22%, 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):

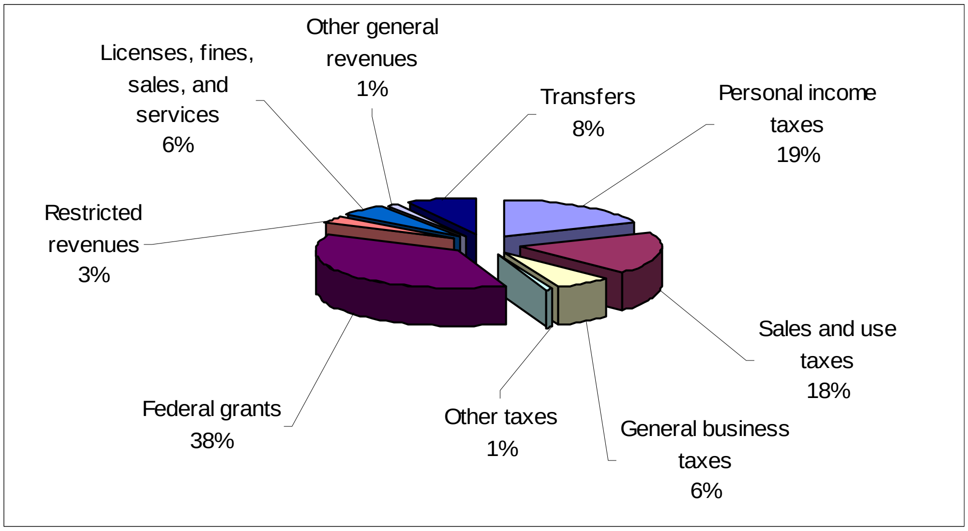
			Increase (decrease) from 2011	
	2012	2011 *	Amount	Percent
Taxes:				
Personal income	$ 1,059,119	$ 1,014,617	$ 44,502	4.39%
Sales and use	1,043,141	1,007,460	35,681	3.54%
General business	355,457	286,564	68,893	24.04%
Other	54,174	54,551	(377)	-0.69%
Subtotal	2,511,891	2,363,192	148,699	6.29%
Federal grants	2,119,476	2,314,100	(194,624)	-8.41%
Restricted revenues	192,642	174,192	18,450	10.59%
Licenses, fines, sales, and services	313,455	309,687	3,768	1.22%
Other general revenues	71,059	52,113	18,946	36.36%
Subtotal	2,696,632	2,850,092	(153,460)	-5.38%
Total revenues	5,208,523	5,213,284	(4,761)	-0.09%
Transfers	441,953	424,654	17,299	4.07%
Total revenue and transfers	$ 5,650,476	$ 5,637,938	$ 12,538	0.22%

***** Certain fiscal year 2011 amounts have been reclassified to conform to the current year presentation.

Personal income taxes increased robustly between fiscal year 2011 and fiscal year 2012 due to a sharp increase in estimated payments of 12.0 percent and increased withholding tax payments of 4.5 percent. These increases were offset by an increase in refunds paid of 2.6 percent and a modest decrease in final payments received of 4.3 percent. The increase in refunds paid and the decrease in final payments received are likely attributable in part to the fact that the 2010 General Assembly enacted an overhaul of the State's personal income tax system effective January 1, 2011. The increase in refunds paid and the decrease in final payments were due in part to the change in the withholding tables issued by the Division of Taxation effective on January 1, 2011 which resulted in lower and moderate income taxpayers having more withheld from their wages and salaries then their final tax liabilities warranted. The increase in withholding tax payments in fiscal year 2012 compared to fiscal year 2011 is due to the State's improving economy which saw a decline in the State's unemployment rate from 11.4 percent to 11.1 percent.

Chart 3 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2012.

Chart 3 – Revenues and Other Sources – General Fund



Expenditures and other uses totaled $5,548.2 million in fiscal year 2012, a decrease of $4.3 million, or -0.08%, 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):

	2012	2011	Increase (decrease) from 2011 Amount	Percent
General government	$ 474,135	$ 458,222	$ 15,913	3.47%
Human services	2,969,166	3,009,097	(39,931)	-1.33%
Education	1,281,879	1,287,549	(5,670)	-0.44%
Public safety	459,114	428,687	30,427	7.10%
Natural resources	75,141	71,812	3,329	4.64%
Debt Service:				
Principal	111,711	106,961	4,750	4.44%
Interest	73,249	75,634	(2,385)	-3.15%
Total expenditures	5,444,395	5,437,962	6,433	0.12%
Other uses	103,827	114,526	(10,699)	-9.34%
Total expenditures and other uses	$ 5,548,222	$ 5,552,488	$ (4,266)	-0.08%

The increase from the prior year in the General Government function is attributable to three main items. First, there was an increase of approximately $10.8 million in the transfer from Unclaimed Property to the General Fund. Second, there was a net increase in state aid to municipalities of approximately $8.8 million, $5.5 million for the Payment in Lieu of Taxes program and $2.8 million associated with the bankruptcy in the City of Central Falls. These increases were offset by the transfer of the Sheriffs program from the Department of Administration to the Department of Public Safety accounting for a decrease in the General Government function of approximately $16.5 million.

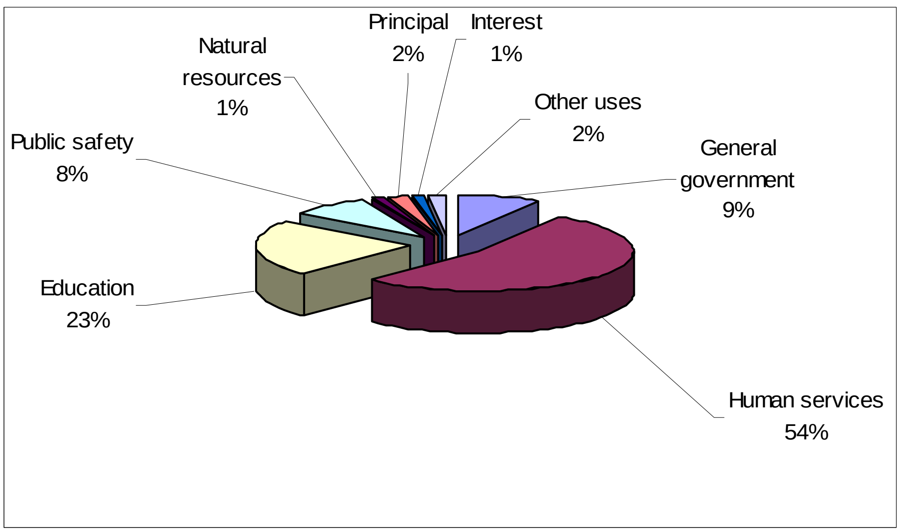
The decrease in the Human Services function expenditures is primarily attributable to the loss of federal funds under the American Recovery and Reinvestment Act (ARRA) in the Departments of Children, Youth and Families and Behavioral Healthcare, Developmental Disabilities and Hospitals. The Department of Human Services saw a significant decrease in federal funds under the Medicaid program due to the end of the enhanced matching rate authorized under the ARRA legislation. However, most of this loss of federal funds was offset by a commensurate increase in general revenue funds to continue funding the Medicaid programs.

The decrease in the Education function expenditures was also attributable to the loss of ARRA funds ($50.6 million), offset by increases in state aid to education ($9.3 million), the State share of Teachers' Retirement costs ($10.1 million), Race to the Top federal funds ($16.0 million), and additional State support for Higher Education ($3.3 million).

The increase in the Public Safety function is primarily attributable to the transfer of the Sheriffs ($16.5 million) from the Department of Administration, as referenced above under the General Government function. Other increases include additional payroll costs at the Department of Corrections due to prior year contract negotiations with the Rhode Island Brotherhood of Correctional Officers and in the Department of Public Safety for State Police Troopers' compensation.

Chart 4 depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2012.

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 and related expenditures. The components of fund balance of the IST fund are as follows (expressed in thousands):

	2012	2011	Change	Percent
Restricted	$ 111,537	$ 135,310	$ (23,773)	-17.57%
Unrestricted				
Committed	1,742	1,448	294	20.30%
Assigned	117	85	32	37.65%
Unassigned (deficit)	(4,717)	(5,043)	326	6.46%
Total	$ 108,679	$ 131,800	$ (23,121)	-17.54%

General Fund Budgetary Highlights – General Revenue Sources

Prior to fiscal year 2009, 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 fiscal year 2009, the spending cap decreased by .2% and Reserve limitation increased by .4%. For fiscal year 2011 and subsequent years the spending cap decreases by .2% and the reserve limitation increases by .4% each year until fiscal year 2013, 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.

The RI General Laws require that all general revenues received in the fiscal year (net of the transfer to the State budget reserve and cash stabilization account) in excess of the amount in the final enacted budget should be paid to State Employees' Retirement System upon issuance of the audited financial statements. The amount of the revenue excess is $12.9 million based on the audited fiscal year 2012 financial statements and it is expected to be transferred in fiscal year 2013.

Adjustments to general revenue receipt estimates resulted in an increase of $81.4 million between the original budget and the final budget. General revenue appropriations decreased from the original budget by $3.2 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General Fund Budgetary Highlights
General Revenue Sources

	Original Budget	Final Budget	Actual	Final Budget vs. Actual Variance
Revenues and sources:				
Taxes:				
Personal income	$ 1,010,021	$ 1,046,200	$ 1,060,482	$ 14,282
General business	367,052	365,100	360,654	(4,446)
Sales and use	1,044,813	1,040,300	1,043,140	2,840
Other taxes	37,000	52,000	54,172	2,172
Departmental revenue	343,543	344,500	339,895	(4,605)
Other sources:				
Miscellaneous	6,325	16,800	20,110	3,310
Lottery transfer	361,042	378,500	377,706	(794)
Unclaimed property	6,200	14,000	14,556	556
Total revenues and other sources	3,175,996	3,257,400	3,270,715	13,315
Expenditures and other uses:				
General government	411,139	420,266	411,578	8,688
Human services	1,258,451	1,238,360	1,224,516	13,844
Education	1,040,454	1,041,276	1,037,221	4,055
Public safety	394,837	401,559	398,985	2,574
Natural resources	37,620	37,825	37,942	(117)
Total expenditures and other uses	3,142,501	3,139,286	3,110,242	29,044
Excess of revenues and other sources over expenditures and other uses	$ 33,495	$ 118,114	$ 160,473	$ 42,359

The positive variance from the fiscal year 2012 Original and Final Budgets to the fiscal year 2012 Actual for Personal Income Taxes is due to income tax refunds paid coming in 5.0 percent below the fiscal year 2012 Final Budget estimate and an increase in withholding tax payments received of 2.9 percent above the fiscal year 2012 Original Budget amount. The downward trend in refunds paid was based on actual collections in fiscal year 2011 which were nearly $50.0 million less than the fiscal year 2011 Original Budget and $6.7 million less than the fiscal year 2011 Final Budget. The increase in withholding tax payments received was due to the improved State and regional economies between June 2011 and June 2012 and the fact that two winning Powerball jackpot tickets were sold in Rhode Island in the spring of 2012 resulting in nearly $15.0 million of unexpected withholding tax payments. The increase in Sales and Use Taxes between the fiscal year 2012 Actual and Final Budget is primarily due to the expansion of the sales tax base that took effect on October 1, 2011. Particularly strong sales of software downloaded electronically, which includes applications used on mobile devices, helped drive sales and use tax revenues in the late spring period.

The positive variance in the General Government function of approximately $8.7 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. In the Legislature's budget, the positive variance was primarily in the grants category. The entire surplus for the Legislature is re-appropriated to fiscal year 2013.

The positive variance in the Human Services function of approximately $13.8 million for expenditures was due to a positive variance in the Department of Human Services (DHS) of $16.7 million, offset by negative variances in the Department of Children, Youth and Families (DCYF) of $2.4 million and the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) of $3.8 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 2012. The DCYF negative variance was primarily attributable to lower federal reimbursement for certain 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.

The positive variance in the Education function of approximately $4.1 million is almost entirely in the Department of Elementary and Secondary Education and is attributable to lower than projected state share for the teachers' retirement contribution.

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, 2012, amounts to $3,431.5 million, net of accumulated depreciation of $2,171.6 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 3.4% 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 $256.5 million for the year. Of this amount, $202.6 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $153.2 million.

State of Rhode Island's Capital Assets as of June 30, 2012
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Capital assets not being depreciated or amortized						
Land	$ 358,968	$ 351,873	$ 45,558	$ 45,558	$ 404,526	$ 397,431
Works of Art	1,414	1,283			1,414	1,283
Intangibles	159,093	155,206			159,093	155,206
Construction in progress	446,720	427,459	24	154	446,744	427,613
Total capital assets not being depreciated or amortized	966,195	935,821	45,582	45,712	1,011,777	981,533
Capital assets being depreciated or amortized						
Land improvements	3,700	3,700			3,700	3,700
Buildings	684,233	644,386	234,384	234,130	918,617	878,516
Building improvements	268,975	260,066			268,975	260,066
Equipment	244,977	242,348	25,647	24,956	270,624	267,304
Intangibles	14,049	14,049			14,049	14,049
Infrastructure	3,115,389	2,949,715			3,115,389	2,949,715
	4,331,323	4,114,264	260,031	259,086	4,591,354	4,373,350
Less: Accumulated depreciation or amortization	2,043,492	1,920,065	128,152	117,678	2,171,644	2,037,743
Total capital assets being depreciated or amortized	2,287,831	2,194,199	131,879	141,408	2,419,710	2,335,607
Total capital assets (net)	$ 3,254,026	$ 3,130,020	$ 177,461	$ 187,120	$ 3,431,487	$ 3,317,140

In fiscal year 2012, the State completed a number of significant capital projects, including the Wickford Commuter Rail Station and a new pavilion at East Matunuck State Beach. 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 were ongoing in fiscal year 2012, including construction of a new Sakonnet River Bridge in Tiverton (opened in early fiscal year 2013) and a new Blackstone River Bridge on Route I-95 in Pawtucket, a portion of which was opened in fiscal year 2012. Finally, the State has made a significant investment in commuter rail service by expanding service from Warwick's T.F. Green Airport to the new Wickford Station in Washington County.

Additional information on the State's capital assets can be found in Note 5 to the financial statements of this report.

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50,000 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 $2,409.1 million, of which $1,110.6 million is general obligation debt, $519.1 million is special obligation debt and $779.4 million is debt of the blended component units. Additionally, accreted interest of $15.2 million has been recognized for debt of one blended component unit, which will not be paid until 2052. On an overall basis the State's total bonded debt decreased by $2.7 million during fiscal year 2012. This decrease consists of a $61.2 million increase in general obligation debt, a decrease of $48.1 million in special obligation debt, and a decrease of $15.8 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 $418.3 million and are discussed in Note 6.

The State's assigned general obligation bond ratings at June 30, 2012 were as follows: AA by Standard & Poor's Ratings Services (S&P), Aa2 (with a negative outlook) by Moody's Investor Service, Inc. and AA by Fitch Ratings. 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 $117.0 million; other obligations that are authorized but unissued totaled $396.2 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 2013 Budget

The first quarter report for fiscal year 2013 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2013, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2012 Caseload and Revenue Estimating Conferences. The fiscal year 2013 balance, based upon these assumptions, is estimated to reflect a $48.2 million surplus in the General Fund.

The Budget Office continues to review department and agency fiscal year 2013 expenditure plans in conjunction with the fiscal year 2014 budget process. Any changes recommended by the Governor to the fiscal year 2013 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly in January 2013.

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 $7.5 million more than enacted for fiscal year 2013. Taxes are expected to exceed enacted estimates by $5.2 million, while departmental revenues and other sources, including lottery revenues, are also expected to exceed enacted estimates by $2.3 million. The November Revenue Estimating Conference estimates that revenues will be $3,328.4 million as compared with the enacted estimate of $3,320.9 million for fiscal year 2013.

Lottery Revenue

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

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.

A statewide ballot referendum was approved in November 2012 to allow the expansion of gaming at the Twin River facility located in Lincoln, RI. The expansion allows the facility 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. It is expected that the expanded gaming will go into operation by July 2013.

Pension Benefits

During fiscal year 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 Employees' Retirement System, reducing required employer contributions, and ensuring the long-term viability of the System. The General Assembly convened a special legislative session to 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 has been implemented for most active employees to supplement the reduced benefits provided through the defined benefit plans. The restated unfunded liability of the plans is being reamortized over a 25 year period.

See Note 12 for information about litigation that has been filed relating to these reforms.

Other Postemployment Benefits (OPEB)

Pursuant to legislation enacted by the General Assembly, the State 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, 2011 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 $916.8 million. Based on a discount rate of 5.0%, the State and other participating employers' annual required contribution was $56.8 million. For fiscal year 2012, 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 trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Future changes in healthcare costs, as well as investment returns and other assumptions, could significantly affect the level of contributions required of the State.

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, if no agreement on deficit reduction could be reached with Congress by January 1, 2013. According to a report issued by the federal Office of Management and Budget, if this "sequestration" process goes into effect on January 2, 2013, non-exempt non-defense discretionary programs will be reduced by 8.2 percent and non-exempt defense discretionary programs will be reduced by 9.4 percent. The sequestration will also impose reductions of 2.0 percent to Medicare, 7.6 percent to other non-exempt non-defense mandatory programs and 10.0 percent to non-exempt defense mandatory programs. Certain mandatory programs, such as Medicaid, TANF, foster care and adoption assistance, are exempt from the sequester and thus will not have any reductions imposed.

The sequester reduction for federal fiscal year 2013 would be taken against the annual appropriation authorized for the respective grants in place as of January 2, 2013. However, since the sequester will be implemented one-quarter into the federal fiscal year, it will claim a larger percentage share of funds remaining for the balance of the fiscal year, to account for the fact that some funds have already been awarded and spent.

The Rhode Island programs that receive the most federal funds are those that are exempt from the sequester (i.e. Medicaid). However, the state does receive significant federal resources under discretionary grant programs that will be impacted by the planned reductions. Total federal funding included in the fiscal year 2013 enacted budget under the programs expected to be impacted by the sequester is $374.5 million. If this entire sum were reduced by 8.2 percent, the state would lose a total of $30.7 million in federal funding as of January 2013. The impact of such reductions on the various state and federal programs has not been determined, but could be significant. The State has not made any provisions in its fiscal year 2013 enacted budget to offset lost federal funds with State resources. However, the budget and financial health of the State could be adversely affected by any material disruption or change in the flow of anticipated federal assistance.

Transportation Funding Initiatives

The Blue Ribbon Panel for Transportation Funding released its report in December 2008. The Blue Ribbon Panel projected that the State would need to spend approximately $639 million per year during the next 10 years to maintain the State's highway system in a state of good operation and repair, but that state and federal funding only provides approximately $338.9 million in fiscal year 2012. The Blue Ribbon panel suggested various funding strategies that could possibly be implemented to meet, in whole or in part, the $285 million funding gap each year. Such recommended funding strategies included levying a $3 toll on all cars and $6 on all trucks entering the State, imposing tolls on all bridges between Aquidneck Island and the mainland, raising passenger-vehicle registration fees, raising the State gasoline tax by as much as 15 cents per gallon, creation of a petroleum product gross receipts tax and a vehicle miles traveled fee. The various revenue strategies outlined would require legislation for implementation. Despite the temporary relief provided through America Recovery and Reinvestment Act (ARRA) funding, transportation infrastructure funding will continue to present challenges and the Blue Ribbon Panel funding strategies may be revisited.

Unemployment Insurance Program

The State has borrowed from the Federal Unemployment Trust Fund to continue to pay benefits to unemployed individuals. Outstanding borrowings through June 30, 2012 totaled $224.7 million and the State anticipates needing to continue borrowing in fiscal 2013 in order to fund unemployment benefit payments. The General Assembly passed legislation effective in fiscal years 2012 and 2013 increasing the taxable wage base for employers and reducing the maximum weekly benefit amounts to unemployed individuals. The Department of Labor and Training currently estimates that the combination of benefit adjustments and increased federal and state taxes could enable the State to repay its federal loans from the Federal Unemployment Trust Fund as soon as 2015. This estimate is based on the department's projections of employment and unemployment levels assuming a gradual economic recovery and therefore is uncertain and subject to change.

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 Fourth Amended Plan of Debt Adjustment became effective on October 25, 2012 and allowed the City of Central Falls to emerge from bankruptcy. Under the plan, the City will have court-ordered balanced budgets for Fiscal Years 2013, 2014, 2015, 2016 and 2017 and will impose a 4 percent property tax increase in each of the next five years. Also, as a result of the agreement with the retirees, the City's five-year budget plan contains affordable pay as you go pension and retiree health insurance costs based upon the restructured plans.

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. In addition, a budget commission was appointed for the City of Woonsocket in May 2012.

Many of the locally-administered pension plans are poorly funded with a collective unfunded liability of more than $2 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%. Efforts to improve the funded status of those plans, while recognizing the inherent resource limitations of the sponsoring municipalities, are underway.

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

Fiscal Year Ended June 30, 2012

Basic Financial Statements

State of Rhode Island and Providence Plantations
Statement of Net Assets
June 30, 2012
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 733,975	$ 26,073	$ 760,048	$ 319,706
Funds on deposit with fiscal agent	136,722	1,415	138,137	
Investments				27,481
Receivables (net)	569,447	79,216	648,663	164,814
Restricted assets:				
Cash and cash equivalents		9,309	9,309	483,262
Investments	69,668		69,668	188,038
Other assets				100,916
Due from primary government				17,024
Due from component units	1,915		1,915	47,033
Internal balances	(3,389)	3,389		
Due from other governments and agencies	213,402	1,858	215,260	3,732
Inventories	1,712	815	2,527	10,652
Other assets	27,988	378	28,366	40,216
Total current assets	1,751,440	122,453	1,873,893	1,402,874
Noncurrent assets:				
Investments				161,408
Receivables (net)	25,938		25,938	867,190
Due from other governments and agencies	2,680		2,680	
Restricted assets:				
Cash and cash equivalents				107,821
Investments				278,533
Other assets				2,677,857
Due from component units	32,155		32,155	2,636
Capital assets - nondepreciable	966,195	45,582	1,011,777	588,211
Capital assets - depreciable (net)	2,287,831	131,879	2,419,710	1,932,257
Other assets	18,817	3,644	22,461	190,672
Total noncurrent assets	3,333,616	181,105	3,514,721	6,806,585
Total assets	5,085,056	303,558	5,388,614	8,209,459
Liabilities				
Current Liabilities:				
Accounts payable	545,832	18,074	563,906	130,456
Due to primary government				1,915
Due to component units	17,024		17,024	47,033
Due to other governments and agencies		8,208	8,208	
Funds held for others				3,837
Accrued expenses		4,024	4,024	2,709
Deferred revenue	80,998	192	81,190	
Other current liabilities	105,925	2,866	108,791	300,749
Current portion of long-term debt	244,900	10,555	255,455	407,841
Obligation for unpaid prize awards		8,129	8,129	
Total current liabilities	994,679	52,048	1,046,727	894,540
Noncurrent Liabilities:				
Due to primary government				32,155
Due to other governments and agencies		224,646	224,646	267,464
Net OPEB obligation	13,385		13,385	40,114
Deferred revenue		7,020	7,020	18,912
Due to component units				2,636
Notes payable	6,675	231	6,906	10,043
Loans payable				361,916
Obligations under capital leases	214,629		214,629	9,005
Compensated absences	13,281	228	13,509	24,081
Bonds payable	2,380,633	231,965	2,612,598	3,466,141
Other liabilities	43,279		43,279	270,612
Total noncurrent liabilities	2,671,882	464,090	3,135,972	4,503,079
Total liabilities	3,666,561	516,138	4,182,699	5,397,619
Net Assets				
Invested in capital assets, net of related debt	2,232,121	(64,492)	2,167,629	1,382,718
Restricted for:				
Budget reserve	153,408		153,408	
Transportation	1,429		1,429	
Debt	86,491	9,308	95,799	366,145
Assistance to other entities	71,936		71,936	
Temporary disability insurance program	153,696		153,696	
Other	85,729		85,729	577,342
Nonexpendable	174		174	97,374
Unrestricted	(1,366,489)	(157,396)	(1,523,885)	388,261
Total net assets	$ 1,418,495	$ (212,580)	$ 1,205,915	$ 2,811,840

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, 2012
(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	$ 653,003	$ 212,750	$ 116,732	$ 472	$ (323,049)	$	$ (323,049)	$
Human services	2,970,269	204,287	1,691,575	596	(1,073,811)		(1,073,811)	
Education	1,334,355	26,044	238,374	939	(1,068,998)		(1,068,998)	
Public safety	468,098	37,339	43,322	2,239	(385,198)		(385,198)	
Natural resources	85,039	26,060	20,987	5,805	(32,187)		(32,187)	
Transportation	268,523	1,660	83,902	200,669	17,708		17,708	
Interest and other charges	145,964				(145,964)		(145,964)	
Total governmental activities	5,925,251	508,140	2,194,892	210,720	(3,011,499)		(3,011,499)	
Business-type activities:								
State lottery	399,421	776,806				377,385	377,385	
Convention center	49,439	23,035				(26,404)	(26,404)	
Employment security	559,440	256,444	278,671			(24,325)	(24,325)	
Total business-type activities	1,008,300	1,056,285	278,671			326,656	326,656	
Total primary government	$ 6,933,551	$ 1,564,425	$ 2,473,563	$ 210,720	(3,011,499)	326,656	(2,684,843)	
Component units:	$ 1,316,096	$ 1,114,140	$ 244,821	$ 76,573				119,438
General Revenues:								
Taxes:								
Personal income					1,060,605		1,060,605	
General business					361,769		361,769	
Sales and use					1,045,135		1,045,135	
Gasoline					136,646		136,646	
Other					220,213		220,213	
Interest and investment earnings					4,304	94	4,398	2,960
Miscellaneous revenue					118,506	16,564	135,070	28,465
Transfers (net)					344,386	(344,386)		
Total general revenues and transfers					3,291,564	(327,728)	2,963,836	31,425
Change in net assets					280,065	(1,072)	278,993	150,863
Net assets - beginning as restated					1,138,430	(211,508)	926,922	2,660,977
Net assets - ending					$ 1,418,495	$ (212,580)	$ 1,205,915	$ 2,811,840

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, 2012
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 318,779	$ 21,789	$ 362,730	$ 703,298
Funds on deposit with fiscal agent		85,886	50,836	136,722
Restricted investments			69,668	69,668
Receivables (net)	535,525	14,084	41,668	591,277
Due from other funds	4,479	956	259	5,694
Due from component units	107			107
Due from other governments and agencies	152,920	59,977		212,897
Loans to other funds	9,469			9,469
Other assets	22,162			22,162
Total assets	$ 1,043,441	$ 182,692	$ 525,161	$ 1,751,294
Liabilities and Fund Balances				
Liabilities				
Accounts payable	477,451	30,211	22,596	530,258
Due to other funds			7,650	7,650
Due to component units	5,460	9,362	2,201	17,023
Loans from other funds			6,809	6,809
Deferred revenue	106,760	20,337		127,097
Other liabilities	80,616	14,103	792	95,511
Total liabilities	670,287	74,013	40,048	784,348
Fund Balances				
Nonspendable			174	174
Restricted	232,348	111,537	484,738	828,623
Unrestricted				
Committed	22,793	1,742		24,535
Assigned	97,639	117	201	97,957
Unassigned	20,374	(4,717)		15,657
Total fund balances	373,154	108,679	485,113	966,946
Total liabilities and fund balances	$ 1,043,441	$ 182,692	$ 525,161	$ 1,751,294

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

State of Rhode Island and Providence Plantations
Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Assets
June 30, 2012
(Expressed in Thousands)

Fund balance - total governmental funds		$	966,946
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	5,291,123		
Accumulated depreciation	(2,039,565)		
			3,251,558
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	(77,726)		
Bonds payable	(2,475,972)		
Net premium/discount	(59,870)		
Refunding costs	16,839		
Costs of issuance	11,642		
Obligations under capital leases	(233,800)		
Premium	(4,622)		
Refunding costs	958		
Costs of issuance	2,071		
Interest payable	(24,787)		
Other liabilities	(64,878)		
			(2,910,145)
Other long-term assets and deferred revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Receivables	3,184		
Due from component units	33,963		
Other assets	5,104		
Deferred revenue	46,101		
			88,352
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net assets of the internal service funds are reported with governmental activities.			21,784
Net assets - total governmental activities		$	1,418,495

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, 2012
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,511,891	$ 136,646	$ 165,794	$ 2,814,331
Licenses, fines, sales, and services	313,455		269	313,724
Departmental restricted revenue	192,642	1,637		194,279
Federal grants	2,119,476	291,786		2,411,262
Income from investments	101	527	3,652	4,280
Other revenues	70,958	1,213	49,031	121,202
Total revenues	5,208,523	431,809	218,746	5,859,078
Expenditures:				
Current:				
General government	474,135		161,419	635,554
Human services	2,969,166			2,969,166
Education	1,281,879		184	1,282,063
Public safety	459,114			459,114
Natural resources	75,141		15	75,156
Transportation		397,615	1,897	399,512
Capital outlays			111,044	111,044
Debt service:				
Principal	111,711	35,214	17,320	164,245
Interest and other charges	73,249	22,374	40,183	135,806
Total expenditures	5,444,395	455,203	332,062	6,231,660
Excess (deficiency) of revenues over (under) expenditures	(235,872)	(23,394)	(113,316)	(372,582)
Other financing sources (uses):				
Bonds and notes issued			145,035	145,035
Refunding bonds issued			146,730	146,730
Proceeds from the sale of Certificates of Participation			31,980	31,980
Premium and accrued interest			45,437	45,437
Transfers in	441,953	52,841	86,885	581,679
Payment to refunded bonds escrow agent			(172,094)	(172,094)
Transfers out	(103,827)	(52,568)	(78,858)	(235,253)
Total other financing sources (uses)	338,126	273	205,115	543,514
Net change in fund balances	102,254	(23,121)	91,799	170,932
Fund balances - beginning	270,900	131,800	393,314	796,014
Fund balances - ending	$ 373,154	$ 108,679	$ 485,113	$ 966,946

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, 2012
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 170,932
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	264,770	
Depreciation expense	(142,229)	
		122,541
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	164,245	
Debt defeased in refunding	157,350	
Accrued interest and other charges	(15,608)	
Proceeds from sale of debt	(323,745)	
Deferral of premium/discount	(45,420)	
Amortization of premium/discount	8,214	
Deferral of issuance costs	2,584	
Amortization of issuance costs	(1,869)	
Deferral of refunding costs	11,455	
Amortization of refunding costs	(1,602)	
		(44,396)
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	9,585	
Program expenses	29,831	
Program revenue	137	
Capital grant revenue	(5,650)	
General revenue - taxes	10,037	
General revenue-miscellaneous	(3,632)	
		40,308
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.		(9,320)
Change in net assets - total governmental activities		$ 280,065

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, 2012
(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	$ 21,027	$ 3,468	$ 1,578	$ 26,073	$ 30,677
Restricted cash and cash equivalents		9,309		9,309	
Funds on deposit with fiscal agent			1,415	1,415	
Receivables (net)	7,570	1,101	70,545	79,216	4,107
Due from other funds		314	5,950	6,264	393
Due from other governments and agencies			1,858	1,858	
Inventories	815			815	1,712
Other assets	4	374		378	5,825
Total current assets	29,416	14,566	81,346	125,328	42,714
Noncurrent assets:					
Capital assets - nondepreciable		45,582		45,582	
Capital assets - depreciable (net)	267	131,612		131,879	2,468
Other assets		3,644		3,644	
Total noncurrent assets	267	180,838		181,105	2,468
Total assets	29,683	195,404	81,346	306,433	45,182
Liabilities					
Current Liabilities:					
Accounts payable	14,063	4,011		18,074	15,576
Due to other funds	2,875			2,875	1,826
Due to other governments and agencies			8,208	8,208	
Loans from other funds					2,660
Accrued expenses	4,024			4,024	
Deferred revenue	192			192	
Other current liabilities	625	2,866		3,491	3,336
Notes payable		188		188	
Bonds payable		9,570		9,570	
Compensated absences	172			172	
Obligation for unpaid prize awards	8,129			8,129	
Total current liabilities	30,080	16,635	8,208	54,923	23,398
Noncurrent Liabilities:					
Due to other governments and agencies			224,646	224,646	
Deferred revenue	6,250	770		7,020	
Notes payable		231		231	
Bonds payable		231,965		231,965	
Compensated absences	228			228	
Total noncurrent liabilities	6,478	232,966	224,646	464,090	
Total liabilities	36,558	249,601	232,854	519,013	23,398
Net Assets					
Invested in capital assets, net of related debt	267	(64,759)		(64,492)	2,468
Restricted for:					
Debt		9,308		9,308	
Unrestricted	(7,142)	1,254	(151,508)	(157,396)	19,316
Total net assets	$ (6,875)	$ (54,197)	$ (151,508)	$ (212,580)	$ 21,784

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, 2012
(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	$	$ 22,623	$ 256,444	$ 279,067	$ 273,848
Lottery sales	249,483			249,483	
Video lottery, net	527,323			527,323	
Federal grants			278,671	278,671	
Miscellaneous		412		412	
Total operating revenues	776,806	23,035	535,115	1,334,956	273,848
Operating expenses:					
Personal services	5,179	14,025		19,204	12,017
Supplies, materials, and services	241,533	9,773		251,306	268,930
Prize awards, net of prize recoveries	152,488			152,488	
Depreciation and amortization	221	10,469		10,690	220
Benefits paid			540,656	540,656	
Total operating expenses	399,421	34,267	540,656	974,344	281,167
Operating income (loss)	377,385	(11,232)	(5,541)	360,612	(7,319)
Nonoperating revenues (expenses):					
Interest revenue	92	2		94	25
Other nonoperating revenue	854		15,710	16,564	14
Interest expense		(15,172)	(8,238)	(23,410)	
Other nonoperating expenses			(10,546)	(10,546)	
Total nonoperating revenue (expenses)	946	(15,170)	(3,074)	(17,298)	39
Income (loss) before transfers	378,331	(26,402)	(8,615)	343,314	(7,280)
Transfers in		23,140	10,277	33,417	
Transfers out	(377,706)		(97)	(377,803)	(2,040)
Change in net assets	625	(3,262)	1,565	(1,072)	(9,320)
Total net assets - beginning	(7,500)	(50,935)	(153,073)	(211,508)	31,104
Total net assets - ending	$ (6,875)	$ (54,197)	$ (151,508)	$ (212,580)	$ 21,784

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, 2012
(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	$ 246,312	$ 23,382	$ 253,293	$ 522,987	$ 274,771
Cash received from video lottery operations, net	525,124			525,124	
Cash received from MUSL for grand prize winners	249,359			249,359	
Cash received from grants			278,671	278,671	
Cash payments to suppliers for goods and services	(4,592)	(9,484)		(14,076)	(270,927)
Cash payments to employees	(5,214)	(13,825)		(19,039)	(10,639)
Cash payments to prize winners	(398,677)			(398,677)	
Cash payments for commissions	(231,682)			(231,682)	
Cash payments for benefits			(540,656)	(540,656)	
Other operating revenue (expense)					14
Net cash provided by (used for) operating activities	380,630	73	(8,692)	372,011	(6,781)
Cash flows from noncapital financing activities:					
Loan from federal government			221,069	221,069	
Payment of interest on loan from federal government			(7,140)	(7,140)	
Loans from other funds					2,474
Loans to other funds					(394)
Repayment of loans to other funds					1,786
Repayment of loans from other funds					(2,986)
Transfers in		23,050	9,048	32,098	
Transfers out	(377,905)		(1,846)	(379,751)	(2,040)
Net transfers from (to) fiscal agent			(214,162)	(214,162)	
Net cash provided by (used for) noncapital financing activities	(377,905)	23,050	6,969	(347,886)	(1,160)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(9,298)		(9,298)	
Interest paid on capital obligations		(14,101)		(14,101)	
Acquisition of capital assets	(18)	(1,015)		(1,033)	(123)
Net cash provided by (used for) capital and related financing activities	(18)	(24,414)		(24,432)	(123)
Cash flows from investing activities:					
Interest on investments	91	2		93	25
Net cash provided by investing activities	91	2		93	25
Net increase (decrease) in cash and cash equivalents	2,798	(1,289)	(1,723)	(214)	(8,039)
Cash and cash equivalents, July 1	18,229	14,066	3,301	35,596	38,716
Cash and cash equivalents, June 30	$ 21,027	$ 12,777	$ 1,578	$ 35,382	$ 30,677
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	377,385	(11,232)	(5,541)	360,612	(7,319)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	221	10,469		10,690	220
Other revenue (expense) and operating transfer in (out)	229			229	14
Net changes in assets and liabilities:					
Receivables, net	(3,444)	(496)	(3,151)	(7,091)	(249)
Inventory	177			177	7
Prepaid items		134		134	22
Other assets	47			47	
Due to / due from transactions	6			6	
Accounts and other payables	2,112	356		2,468	(856)
Accrued expenses	760			760	1,380
Deferred revenue	(34)	842		808	
Prize awards payable	3,171			3,171	
Total adjustments	3,245	11,305	(3,151)	11,399	538
Net cash provided by (used for) operating activities	$ 380,630	$ 73	$ (8,692)	$ 372,011	$ (6,781)

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, 2012
(Expressed in Thousands)

	Pension and Other Postemployment Benefits Trusts	External Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue	Agency
Assets				
Cash and cash equivalents	$ 7,944	$	$	$ 17,268
Deposits held as security for entities doing business in the State				86,273
Advance held by claims processing agent	1,171			
Receivables				
Contributions	41,433			
Due from state for teachers	16,350			
Miscellaneous	2,903			1,631
Total receivables	60,686			1,631
Investments, at fair value				
Equity in Pooled Trusts	7,266,169	2,280		
Other investments			2,102	
Total investments	7,266,169	2,280	2,102	
Property and equipment, at cost, net of accumulated depreciation	472			
Total assets	7,336,442	2,280	2,102	$ 105,172
Liabilities				
Accounts payable	6,181			2,520
Incurred but not reported claims	2,859			
Deferred revenue	6,065			
Deposits held for others				102,652
Total liabilities	15,105			$ 105,172
Net assets				
Held in trust for:				
Pension benefits	7,284,475			
Other postemployment benefits	36,862			
Other		2,280	2,102	
Total net assets	$ 7,321,337	$ 2,280	$ 2,102	

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, 2012
(Expressed in Thousands)

	Pension and Other Postemployment Benefits Trusts	External Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue
Additions			
Contributions			
Member contributions	$ 195,045	$	$
Employer contributions	382,479		
State contributions for teachers	80,386		
Interest on service credits purchased	974		
From participants		2,280	
Total contributions	658,884	2,280	
Other income	1,958		
Investment income			
Net appreciation in fair value of investments	24,381		42
Interest	79,661		
Dividends	1,290		41
Other investment income	25,221		
	130,553		83
Less investment expense	12,712		
Net income from investing activities	117,841		83
Total additions	778,683	2,280	83
Deductions			
Benefits			
Retirement benefits	655,847		
Cost of living adjustment	197,183		
SRA Plus Option	23,634		
Supplemental benefits	1,061		
Death benefits	3,411		
OPEB benefits	58,266		
Total benefits	939,402		
Refund of contributions	12,937		
Administrative expense	8,847		
Distribution			95
Total deductions	961,186		95
Change in net assets held in trust for:			
Pension benefits	(204,428)		
Other postemployment benefits	21,925		
Other		2,280	(12)
Net assets - beginning	7,503,840		2,114
Net assets - ending	$ 7,321,337	$ 2,280	$ 2,102

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, 2012
(Expressed in Thousands)

	RIHMFC	RIEDC	RIRRC	RIPTA
Assets				
Current Assets:				
Cash and cash equivalents	$ 1,467	$ 54,532	$ 25,630	$ 3,390
Investments				1,985
Receivables (net)	1,704	6,970	6,462	3,144
Restricted assets:				
Cash and cash equivalents	215,050	34,651		1,354
Investments	19,363	12,413		
Other assets	38,090	3,783		
Due from primary government		6,564		6,685
Due from other governments		2,926		
Due from other component units		131		
Inventories			3,509	2,984
Other assets	2,521	1,971	1,271	190
Total current assets	278,195	123,941	36,872	19,732
Noncurrent Assets:				
Investments				277
Receivables (net)	10,583	6,931		
Restricted assets:				
Cash and cash equivalents		44,045	822	
Investments	251,402	9,822	1,646	2,650
Other assets	1,557,105	29,268	83,608	
Capital assets - nondepreciable		124,557	11,490	8,422
Capital assets - depreciable (net)		557,375	32,853	139,244
Due from other component units		697		
Other assets, net of amortization	146,641	4,830	11,580	
Total noncurrent assets	1,965,731	777,525	141,999	150,593
Total assets	2,243,926	901,466	178,871	170,325
Liabilities				
Current liabilities:				
Accounts payable	203	18,345	11,763	6,456
Due to primary government				965
Due to other component units				
Accrued liabilities				
Funds held for others				
Other liabilities	164,746			5,861
Current portion of long-term debt	202,573	37,045	7,284	268
Total current liabilities	367,522	55,390	19,047	13,550
Noncurrent liabilities:				
Due to primary government		5,225		11,408
Due to other governments				
Due to other component units				
Deferred revenue	6,924	1,205		
Notes payable	6,791	1,820		
Loans payable		40,059		
Obligations under capital leases				
Net OPEB obligation	3,091	1,648	421	29,958
Other liabilities	168,462	3,096	70,036	8,073
Compensated absences	1,282			
Bonds payable	1,392,937	320,924	10,987	
Total noncurrent liabilities	1,579,487	373,977	81,444	49,439
Total liabilities	1,947,009	429,367	100,491	62,989
Net assets				
Invested in capital assets, net of related debt	8,624	354,989	39,890	135,293
Restricted for:				
Debt	233,738			
Other	2,141	54,216	12,424	
Other nonexpendable				
Unrestricted	52,414	62,894	26,066	(27,957)
Total net assets	$ 296,917	$ 472,099	$ 78,380	$ 107,336

(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, 2012
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets					
Current Assets:					
Cash and cash equivalents	$ 114,819	$ 23,193	$ 25,327	$ 71,348	$ 319,706
Investments				25,496	27,481
Receivables (net)	30,940	5,091	3,679	106,824	164,814
Restricted assets:					
Cash and cash equivalents				232,207	483,262
Investments				156,262	188,038
Other assets				59,043	100,916
Due from primary government		1,281		2,494	17,024
Due from other governments				806	3,732
Due from other component units				46,902	47,033
Inventories	2,817	574	670	98	10,652
Other assets	692		148	33,423	40,216
Total current assets	149,268	30,139	29,824	734,903	1,402,874
Noncurrent Assets:					
Investments	118,981	20,833	2,322	18,995	161,408
Receivables (net)	16,346	5,051	110	828,169	867,190
Restricted assets:					
Cash and cash equivalents	222	441	3,863	58,428	107,821
Investments				13,013	278,533
Other assets	40,215	2,310	784	964,567	2,677,857
Capital assets - nondepreciable	115,094	5,823	25,631	297,194	588,211
Capital assets - depreciable (net)	449,237	110,575	38,507	604,466	1,932,257
Due from other component units				1,939	2,636
Other assets, net of amortization	10,142	16		17,463	190,672
Total noncurrent assets	750,237	145,049	71,217	2,804,234	6,806,585
Total assets	899,505	175,188	101,041	3,539,137	8,209,459
Liabilities					
Current liabilities:					
Accounts payable	39,682	9,988	7,186	36,833	130,456
Due to primary government		843		107	1,915
Due to other component units				47,033	47,033
Accrued liabilities		620		2,089	2,709
Funds held for others	1,204	1,258	1,375		3,837
Other liabilities				130,142	300,749
Current portion of long-term debt	25,813	7,098	7,346	120,414	407,841
Total current liabilities	66,699	19,807	15,907	336,618	894,540
Noncurrent liabilities:					
Due to primary government		15,522			32,155
Due to other governments				267,464	267,464
Due to other component units				2,636	2,636
Deferred revenue				10,783	18,912
Notes payable		1,432			10,043
Loans payable	1,070			320,787	361,916
Obligations under capital leases	7,520		1,334	151	9,005
Net OPEB obligation				4,996	40,114
Other liabilities	12,719	3,834	23	4,369	270,612
Compensated absences	18,370	1,977	987	1,465	24,081
Bonds payable	238,143	18,954	7,359	1,476,837	3,466,141
Total noncurrent liabilities	277,822	41,719	9,703	2,089,488	4,503,079
Total liabilities	344,521	61,526	25,610	2,426,106	5,397,619
Net assets					
Invested in capital assets, net of related debt	349,092	78,906	51,911	364,013	1,382,718
Restricted for:					
Debt				132,407	366,145
Other	41,270	3,799	3,195	460,297	577,342
Other nonexpendable	81,650	15,724			97,374
Unrestricted	82,972	15,233	20,325	156,314	388,261
Total net assets	$ 554,984	$ 113,662	$ 75,431	$ 1,113,031	$ 2,811,840

(Concluded)

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

State of Rhode Island and Providence Plantations
Combining Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2012
(Expressed in Thousands)

	RIHMFC	RIEDC	RIRRC	RIPTA	URI	RIC	CCRI	Other Component Units	Totals
Expenses	$ 99,213	$ 92,116	$ 42,060	$ 119,412	$ 472,249	$ 138,094	$ 117,289	$ 235,663	$ 1,316,096
Program revenues:									
Charges for services	105,787	69,879	45,928	54,033	406,342	103,751	79,676	248,744	1,114,140
Operating grants and contributions		16,192		40,945	58,485	38,240	44,483	46,476	244,821
Capital grants and contributions		26,704		4,904	34,854	6,300	2,167	1,644	76,573
Total program revenues	105,787	112,775	45,928	99,882	499,681	148,291	126,326	296,864	1,435,534
Net (Expenses) Revenues	6,574	20,659	3,868	(19,530)	27,432	10,197	9,037	61,201	119,438
General revenues:									
Interest and investment earnings		2,970	870	33	(2,583)	125	85	1,460	2,960
Miscellaneous revenue			5,601	3,317	12,339	1,203	385	5,620	28,465
Total general revenue		2,970	6,471	3,350	9,756	1,328	470	7,080	31,425
Change in net assets	6,574	23,629	10,339	(16,180)	37,188	11,525	9,507	68,281	150,863
Total net assets - beginning as restated	290,343	448,470	68,041	123,516	517,796	102,137	65,924	1,044,750	2,660,977
Total net assets - ending	$ 296,917	$ 472,099	$ 78,380	$ 107,336	$ 554,984	$ 113,662	$ 75,431	$ 1,113,031	$ 2,811,840

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

Index

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

Blended Component Units

These component units are entities which are legally separate from the State but are so intertwined with the State that they are, in substance, the same as the State. They provide services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefit the primary government. These component units are reported as part of the primary government in both the fund and government-wide financial statements.

Rhode Island Convention Center Authority (RICCA)

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the 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 LaSalle Square, 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. Currently its primary purpose, as outlined in the State's General Laws, is to provide indemnity for rail service operating within the State. The State is fully responsible for reimbursing the RIPRC for all costs associated with the purchase of such coverage. 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. For each discretely presented component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. For the discretely presented component units (DPCU's) included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards. These discretely presented component units primarily serve or benefit those outside of the primary government.

The State distinguishes between major and nonmajor component units based upon 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 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 passenger revenue and operating assistance grants from the State and federal governments. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907, or at www.ripta.com.

Rhode Island 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 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 which was created for the purpose of granting secured and unsecured loans to Rhode Island's small business and the I-195 Commission which was created for the purpose of redeveloping the land reclaimed from the I-195 relocation project and the Washington Bridge project. 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, or at www.ritba.org.

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.

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 have authority over the development and approval of the District's operating budget and for other significant operating decisions and contracts. The District, which provides elementary and secondary education to residents of the City of Central Falls, is funded primarily through State appropriations and federal grant funds. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 949 Dexter Street – Lower level, Central Falls, RI 02863-1715.

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, or at www.ricwfa.com.

Rhode Island Industrial-Recreational Building Authority (RIIRBA)

This authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. 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, 1 Capitol Hill, Providence, RI 02908.

Rhode Island Public Telecommunications Authority (RIPTCA)

This authority owns and operates a non-commercial educational television station in the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Public Telecommunications Authority, 50 Park Lane, Providence, RI 02907-3124, 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, or at www.thecollegecrusade.org.

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 medical benefits, State fleet management, unemployment and workers' compensation for State employees, prison industry operations, surplus property, telecommunications and other utilities, and records maintenance.

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

Fiduciary Fund Types

Pension and Other 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.

External Investment Trust – This fund accounts for the share of the Ocean State Investment Pool that is owned by participants external to the reporting entity.

Private Purpose Trust 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 employees and retirees of a component unit.

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 and related expenditures.

Proprietary funds:

State Lottery Fund

The State Lottery Fund, a division of the Department of Revenue, operates games of chance for the purpose of generating resources for the State's General Fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Lottery, 1425 Pontiac Avenue, Cranston, RI 02920, or at www.rilot.com.

Rhode Island Convention Center Authority (RICCA)

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence.

Employment Security Fund

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

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. Revenues are considered to be available when they are collectible within the current period (i.e., earned and collected within the next 12 months) or soon enough thereafter to pay liabilities of the current period. Significant sources of tax revenues susceptible to accrual are recorded as taxpayers earn income (personal income and business corporation taxes), as sales are made (sales and use taxes) and as other taxable events occur (miscellaneous taxes), net of estimated tax refunds. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures for principal and interest on long-term debt and compensated absences are recorded when payments come due. Expenditures and liabilities relating to other claims and judgments are recorded to the extent that such amounts are expected to be paid within the current period.

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. Cash equivalents are stated at cost, which approximates fair value except for those of the Ocean State Investment Pool which are stated at amortized cost, which approximates fair value.

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net 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 have a maturity of more than three months and 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.

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 not expected to be collected in the next twelve months) 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 are depreciated using the straight-line method over the assets' estimated 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. 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.

Discretely presented component units have adopted estimated useful lives for their capital assets as well as capitalization thresholds. These entities depreciate capital assets using the straight-line method.

M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. In the government-wide financial statements bond discounts, premiums, 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 the government-wide financial statements and proprietary fund types, they are recorded as fund liabilities when earned.

P. Other Assets and Liabilities

Other assets reported within the primary government include provider advances and deposits required by contract with the State's healthcare claims administrator.

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

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 as established through the enactment of legislation by the General Assembly, and that remain binding unless modified or rescinded through subsequent legislative action. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.

- Assigned – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor. 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, 2012, the State adopted the following new accounting standards issued by GASB:

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

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 will adopt the following new accounting pronouncements in future years:

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. 65 – *Items Previously Reported as Assets and Liabilities*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 66 – *Technical Corrections – 2012 – an amendment to GASB No. 10 and No. 62*, effective for the State's fiscal year ending June 30, 2013.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25*, effective for the State's fiscal year ending June 30, 2014.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27*, effective for the State's fiscal year ending June 30, 2015.

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

GASB Statements 63, 65, 67, and 68, in particular, could impact the State's recognition and timing of assets and liabilities in government-wide and/or fund financial statements. The requirements of these statements may require the restatement of beginning net assets and fund balances in future periods. The State is currently not planning to early implement these statements, and has made no estimation of the effect these statements will have on the financial statements.

S. Change in Presentation

The classification of the Central Falls School District was changed from a related organization to a discretely presented component unit of the State for fiscal 2012. For fiscal 2011 the District was considered legally part of the City of Central Falls and was included in the City's financial statements for that fiscal year. A subsequent court decision in March 2012 clarified that the School District had a separate legal existence and was not a department of the City.

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

A. Primary Government-Governmental and Business-Type Activities

Cash Deposits

Cash deposits include demand deposit accounts, interest-bearing deposit accounts, and certificates of deposit. Deposits are exposed to custodial credit risk if they are not covered by federal depository insurance and the deposits are a) uncollateralized, b) collateralized with securities held by the pledging financial institution, or c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the State's name.

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2012 pursuant to this statutory provision. However, the Office of the General Treasurer has instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance.

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

As of June 30, 2012 all of the bank balances were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

Cash Equivalent Investments and Investments

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

The Ocean State Investment Pool Cash Portfolio (the Cash Portfolio) is a portfolio of the Ocean State Investment Pool Trust (OSIP or the Trust), which is an investment pool established by the General Treasurer of the State of Rhode Island under Declaration of Trust, dated January 25, 2012 under the Rhode Island Local Government Investment Pool Act, G.L. 35-10.2 of the Rhode Island General Laws as amended, for the purpose of investing funds of, and funds under custody of, agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State of Rhode Island. The Cash Portfolio, which began operations on March 6, 2012, is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940 (Rule 2a-7).

The Cash Portfolio may invest in securities that would constitute an "Eligible Security" under and as defined in Rule 2a-7 which may include certain U.S. government and government agency obligations, U.S. dollar-denominated money market securities of domestic and foreign issuers such as short-term certificates of deposit, commercial paper, corporate bonds and notes, time deposits, municipal securities, asset-backed securities and repurchase agreements.

Government Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", establishes standards for accounting for investments held by government entities. The Cash Portfolio operates as a Rule 2a-7-like pool and thus reports all investments at amortized cost rather than fair value.

A copy of the annual report for the Ocean State Investment Pool can be obtained by writing to the Office of the General Treasurer, 50 Service Avenue, Warwick, RI 02886.

Other short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

The State's cash equivalents and investments (expressed in thousands) at June 30, 2012 are as follows:

Pooled cash equivalents (at amortized cost)	
Financial company commercial paper	$ 156,461
Other commercial paper	7,999
Asset backed commercial paper	55,105
Government agency repurchase agreement	3,132
Other repurchase agreements	38,000
Treasury debt	35,251
Certificates of deposit	10,000
Government agency debt	2,999
Other notes	18,000
Variable rate demand notes	5,060
Plus: other assets in excess of other liabilities	42
Total investment pool	332,049
Funds held by fiduciary funds and discretely presented component units	
Less: Other trust and agency funds	6,925
Less: Discretely presented component units	9,710
Primary government pooled cash equivalents	315,414
Other primary government cash equivalents and investments	
Repurchase agreements	1,612
Financial company commercial paper	52,559
Government agency debt	17,109
Money Market Mutual Funds	11,676
Total primary government cash equivalents and investments	$ 398,370
Cash equivalents and investments	398,370
Cash	440,655
Total cash, cash equivalents and investments	$ 839,025
Statement of Net Assets	
Cash and cash equivalents	760,048
Restricted cash and cash equivalents	9,309
Restricted investments	69,668
Total cash, cash equivalents and investments	$ 839,025

The State's restricted investments, equaling $69,668,000, 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.

As of June 30, 2012, information about the State's exposure to interest rate risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

Investment Type	At Fair Value	Investment Maturities (in days) (At Amortized Cost) 0-30	31-90	91-180	181-397
Financial Company Commercial Paper	$ 156,468	$ 30,998	$ 90,496	$ 34,967	$ --
Other Commercial Paper	7,998	4,999	3,000	--	--
Asset Backed Commercial Paper	55,107	45,072	8,036	1,998	--
Gov't Agency Repurchase Agreements	3,132	3,132	–	--	--
Other Repurchase Agreements	38,000	38,000	–	--	--
Treasury Debt	35,250	--	–	26,161	9,089
Certificates of Deposit	10,000	10,000	–	--	--
Government Agency Debt	2,999	--	–	--	2,999
Other Notes	18,003	--	–	--	18,000
Variable Rate Demand Notes	5,060	5,060	–	--	--
Grand Total	**$** 332,017	$ 137,261	$ 101,532	$ 63,126	$ 30,088

Non-pooled Cash Equivalents and Investments:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1-5	6-10	More Than 10
Repurchase agreements	$ 1,612	$ 1,612	$ 0	$ 0	$ 0
Commercial paper	52,559	52,559	0	0	0
Government agency debt	17,109	17,109	0	0	0
Money market mutual funds	11,676	11,676	0	0	0
	$ 82,956	$ 82,956	$ 0	$ 0	$ 0

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, 2012, information about the State's exposure to credit risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

Investment Type	At Fair Value	Quality Ratings (1) (At Amortized Cost) A-1+	A-1	A-2	A-3
Financial Company Commercial Paper	$ 156,468	$ 47,960	$ 98,505	$ 9,996	$ --
Other Commercial Paper	7,998	--	–	6,999	1,000
Asset Backed Commercial Paper	55,107	--	55,105	--	--
Gov't Agency Repurchase Agreements	3,132	3,132	–	--	--
Other Repurchase Agreements	38,000	--	38,000	--	--
Treasury Debt	35,250	35,251	–	--	--
Certificates of Deposit	10,000	--	10,000	--	--
Government Agency Debt	2,999	2,999	–	--	--
Other Notes	18,003	18,000	–	--	--
Variable Rate Demand Notes	5,060	4,660	400	--	--
Grand Total	**$** 332,017	$ 112,002	$ 202,010	$ 16,995	$ 1,000

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

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

Non-pooled Cash Equivalents and Investments:

Issuer	Fair Value	Type of Investment	Moody's Rating	Average Maturities in Days
Government Agencies				
Federal Home Loan Mortgage Corporation	$ 17,109		P-1	
Money market mutual funds				
Fidelity Institutional Money Market Gvt. Port Class III	10,118	Money Market	AAA-mf	58
Goldman Sachs Treasury Investments	2	Money Market	AAA-mf	53
Wells Fargo Advantage 100% Treasury Money Market Fund	1,556	Money Market	Aaa-mf	55
Commercial Paper				
Prudential PLC	52,559	Commercial Paper	P-1	
	$ 81,344			

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, 2012 and the breakdown by maturity 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	$ 0	$ 0	$ 0	$ 0	$ 0
Money Market Mutual Funds	115,394	115,394	0	0	0
Investment Contracts	5,277	5,277	0	0	0
Investments	120,671	$ 120,671	$ 0	$ 0	$ 0
Cash (fully insured)	16,051				
Funds in trust with fiscal agent	$ 136,722				

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

Issuer	Fair Value	Moody's Rating	Average Maturities in Days
Money Market Funds			
Dreyfus Treasury Prime Cash Management Fund	6,666	Aaa-mf	52
Federated Govt. Obligation Tax Managed Fund	18,371	Aaa-mf	43
Fidelity Institutional Money Market Gvt. Port Class III	88,477	AAA-mf	58
JP Morgan US Govt. Money Market Fund Agency Class	1,101	Aaa-mf	54
Wells Fargo Advantage 100% Treasury Money Market Fund	779	Aaa-mf	55
Investment Contracts			
FSA Capital Management GIC	5,277		
	$ 120,671		

Funds on deposit with fiscal agent also include $1,415,000 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	Fidelity Institutional Money Market Gvt. Port Class III	$ 98,595	19.05%
Commercial Paper	Prudential PLC	52,559	10.16%

C. Pension Trusts

The Employees' Retirement System (ERS) consists of four plans: the Employee Retirement System, 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, 2012, the carrying amount of the ERS cash deposits was $3,093,000 and the bank balance was $3,794,000. 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, $2,177,000 is covered by federal depository insurance and the remainder representing interest-bearing collateralized bank deposits totaling $1,617,000 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, 2012 (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 System. Investment managers engaged by the Commission, at their discretion and in accordance with the investment objectives and guidelines for the System, 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 System in a Pooled Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

Investment 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, 2012 (expressed in thousands):

Investment Type	Fair Value
Cash Deposits	$ 15,561
Money Market Mutual Fund	148,466
U.S. Government Securities	399,497
U.S. Government Agency Securities	420,119
Collateralized Mortgage Obligations	26,499
Corporate Bonds	866,258
Domestic Equity Securities	140,764
International Equity Securities	7,703
Commingled Funds - Domestic Equity	2,186,538
Commingled Funds - International Equity	1,137,589
Hedge Funds	1,011,174
Private Equity	611,643
Real Estate	
Limited Partnership	117,565
Commingled Funds	102,731
Real Estate Investment Trusts	48,673
	$ 7,240,780
Net investment receivable (payable)	(13,747)
Payable to broker	(2,007)
Total	$ 7,225,026

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 and generally stated in relation to a benchmark or relevant index. These guidelines also include prohibited investments, limitations on maximum exposure to a single industry or single issuer, a minimum number of holdings within the manager's portfolio and, for fixed income.

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 High Yield Index
- Barclays US Tips Index

At June 30, 2012, 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, 2012 (expressed in thousands):

Investment Type		Fair Value	Effective Duration
U.S. Government Securities	$	420,119	2.21
U.S. Government Agency Securities		399,497	5.77
Collateralized Mortgage Obligations		26,499	3.47
Corporate Bonds		866,258	5.73
Total Fixed Income	$	1,712,373	4.86

The ERS also invested in a short-term money market mutual fund (State Street Bank Institutional Liquid Reserves) that held investments with a weighted average maturity of 25 days.

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

The ERS may invest in interest-only (IO) and principal-only strips (PO) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

Credit Risk

The ERS manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for the portfolio and by establishing limits on the percentage of the portfolio that is invested in non-investment grade securities. The ERS's exposure to credit risk as of June 30, 2012 is as follows (expressed in thousands):

Quality Rating (1)		Collateralized Mortgage Obligations		U.S. Government Agency Obligations		Corporate Bonds
Aaa	$	19,163	$	420,119	$	67,173
Aa		6,015				94,453
A						161,602
Baa		525				331,775
Ba		58				62,444
B		36				93,250
Caa						23,891
Not rated		702				31,670
Fair Value	$	26,499	$	420,119	$	866,258

(1) Moody's Investors Service

During Fiscal 2012, 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's Pooled Investment Trust, which totaled approximately $399 million at June 30, 2012, are not included in the above credit risk table based on Moody's ratings.

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, 2012 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. 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, 2012 is as follows (expressed in thousands):

Currency	Commingled Fund	Foreign Cash	Foreign Currency Forward Contracts	Equities	Private Equity	Total
Australian Dollar	$ 66,140	$ (85)	$ 165	$	$	$ 66,220
Brazilian Real	35,301			889		36,190
Canadian Dollar	90,715	(414)	54	396	12,711	103,462
Chilean Peso	5,239					5,239
Colombian Peso	3,476					3,476
Czech Koruna	749					749
Danish Krone	9,008					9,008
Egyptian Pound	801					801
Euro Currency	204,788	(821)	228	1,181	84,854	290,230
Hong Kong Dollar	69,871	(17)		1,791		71,645
Hungarian Forint	775					775
Indian Rupee	17,482					17,482
Indonesian Rupiah	7,365					7,365
Israeli Shekel	4,564					4,564
Japanese Yen	165,040	(376)	(87)			164,577
Malaysian Ringgit	9,660					9,660
Mexican Peso	13,422					13,422
Moroccan Dirham	254					254
New Taiwan Dollar	29,458					29,458
New Zealand Dollar	910					910
Norwegian Krone	7,099					7,099
Peruvian Nuevo Sol	173					173
Philippine Peso	2,569					2,569
Polish Zloty	3,883					3,883
Pound Sterling	177,544	(289)	102	3,446		180,803
Singapore Dollar	13,980					13,980
South African Rand	21,314					21,314
South Korean Won	40,411					40,411
Swedish Krona	23,575	(5)	36		95	23,701
Swiss Franc	64,515					64,515
Thailand Baht	5,954					5,954
Turkish Lira	4,528					4,528
Total	$ 1,100,563	$ (2,007)	$ 498	$ 7,703	$ 97,660	$ 1,204,417
US Dollar	37,026					
Commingled Fund	$ 1,137,589					

In addition to the foreign currency exposure highlighted in the foregoing table, certain hedge fund investments also have foreign currency exposure.

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 indices.

The ERS's derivative investments include forward foreign currency transactions, futures contracts, options, rights and warrants. The ERS enters into these transactions to enhance performance, rebalance the portfolio consistent with overall asset allocation targets, gain or reduce exposure to a specific market, or mitigate specific risks.

Forward foreign currency contracts – The 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 System has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The 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.

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 System 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 summarizes the ERS's exposure to specific derivative investments at June 30, 2012 (expressed in thousands):

Investment Derivative Instruments	Change in fair value included in investment income	Fair value at June 30, 2012		Notional amount
Fixed income futures - long	$ 9,837	$		$
Fixed income futures - short	(207)			(22,846)
Foreign currency forward contracts	(924)	498	(a)	76,397
Index futures - long	13,894			83,925
Index futures - short	1,828			(28,281)
Warrants	(26)	6		325
	$ 24,402	$ 504		

(a) - Foreign Currency Forward Contracts

Pending receivable	$ 584
Pending payable	(86)
Foreign currency forward contract asset (liability)	$ 498

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, 2012 was $591,000. 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 System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa1 (Moody's) or better, one counterparty not rated by Moody's but is rated A+ by Fitch.

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, 2012, the carrying amount of the OPEB System's cash deposits and cash equivalents was $205,637 and the bank balance was $139,613. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include fully insured demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. At June 30, 2012, the System's cash deposits were either federally insured or collateralized.

At June 30, 2012, the System had cash equivalent investments consisting of $4,644,856 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 1.4% of the total investment in OSIP at June 30, 2012. Funds of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State are eligible to invest in OSIP. OSIP operates in a manner consistent with a SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

Investments

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

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

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

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2012 (expressed in thousands):

Investment Type	Fair Value
US Government Securities	$ 6,237
US Government Agency Securities	1,736
Collateralized Mortgage Obligations	859
Corporate Bonds	15,397
Money Market Mutual Fund	3,245
Commingled Funds - Domestic Equity	14,241
	41,715
Net investment receivable (payable)	(572)
Total Investments at Fair Value	$ 41,143

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, 2012 (expressed in thousands):

Investment Type		Fair Value	Effective Duration
US Government Agency Securities	$	1,736	2.11
US Government Securities		6,237	5.27
Collateralized Mortgage Obligations		859	3.40
Corporate Bonds		15,397	5.05
Total Fixed Income	$	24,229	4.85

The OPEB System's investments in State Street Institutional Liquid Reserves, a money market mutual fund, had an average maturity of 25 days at June 30, 2012.

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, 2012, 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, 2012 is as follows (expressed in thousands):

Rating (1)	Collateralized Mortgage Obligations	US Government Agency Obligations	Corporate Bonds
Aaa	$ 737	$ 1,736	$ 3,300
Aa	122		2,299
A			3,344
Baa			5,450
Ba			286
Not Rated			718
Fair Value	$ 859	$ 1,736	$ 15,397

(1) Moody's Investor 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, 2012, 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.

Derivatives and other similar investments

Through its commingled fund, the OPEB System indirectly holds derivative type instruments, primarily equity index futures.

E. Private Purpose Trust

The private purpose trust (Touro Jewish Synagogue) had investments of $2,102,000 in the Fidelity Balanced Fund.

F. Agency Funds

As of June 30, 2012, all of the bank balances of Agency Funds were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

Note 3. Receivables

Receivables at June 30, 2012 (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	$ 443,944	$ 360,897	$ 1,000	$ 805,841	$ 216,082	$ 34,070
Less: Allowance for Uncollectibles	99,489	110,967		210,456		
Governmental receivables, net	344,455	249,930	1,000	595,385	216,082	34,070
Business-type receivables	70,940	32,626		103,566	1,858	
Less: Allowance for Uncollectibles	4,369	19,981		24,350		
Business-type receivables, net	66,571	12,645		79,216	1,858	
Receivables, Net of Allowance for Uncollectibles	411,026	262,575	1,000	674,601	217,940	34,070
Less: Current Portion						
Governmental receivables	333,319	235,128	1,000	569,447	213,402	1,915
Business-type receivables	66,571	12,645		79,216	1,858	
Noncurrent Receivables, Net	$ 11,136	$ 14,802	$	$ 25,938	$ 2,680	$ 32,155

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2012 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	$ 4,479	$	Reimbursement for operating expenses
Intermodal Surface Transportation	956		Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		320	Debt service and administrative costs
Bond Capital		7,242	State match for transportation
RI Capital Plan		88	Excess transfer owed to General Fund
RI Historic Tax Credit	32		Tax credit fees owed to fund
Certificates of Participation	227		Fees restricted for COPS debt service
Total Non-Major Funds	259	7,650	
Total Governmental	5,694	7,650	
Proprietary Funds			
Enterprise			
RI Lottery		2,875	Net income owed to General Fund
RI Convention Center Authority	314		Project funding
Employment Security Trust	5,950		Benefit reimbursements
Total Enterprise	6,264	2,875	
Internal Service	393	1,826	Settlement of services rendered
Total primary government	$ 12,351	$ 12,351	

Note 5. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2012 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	$ 351,873	$ 7,305	$ (210)	$ 358,968
Works of Art	1,283	131		1,414
Intangibles	155,206	3,887		159,093
Construction in progress	427,459	244,838	(225,577)	446,720
Total capital assets not being depreciated or amortized	935,821	256,161	(225,787)	966,195
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings	644,386	40,379	(532)	684,233
Building Improvements	260,066	9,427	(518)	268,975
Furniture and equipment	242,348	9,717	(7,088)	244,977
Intangibles	14,049			14,049
Infrastructure	2,949,715	176,558	(10,884)	3,115,389
Total capital assets being depreciated or amortized	4,114,264	236,081	(19,022)	4,331,323
Less accumulated depreciation or amortization for:				
Land improvements	3,328	61		3,389
Buildings	200,160	14,925	(532)	214,553
Building Improvements	168,047	7,083	(518)	174,612
Furniture and equipment	211,641	12,845	(7,088)	217,398
Intangibles	10,835	1,435		12,270
Infrastructure	1,326,054	106,100	(10,884)	1,421,270
Total accumulated depreciation or amortization	1,920,065	142,449	(19,022)	2,043,492
Total capital assets being depreciated or amortized, net	2,194,199	93,632		2,287,831
Governmental activities capital assets, net	$ 3,130,020	$ 349,793	$ (225,787)	$ 3,254,026

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

General government	$ 8,871
Human services	6,861
Education	3,436
Public safety	11,101
Natural resources	5,794
Transportation	106,386
Total depreciation or amortization expense - governmental activities	$ 142,449

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	154	407	(537)	24
Total capital assets not being depreciated	45,712	407	(537)	45,582
Capital assets being depreciated:				
Buildings	234,130	288	(34)	234,384
Machinery and equipment	24,956	873	(182)	25,647
Total capital assets being depreciated	259,086	1,161	(216)	260,031
Less accumulated depreciation for:				
Buildings	100,816	8,447	(34)	109,229
Machinery and equipment	16,862	2,243	(182)	18,923
Total accumulated depreciation	117,678	10,690	(216)	128,152
Total capital assets being depreciated, net	141,408	(9,529)		131,879
Business-type activities capital assets, net	$ 187,120	$ (9,122)	$ (537)	$ 177,461

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land *	$ 112,684	$ 1,429	$ (2,244)	$ 111,869
Construction in progress *	329,844	234,442	(88,194)	476,092
Other	250			250
Total capital assets not being depreciated or amortized	442,778	235,871	(90,438)	588,211
Capital assets being depreciated or amortized:				
Buildings *	1,742,287	69,542	(1,463)	1,810,366
Land improvements *	176,680	18,084	(527)	194,237
Machinery and equipment *	362,632	35,391	(15,463)	382,560
Intangibles	4,100		(4,100)	
Infrastructure *	666,510	32,034		698,544
Total capital assets being depreciated or amortized	2,952,209	155,051	(21,553)	3,085,707
Less accumulated depreciation or amortization for:				
Buildings *	647,076	58,682	(1,269)	704,489
Land improvements	104,528	4,821		109,349
Machinery and equipment *	198,968	25,006	(14,865)	209,109
Intangibles	4,100		(4,100)	
Infrastructure *	116,284	14,219		130,503
Total accumulated depreciation or amortization	1,070,956	102,728	(20,234)	1,153,450
Total capital assets being depreciated or amortized, net	1,881,253	52,323	(1,319)	1,932,257
Total capital assets, net	$ 2,324,031	$ 288,194	$ (91,757)	$ 2,520,468

* 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, 2012 are presented in the following table:

Long-term Liabilities

(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Bonds Payable						
General obligation bonds (see section B)	$ 1,049,400	$ 291,765	$ (230,580)	$ 1,110,585	$ 88,040	$ 1,022,545
RIEDC Grant Anticipation Revenue Bonds	372,310		(29,590)	342,720	31,075	311,645
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	74,060		(3,710)	70,350	3,840	66,510
Tobacco Settlement Asset-Backed Bonds	795,161		(15,735)	779,426		779,426
Accreted interest on TSFC bonds	51,710	15,191		66,901		66,901
RIEDC Historic Tax Credit Bonds	120,820		(14,830)	105,990	15,415	90,575
Net unamortized premium/discount	22,235	44,903	(7,268)	59,870		59,870
Deferred amount on refunding	(6,744)	(11,455)	1,360	(16,839)		(16,839)
Bonds Payable, net	2,478,952	340,404	(300,353)	2,519,003	138,370	2,380,633
Obligation under capital leases (see section E)	224,045	31,980	(22,225)	233,800	22,835	210,965
Net unamortized premium/discount	5,051	517	(946)	4,622		4,622
Deferred amount on refunding	(1,200)		242	(958)		(958)
Obligation under capital leases, net	227,896	32,497	(22,929)	237,464	22,835	214,629
Compensated absences	89,269	63,030	(71,236)	81,063	67,782	13,281
Net OPEB Obligation (see note 14 C)	13,257	128		13,385		13,385
Special obligation notes	13,100		(4,925)	8,175	1,500	6,675
Other Long-term Liabilities						
Pollution remediation	20,222	6,193	(14,900)	11,515	3,025	8,490
Other	57,493	8,771	(20,087)	46,177	11,388	34,789
Total Governmental Long-term Liabilities	$ 2,900,189	$ 451,023	$ (434,430)	$ 2,916,782	$ 244,900	$ 2,671,882
Business-type Activities						
Revenue bonds (see section B)	$ 259,620	$	$ (9,110)	$ 250,510	$ 9,570	$ 240,940
Net unamortized premium/discount	963		(138)	825		825
Deferred amount on refunding	(10,914)		1,114	(9,800)		(9,800)
Revenue bonds, net	249,669		(8,134)	241,535	9,570	231,965
Notes payable	607		(188)	419	188	231
Deferred Revenue	7,500	770	(625)	7,645	625	7,020
Compensated absences	434	232	(266)	400	172	228
Due to Other Governments and Agencies (see Section J)	222,352	2,294		224,646		224,646
Total Business-type Long-term Liabilities	$ 480,562	$ 3,296	$ (9,213)	$ 474,645	$ 10,555	$ 464,090
Component Units						
Bonds payable (see section B)	$ 3,769,666	$ 235,820	$ (388,704)	$ 3,616,782	$ 188,174	$ 3,428,608
Net unamortized premium/discount	41,841	9,025	(2,329)	48,537	105	48,432
Deferred amount on refunding	(12,137)		1,238	(10,899)		(10,899)
Bonds Payable, net	3,799,370	244,845	(389,795)	3,654,420	188,279	3,466,141
Notes payable (see section C)	82,994	251,467	(236,674)	97,787	87,744	10,043
Loans payable (see section D)	359,678	41,617	(18,931)	382,364	20,448	361,916
Obligations under capital leases	12,028	130	(1,785)	10,373	1,368	9,005
Net OPEB obligation	32,876	7,369	(131)	40,114		40,114
Compensated absences	34,287	1,356	(1,560)	34,083	10,002	24,081
Due to primary government	37,596	107	(3,633)	34,070	1,915	32,155
Due to Other Governments and Agencies	364,995	88	(62,076)	303,007	35,543	267,464
Deferred Revenue	48,169	8,957	(499)	56,627	37,715	18,912
Due to Component Units	3,064	49,034	(2,429)	49,669	47,033	2,636
Other Long-term liabilities						
Arbitrage rebate	14,827	5,863	(4,163)	16,527	11,019	5,508
Pollution remediation	31,221		(5,721)	25,500	1,245	24,255
Other liabilities	230,405	36,547	(11,625)	255,327	14,478	240,849
Total Component Units Long-term Liabilities	$ 5,051,510	$ 647,380	$ (739,022)	$ 4,959,868	$ 456,789	$ 4,503,079

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

B. Bonds Payable

At June 30, 2012, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government - Governmental Activities Principal	Primary Government - Governmental Activities Interest	Primary Government - Business Type Activities Principal	Primary Government - Business Type Activities Interest	Component Units Principal	Component Units Interest
2013	$ 138,370	$ 113,161	$ 9,570	$ 13,565	$ 188,174	$ 139,088
2014	126,830	108,793	10,060	13,075	116,755	134,512
2015	138,215	102,750	10,550	12,535	114,201	129,946
2016	144,165	96,083	11,095	11,983	117,252	125,197
2017	151,700	88,749	11,645	11,424	117,654	120,342
2018 - 2022	548,725	345,997	67,655	47,604	687,290	513,911
2023 - 2027	320,820	234,338	87,150	27,907	659,561	365,037
2028 - 2032	103,280	179,728	24,345	10,185	621,150	223,071
2033 - 2037	168,260	116,156	18,440	2,279	497,670	110,936
2038 - 2042	371,700	116,156			345,595	38,323
2043 - 2047					66,020	13,824
2048 - 2052	197,006	2,637,174 *			85,460	2,388
	$ 2,409,071	$ 4,139,085	$ 250,510	$ 150,557	$ 3,616,782	$ 1,916,575

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

Primary Government - *Governmental Activities*

General obligation bonds of the State are serial bonds with interest payable semi-annually. During the year ended June 30, 2012 the State issued the following general obligation bonds:

- $145,035,000 Consolidated Capital Development Loan of 2011, Series A, with interest rates ranging from 0.00% to 5.50%, maturing from 2013 through 2032.

- $23,780,000 Consolidated Capital Development Loan of 2011, Refunding Series B, with interest rates ranging from 2.00% to 5.00%, maturing from 2013 through 2016. The proceeds were used to effect an advance refunding of $25,535,000 of general obligation bonds. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 4 years by $2,253,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2,191,000.

- $122,950,000 Consolidated Capital Development Loan of 2012, Refunding Series A, with interest rates ranging from 3.00% to 5.00%, maturing from 2016 through 2028. The proceeds were used to effect an advance refunding of $131,815,000 of general obligation bonds. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 16 years by $6,479,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $7,302,000.

At June 30, 2012, general obligation bonds authorized by the voters and unissued amounted to $117,000,000. 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 - $52,720,000, (2) Economic Development Corporation –

Fund to Grow Rhode Island Companies - $44,500,000, (3) Economic Development Corporation – 195 Land Sales - $42,000,000 and Information Technology Improvements Certificates of Participation - $45,300,000.

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 2012 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, 2012, TSFC utilized $15,735,000 of excess collections to early redeem an equal amount of outstanding bonds. Pledged tobacco revenues were sufficient to fund fiscal 2012 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, 2012, outstanding bond and note indebtedness totaled $250,929,000.

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 2012, the RICCA was unable to fund the Operating Reserve and Debt Service Reserve requirements.

Discretely Presented Component Units

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

The University of Rhode Island (URI), Rhode Island College (RIC), and the Community College of Rhode Island (CCRI) have issued a number of series of revenue bonds to finance housing, student union (including bookstores) and dining facilities. Under terms of the trust indentures, certain net revenues from these operations must be transferred to the trustees for payment of interest, retirement of bonds, and maintenance of facilities. The bonds are payable in annual or semi-annual installments to various maturity dates. Revenue bonds also include amounts borrowed under loan and trust agreements between the R.I. Health and Educational Building Corporation (RIHEBC) and the Board of 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 $252,590,000 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 $38,098,000 for the year ended June 30, 2012. Principal and interest payments for the year ended June 30, 2012 were approximately $22,528,000.

RIAC has pledged facility revenues related to the InterLink Facility, net of specified operating expenses, to repay $48,195,000 in First Lien Special Facility Bonds. Proceeds from the bonds were used for the construction of the InterLink Facility. Facility revenues, including interest income, were $7,646,000 for the year ended June 30, 2012. Principal and interest paid for the year ended June 30, 2012 was approximately $2,977,000. 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 2013. Upon completion of the project, RIAC began making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments are made on behalf of RIEDC (the borrower per the Agreement), and debt service payments commenced in fiscal year 2012 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink Facility. As of June 30, 2012, RIAC had $40,059,000 in borrowings under this agreement.

The RI Economic Development Corporation is authorized to issue bonds or other obligations not to exceed $42,000,000 to finance the acquisition by the I-195 Redevelopment Commission of the surplus land from the State. These bonds will be repaid by the Redevelopment Commission from the proceeds of the sale of land and are also to be secured by a capital reserve fund. Any deficiency in the capital reserve fund is subject to annual appropriation by the General Assembly. No bonds have been issued as of June 30, 2012. See Note 17 B – Related Party Transactions.

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. See Note 11 for details of specific commitments relating to a defaulted project guaranteed by RIIRBA.

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.

C. Notes Payable

Primary Government

Special Obligation Notes (expressed in thousands) at June 30, 2012 are as follows*:*

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, 2013-2017	$	8,175

The special obligation note is 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 2012 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, 2012 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.	$	1,525
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 1.29% to 6.25% interest, payable through 2030.		93,886
R.I. Economic Development Corporation (Quonset Development Corporation) monthly payments of principal and interest through FY 2016 bearing interest at 5.00%.		2,026
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015		350
		97,787
Less: current portion		(87,744)
	$	10,043

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 $340,979,944.

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, 2012 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

In July 2011 the State issued $31,980,000 of Lease Participation Certificates with interest rates from 2.00% to 4.50%. The proceeds will be used for a number of energy conservation projects at State facilities. The certificates mature in 2012 through 2026.

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, 2012:

Fiscal Year Ending June 30		COPS
2013	$	33,225
2014		31,608
2015		30,949
2016		30,514
2017		27,401
2018 - 2022		100,037
2023 - 2027		42,869
2028 - 2032		4,964
Total future minimum lease payments		301,567
Amount representing interest		(67,767)
Present value of future minimum lease payments	$	233,800

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, 2012, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 176,150
R.I. Convention Center Authority	25,800
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	168,125
R.I. Economic Development Corporation	13,060
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, 2012 was $65,500,000, $3,005,229,000 and $1,063,000,000 respectively, for these component units. 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, 2012:

	Balance July 1, 2011	Additions	Reductions	Balance June 30, 2012
General Obligation Tax Anticipation Notes	$ 0	$ 200,000	$ 200,000	$ 0
Total Short-Term Borrowing	$ 0	$ 200,000	$ 200,000	$ 0

The borrowings were used to provide short-term working capital.

In addition, R.I. Housing & Mortgage Corporation had outstanding balances of $68,000,000 on two lines of credit that are payable on demand and accrue interest at rates ranging from 1.29% to 1.70%.

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 $224,646,000 at June 30, 2012 from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits paid from the Employment Security Fund to eligible unemployed individuals. Interest accrued beginning January 1, 2011 and is payable on October 1 of each year.

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 year 2012 and 2013, included 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.

The State projects that it will need to continue to borrow in fiscal year 2013 as authorized by Federal law in order to meet its cash flow needs to finance the cost of unemployment benefit payments.

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 $552,863,000 of restricted net assets, of which $232,636,000 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:				
Permanent Fund Principal	$	$	$ 174	$ 174
Restricted for:				
Budget Reserve and Cash Stabilization	153,408			153,408
Purposes specified by enabling legislation	78,940			78,940
Debt Service		13,722	71,077	84,799
Capital Projects			234,253	234,253
Temporary Disability Insurance			153,696	153,696
Historic Tax Credit Redemption			23,490	23,490
Transportation		97,815		97,815
Education			1,841	1,841
Other			381	381
Committed to:				
Appropriations Carried Forward by Statute:				
Judiciary	136			136
Legislature	6,337			6,337
Transportation		1,742		1,742
Employees' Retirement System Transfer	12,944			12,944
Other	3,376			3,376
Assigned to:				
Subsequent Years Expenditures	97,393			97,393
Other	246	117	201	564
Unassigned:	20,374	(4,717)		15,657
Totals	$ 373,154	$ 108,679	$ 485,113	$ 966,946

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 2012, 2.80% of total general revenues and opening surplus are transferred to the Reserve. Amounts in excess of 4.60% 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.

Pursuant to the General Laws upon issuance of the audited financial statements, the State Controller is required to transfer all general revenues received in the fiscal year (net of the transfer to the State Budget Reserve and Cash Stabilization Account) in excess of those estimates adopted for that fiscal year as contained in the final enacted budget, to the Employees' Retirement System. The amount of such transfer is $12,944,000 which is reflected in the committed category of fund balance in the table above. It is anticipated the transfer will be made in fiscal year 2013 upon issuance of the audited financial statements.

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	$ 1,059,119	$ 1,060,605
General Business Taxes:		
Business Corporations	122,140	121,668
Public Utilities Gross Earnings	100,631	100,683
Financial Institutions	3,558	10,246
Insurance Companies	85,205	85,253
Bank Deposits	2,001	2,001
Health Care Provider Assessment	41,922	41,918
Sub-total - General Business Taxes	355,457	361,769
Sales and Use Taxes:		
Sales and Use	851,056	853,081
Motor Vehicle	48,392	48,392
Motor Fuel	733	745
Cigarettes	131,086	131,043
Alcoholic	11,874	11,874
Sub-total - Sales and Use Taxes	1,043,141	1,045,135
Other Taxes:		
Inheritance and Gift	46,412	46,657
Racing and Athletics	1,327	1,327
Realty Transfer	6,435	6,435
Sub-total - Other Taxes	54,174	54,419
Total - General Fund	2,511,891	2,521,928
Intermodal Surface Transportation Fund		
Gasoline	136,646	136,646
Other Governmental Funds	165,794	165,794
Total Taxes	$ 2,814,331	$ 2,824,368

Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2012 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 50,686	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,811	Administrative cost reimbursement
Historic Tax Credit	6,558	Reimbursement for tax credits claimed
Bond Capital	5,091	Interest earnings transfer
RI Capital Plan	3	Reimbursement for capital expenditures
Business-Type Activities		
Lottery	377,706	Net income transfer
Employment Security	97	Administrative cost reimbursement
Intermodal Surface Transportation		
Bond Capital	52,841	Infrastructure funding
Nonmajor Funds		
COPs		
General	2,186	Debt service
RI Capital Plan		
General	70,264	Transfer statutory excess in budget reserve
Bond Capital	12,554	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,882	Operating assistance
Total Governmental Activities	581,679	
Business-Type Activities		
Convention Center		
General	23,140	Debt service
Employment Security		
General	8,237	Administrative cost reimbursement
Assessed Fringe Benefits	2,040	Reimbursement for State employees' unemployment compensation
Total operating transfers primary government	$ 615,096	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $10,871,000 for the fiscal year ended June 30, 2012.

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, 2012:

Fiscal Year Ending June 30	
2013	$ 9,813
2014	9,307
2015	9,100
2016	6,999
2017	2,840
2018 - 2022	7,226
Total	$ 45,285

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

Note 11. Commitments

Primary Government

Commitments arising from encumbrances are listed below (expressed in thousands):

Major funds		
General	$	7,106
IST		463,271
Total major funds		470,377
Other governmental funds		2,744
Total encumbrances outstanding	$	473,121

The primary government is committed at June 30, 2012 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, 2012 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, 2012, $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 $2,829,000 of the debt on the related economic development revenue bonds in fiscal year 2012. 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 Master Contract has been amended in recent years to reflect the statutory authorization of the operation of a promotional points program at Twin River. In fiscal year 2012, Twin River was authorized and issued approximately $18.7 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Twin River's promotional play program effective July 1, 2012.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse UTGR for allowable marketing expenses at an amount not to exceed $6 million multiplied by the Lottery's percentage of net terminal income (61.16% for fiscal year 2012). 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).

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 contract, as amended, entitles Newport Grand to compensation equal in percentage of net terminal income to that of Twin River.

The Master Contract has been amended in recent years to reflect the statutory authorization of the operation of a promotional points program at Newport Grand. In fiscal year 2012, Newport Grand was authorized and issued approximately $2.9 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Newport Grand's promotional play program effective July 1, 2012.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery 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 (61.76% for fiscal year 2012). 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).

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 $3,485,000, which are expected to be funded from current available resources and future operations. As of June 30, 2012, RIAC was also obligated for the completion of certain projects related to the InterLink facility of approximately $7,270,000.

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 reached capacity during fiscal year 2012, portions of Phase IV have been capped, with final capping expected during fiscal year 2013. In 2005, the Corporation began landfilling in Phase V. As of June 30, 2012 the Corporation has not begun landfilling in phase VI.

A liability for closure and post-closure care of $50,460,559 as of June 30, 2012 has been recorded in the accompanying statement of net assets, as summarized by Phases below:

	Year ended June 30, 2012
Phase I	$ 8,158,778
Phase II and III	4,790,035
Phase IV	9,759,537
Phase V	27,752,209
	$ 50,460,559

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

As of June 30, 2012, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste are as follows:

	Estimated remaining costs to be recognized	Estimated capacity used	Estimated remaining years for accepting waste
Phase V	$ 9,754,258	74.0%	3 years

As of June 30, 2012 the Corporation revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a $12,471,204 reduction of the corresponding liability from $88,433,606 at June 30, 2011 to $75,962,402 at June 30, 2012. This reduction was primarily attributable to the transfer of responsibility for gas collection system costs from the Corporation to a private third party.

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, 2012 is $41,376,909 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, 2012 is as follows:

Balance, June 30, 2011	Additions	Reductions	Balance, June 30, 2012	Current Portion
$ 31,222,407	$ 0	$ (5,720,564)	$ 25,501,843	$ 1,245,398

<u>Superfund site:</u>

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 $42,230,754 as of June 30, 2012 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 $25,327,000 as of June 30, 2012.

<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 $175,000 as of June 30, 2012.

<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, 2012 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 $33,964,170 at June 30, 2012.

R.I. Industrial-Recreational Building Authority

At June 30, 2012, 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, 2012 are $19,467,587.

The Authority insured a bond issued by Rhode Island Industrial Facilities Corporation (RIIFC) on behalf of a private sector entity. During the year ended June 30, 2012 the private sector entity was in default on its payments to the bond holder and the Authority has assumed responsibility for making the debt payments. These payments will be made by first exhausting insurance funds held by the Authority. The Authority must then request appropriations from the Rhode Island General Assembly for any loss in excess of the insured amount. The Authority has determined that it is likely that it will incur a loss under the insured commitment. Although the Authority is unable to estimate the exact amount of the loss, the Authority has accrued an insured commitment payable of $1,962,682 equal to the minimum estimated loss at June 30, 2012. The current portion of the insured commitments payable was calculated by estimating the monthly payments due within one year on this bond.

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.

Challenges to the 2009 and 2010 Pension Reform - A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, 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 on the Motion 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 briefed and 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 defendant State officials 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 petition for Writ of Certiorari. The litigation is proceeding through discovery at this time.

Challenges to the 2011 Pension Reform - In June 2012, certain retiree groups and unions representing state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the Rhode Island Public Employees' Retirement Coalition v. Chafee, C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuit.

On August 17, 2012, the defendants filed a motion to dismiss the Rhode Island Public Employees' Retirement Coalition v. Chafee, C.A. No. 12-3166 case on the ground that Rhode Island's pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a state statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs' pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from Rhode Island's pension legislation.

On December 18, 2012, the Superior Court judge presiding over the cases involving challenges to enacted pension reforms ordered the parties to participate in mediation in an attempt to reach a settlement before the case moves to trial.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the plans within the ERSRI and the State's actuarially determined annual required contribution.

Other

Separate claims have been made against the Rhode Island Department of Education (RIDE) 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. 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. The Board of Regents affirmed the dismissal. An Administrative Procedures Act appeal and a Petition for Writ of Mandamus in the Superior Court have been filed on the basis of these claims. The mandamus action was dismissed on the motion of RIDE's counsel, whereupon an appeal was filed by Petition for Writ of Certiorari to the Supreme Court. Said petition was granted and the matter is pending before the Supreme Court. Accordingly, both court actions are proceeding with the mediation process continuing for the Supreme Court action. The aggregate sums demanded by the school districts approximate $22 million; however, tentative mediated settlements (for significantly lesser amounts) are pending between the RIDE and both school departments and, if finalized, will result in the dismissal of both the Superior Court and Supreme Court cases. However, settlement amounts require appropriation by the General Assembly in order to be finalized.

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"), which would permit the tobacco manufacturers 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 to not have diligently enforced its escrow statute. For calendar years 2003, 2004, 2005 and 2006, there have been four Significant Factor Proceedings in which the firm found in favor of the PMs. There will not be a Significant Factor Proceedings for calendar years 2007, 2008, 2009, 2010, 2011 and 2012.

From April 2005 through April 2012, many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to apply the NPM Adjustment. The Corporation's share of these disputed payments is approximately $27.4 million.

Currently, the Settling States and the PMs are engaged in arbitration proceedings in connection with the issue of Diligent Enforcement for the calendar year 2003. However, Rhode Island's Diligent Enforcement is no longer being challenged for 2003. Future NPM Adjustments could be as large as or exceed the reported potential $1.2 billion calendar year 2003 NPM adjustment. The resolution of the substance of such disputes could take years. Moreover, there is no assurance that these funds will be collected by the Corporation in the future. Due to these uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

In addition to NPM Adjustment arbitration, 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. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations.

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 enacted legislation in Massachusetts allowing three casinos and one slot parlor in that State. Massachusetts has developed a two-phase application process for potential operators and developers. The Massachusetts Gaming Commission could award casino licenses during fiscal 2014 based on their current timeline. Depending on the resulting location of the facilities within Massachusetts, video lottery revenues in Rhode Island could decrease.

In response to the above, the Rhode Island General Assembly enacted legislation that called for a statewide referendum in November 2012 to allow casino-style gaming at Twin River and Newport Grand. For casino-style gaming to be allowed at Twin River and Newport Grand, the referenda had to pass both statewide and locally in the communities that currently host Twin River (Town of Lincoln) and/or Newport Grand (City of Newport). While the referendum passed statewide for both facilities and in the Town of Lincoln for Twin River, the referendum to allow table gaming in the City of Newport did not pass in Newport. Thus, table games will be allowed at Twin River but not at Newport Grand. As required, by March 31, 2013 the Lottery will promulgate rules and regulations related to state-operated table gaming at Twin River. It is anticipated that the table gaming will commence at Twin River on or about July 1, 2013.

While the Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Superior Court on or about September 28, 2011, inter alia, challenging the constitutionality of the casino gaming act on the grounds that it would not be "state-operated" and the act "delegates unconstitutional authority to a private corporation", on or about June 29, 2012, the Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof that the act violates the State or United States constitution. The Narragansett Indian Tribe filed a notice of appeal of that decision. The State also filed an appeal on the issue of the Narragansett Indian Tribe's standing in the litigation. The prebriefs are due in that matter on December 21, 2012. The remaining issues in the case which are still pending in the Superior Court relate to whether the state "operates" Twin River and Newport Grand.

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, 2011 was issued in March 2012. That report identified approximately $13.7 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 2012 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, 2012, the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $227,135,801 and $110,169,052, respectively, in "moral obligation" bonds outstanding.

The Job Creation Guaranty Program (JCGP) created by the General Assembly in 2010, authorizes the RIEDC to provide credit enhancements up to $125 million on bonds or loans privately placed with capital providers and banks. In November 2010, RIEDC issued $75 million of taxable revenue bonds to provide a loan in the amount of $75 million to 38 Studios LLC (38 Studios) under the Job Creation Guarantee Program (JCGP). The State used its "moral obligation" authority to guarantee debt service payments to the bondholders. The original loan proceeds were segregated as follows:

Capital Reserve Account held by trustee	$ 12,750,000
Capitalized Interest Account held by trustee	10,600,000
Amount available for the 38 Studios Project and bond issuance costs	51,650,000
Total	$ 75,000,000

On June 7, 2012, 38 Studios filed for bankruptcy under Chapter 7 in Delaware listing $151 million in liabilities and $21.7 million in assets. On August 8, 2012 a federal judge allowed the assets to be liquidated through the state court in Rhode Island.

As of June 30, 2012, all project funds have been completely expended. Amounts available at June 30, 2012 in the Capitalized Interest Account totaling approximately $2.65 million have been expended for debt service due November 1, 2012. Amounts available in the Capital Reserve Account totaling approximately $12.75 million are expected to be used to pay debt service due in May and November 2013.

In accordance with the enabling legislation and an agreement between the RIEDC, the trustee, and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the RIEDC had 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 a budget request for appropriation to the General Assembly. RIEDC presented a certificate to the Governor dated October 23, 2012 requesting $12,750,000 to restore the Capital Reserve Fund to the minimum requirement for fiscal 2014. The General Assembly may, but is not required to, appropriate such amounts.

It is estimated that the total debt service on the bonds after exhausting any existing reserves with the trustee approximates $89 million. The maturity dates on the bonds range from 2015 to 2020 with required sinking fund payments commencing in November 2013. Maximum annual debt service is approximately $12,750,000.

In November 2012, RIEDC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of RIEDC and various advisors to RIEDC alleging fraud, negligence, breach of fiduciary duty and other charges. The suit seeks recovery of compensatory and punitive damages associated with the various counts identified in the lawsuit.

No loss contingency has been accrued by the RIEDC or the State at June 30, 2012 for any amounts potentially required to pay the debt service on the bonds issued by the RIEDC pursuant to the JCGP. Amounts to be recovered from the sale of remaining assets of 38 Studios (e.g., intellectual property) or from the lawsuit previously described which may be used to pay the debt service on the bonds cannot be reasonably estimated. The General Assembly will consider the request to fund the anticipated shortfall in the minimum Capital Reserve Fund requirement as part of its consideration of the Governor's Fiscal 2014 budget submission.

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 made sweeping changes in student financial assistance programs, including a provision which eliminated loan originations under the Federal Family Education Loan (FFEL) Program effective July 1, 2010. As a result, new guaranteed student loans now originate under the Federal Direct Loan Program. RIHEAA's role as a guaranty agency in the FFEL Program constituted its single largest activity, and approximately 80% 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.

RIHEAA management and its Board continue to evaluate the impact of the Act and the options for future operations. The Authority 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 will also continue to promote awareness of and access to post-secondary education opportunities and programs. It is difficult, however, to predict the time period over which such services would be required, to what extent they would constitute a substantive activity, and for how long they might be financially viable. RIHEAA currently anticipates that the time period would be in the range of three to five years.

In June 2012, the Rhode Island General Assembly passed and the Governor signed into law added language to RIHEAA's enabling legislation, titled – Reserve Funds: "To assure continued solvency of the authority, the authority's operating fund shall be used solely for the ordinary operating expenses of the authority. Furthermore, it is the intent of the general assembly that these funds eventually be used to increase financial assistance to Rhode Island students in the form of scholarships and grants." The RIHEAA Board has had discussions about the new legislative language and is in the process of developing proposals and programs that are consistent with the legislature's intent.

In fiscal year 2012, the Rhode Island Student Loan Authority (RISLA) entered into a line-of-credit agreement with RIHEAA to purchase FFELP loans that are over 240 days delinquent from the Asset-Backed Commercial Paper Conduit program that was established by the DOE with funds advanced from RIHEAA. All claim and borrower payments of principal and interest received by RISLA are remitted to RIHEAA to reduce the outstanding balance of the line-of-credit. The maximum amount of the line-of credit is $6.5 million. The outstanding balance at June 30, 2012 was $5,782,532.

R.I. Housing and Mortgage Finance Corporation

As of June 30, 2012, the Corporation may borrow up to a maximum of $40,000,000 under one revolving loan agreement expiring in November 2013, up to a maximum of $15,000,000 under a revolving loan agreement expiring in January 2013 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, 2012 is $40,483,841.

Rhode Island Public Transit Authority

The Authority currently has a projected $7.8 million operating deficit based on the Board of Director's approved budget for Fiscal Year 2013 and current management projections. The Authority is funded primarily by state gasoline tax revenue and to a lesser degree, certain federal funds. Total gasoline tax revenue, and the Authority's share of such revenue is expected to decrease from the previous fiscal year. Other Authority operating costs have increased, notably; fuel and the employee wage and benefit costs. Management is developing contingency plans to address the continued availability of transportation services to the public. These plans include a review of all estimated expenditure activity to determine only those expenditures that are of a critical nature as well as proposals to freeze other non-critical expenditure requests. In addition, management plans to propose and request additional funding sources from the State of Rhode Island which would require appropriation from the General Assembly. It should be noted that some of the contingency plans require action by external parties that may or may not occur. Absent an alternate source of funding, including funding sources requested from the State of Rhode Island or as a result of any savings achieved pursuant to the implementation of the contingency plans above, it is questionable whether the Authority will have sufficient funds for operations beyond the fourth quarter of Fiscal Year 2013.

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 8.5% and 3.7%, respectively, of the total reported fair value of all ERS investments at June 30, 2012. Of the underlying holdings within private equity investments, approximately 15% 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.

Hedge funds are valued based on information provided by the fund manager and as verified by their respective third party administrator. Of the underlying holdings within the hedge funds approximately 63% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments) and 31% as Tier 2 inputs (other significant inputs, either directly or indirectly, at the measurement date such as a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets and liabilities in markets that are not active; c) observable inputs, other than quoted prices, for assets and liabilities; or d) inputs that are derived from or corroborated by observable market data by correlation or other means. The remaining underlying holdings within the hedge funds approximating 6% were valued based on Tier 3 inputs (unobservable inputs which are developed based on the best information available in the circumstances which might include the fund’s own data).

Investment management expenses are presented separately as a component of net investment income and include investment consultants, custodial fees and direct investment expenses allocated by managers. In some instances (hedge funds, private equity and real estate investments), investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

Funding Policy and Annual Pension Cost

The actuarial assumptions and methods employed in the valuation of the plans performed as of June 30, 2009 (used to determine contribution rates for fiscal 2012) differ from those employed in the June 30, 2011 valuation (the most recent valuation performed of the plans). The notes to the required supplementary information describe changes to actuarial methods and assumptions. A summary of the State's annual pension cost (expressed in thousands) for the fiscal year ended June 30, 2012 and the actuarial assumptions used in the June 30, 2009 valuations of the plans is provided in the table below:

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	22.98%	25.39%	18.69%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	8.64% and 9.09%		
Annual pension cost	$233,834	$5,333	$1,718
Contributions made - state employees	$153,448	$5,333	$1,718
Contributions made - teachers	$80,386		
Actuarial valuation date	June 30, 2009	June 30, 2009	June 30, 2009
Actuarial cost method	Entry Age Normal-Ultimate Normal Cost Method	Entry Age Normal-Ultimate Normal Cost Method	Entry Age Normal-Ultimate Normal Cost Method
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	20 years	20 years	20 years
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	6/30/10	192,091	100%	0
	6/30/11	196,847	100%	0
	6/30/12	233,834	100%	0
State Police Retirement Benefits Trust	6/30/10	3,591	100%	0
	6/30/11	3,787	100%	0
	6/30/12	5,333	100%	0
Judicial Retirement Benefits Trust	6/30/10	1,181	100%	0
	6/30/11	1,298	100%	0
	6/30/12	1,718	100%	0

Funded Status and Funding Progress

The table below displays the funded status of each plan for the fiscal year ended June 30, 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	$ 2,443,690,798	$ 4,255,362,463	$ 1,811,671,665	57.40%	$ 633,146,197	286.10%
Teachers	3,776,407,834	6,325,941,951	2,549,534,117	59.70%	1,002,656,294	254.30%
SPRBT	73,151,768	74,185,705	1,033,937	98.60%	19,711,694	5.20%
JRBT	40,105,919	46,594,407	6,488,488	86.10%	8,474,716	76.60%

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

Additional information as of the June 30, 2011 actuarial valuation follows:

	ERS			
	State Employees	Teachers	SPRBT	JRBT
Valuation Date	6/30/2011	6/30/2011	6/30/2011	6/30/2011
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	24 years	24 years	24 years	24 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.

Pension Reform – Provisions effective July 1, 2012

In November 2011, the Rhode Island General Assembly enacted comprehensive pension reform legislation titled the Rhode Island Retirement Security Act of 2011 (RIRSA). The enacted reforms are effective beginning July 1, 2012. 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 previous 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.

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 $16,040,000 during the year ended June 30, 2012.

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 2012 totaled $7,670,118. At January 1, 2012, the most recent valuation date, the total actuarial accrued liability was $109,160,786 and the actuarial value of assets was $72,301,088. The Authority contributed 100.00% of its annual pension cost for fiscal year 2012 and had a net pension obligation of $1,741,566 at June 30, 2012.

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 2012 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, 2012, the State and other participating employers paid $56,846,593 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	06/30/09	06/30/09	06/30/09	06/30/09	06/30/09	06/30/09
Annual required contribution as a percent of payroll	6.86%	N/A	7.19%	33.18%	46.35%	2.69%
Annual required contribution	$ 44,235	$ 2,321	$ 782	$ 5,841	$ 778	$ 2,884
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	141	411	106	0
Less: Adjustment to ARC	0	N/A	113	332	85	0
Annual OPEB cost	44,235	2,321	810	5,920	799	2,884
Participating State and/or other employer contributions	44,235	2,321	782	5,841	778	2,884
Increase in OPEB obligation	0	0	28	79	21	0
Net OPEB obligation at beginning of year	0	0	2,839	8,302	2,116	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 2,867	$ 8,381	$ 2,137	$ 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	2010	$ 45,852	73.07%	$ -
	2011	41,120	100.00%	-
	2012	44,235	100.00%	-
Teachers	2010	2,345	100.00%	-
	2011	2,333	100.00%	-
	2012	2,321	100.00%	-
Judicial	2010	1,131	15.33%	2,811
	2011	1,014	97.23%	2,839
	2012	810	96.53%	2,867
State Police	2010	4,640	48.88%	8,222
	2011	4,295	98.13%	8,302
	2012	5,920	98.66%	8,381
Legislators	2010	1,861	7.72%	2,095
	2011	1,541	98.62%	2,116
	2012	799	97.34%	2,137
BOG	2010	1,665	53.20%	-
	2011	2,869	100.00%	-
	2012	2,884	100.00%	-

The Net OPEB Obligation for the State Employees and BOG plans has been restated for 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, 2011, 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	$ 11,545	$ 786,293	$ 774,748	1.5%	$ 600,273	129.1%
Teachers	2,040	11,512	9,472	17.7%	n/a	n/a
Judicial	841	2,610	1,769	32.2%	10,813	16.4%
State Police	1,488	81,759	80,271	1.8%	17,384	461.8%
Legislators	1,442	1,443	1	99.9%	1,615	0.1%
BOG	3,189	53,751	50,562	5.9%	125,340	40.3%

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

D. Actuarial Methods and Assumptions

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

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

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

The Annual Required Contributions for fiscal year 2012 were determined based on the June 30, 2009 valuations for all plans.

As of the June 30, 2009 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, 2009 is 27 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, 2009 valuation the actuarial assumptions include a 5.0% discount rate, a health care cost trend assumption of 9% progressively declining to 4.5% after 10 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 enacted through legislation.

The most recent actuarial valuations of the plans were performed as of June 30, 2011.

A number of changes in OPEB specific actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI), and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions, and changes to reflect the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates for ERSRI and changes to salary expectations and mortality for both ERSRI and SPRBT.

Changes to the OPEB specific assumptions include a change in the medical trend assumption of 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2018.

The 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, 2011 valuation

	Plan					
	State Employees	**Teachers**	**Judicial**	**State Police**	**Legislators**	**Board of Governors**
Valuation Date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
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 Dollar	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	25 years	4 years	25 years	25 years	25 years	25 years
Asset Valuation Method	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	4.00% to 7.0%	N/A	4.00%	4.00% to 12.0%	4.25% to 8.50%	4.00% to 7.00%
Valuation Health Care Cost Trend Rate	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021

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 2 – The actuarial assumptions do not include a separate general inflation rate assumption.

Certain other component units have other post employment benefit plans. For information regarding these plans, please refer to the component units' separately issued financial reports.

Note 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 2012, 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, 2012 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	$ 16,071	$ 203,563	$ 205,854	$ 13,780

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	$ 5,694	$ 393	$ 6,087	$ (9,476)	$ (3,389)
Loans to other funds	9,469		9,469	(9,469)	
Total assets	$ 15,163	$ 393	$ 15,556	$ (18,945)	$ (3,389)
Liabilities					
Due to other funds	$ 7,650	$ 1,826	$ 9,476	$ (9,476)	$
Loans from other funds	6,809	2,660	9,469	(9,469)	
Total liabilities	$ 14,459	$ 4,486	$ 18,945	$ (18,945)	$
Program revenue					
General government	$	$ 263,825	$ 263,825	$ (263,825)	
Public safety		10,023	10,023	(10,023)	
Expenses					
General government		(263,770)	(263,770)	263,770	
Public safety		(10,078)	(10,078)	10,078	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 581,679	$	$ 581,679	$ (237,293)	$ 344,386
Operating transfers out	(235,253)	(2,040)	(237,293)	237,293	
Net transfers	$ 346,426	$ (2,040)	$ 344,386	$	$ 344,386

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 6,264	$	$ 6,264	$ (2,875)	$ 3,389
Total assets	$ 6,264	$	$ 6,264	$ (2,875)	$ 3,389
Liabilities					
Due to other funds	$ 2,875	$	$ 2,875	$ (2,875)	$
Total liabilities	$ 2,875	$	$ 2,875	$ (2,875)	$
Transfers					
Operating transfers in	$ 33,417	$	$ 33,417	$ (33,417)	$
Operating transfers out	(377,803)		(377,803)	33,417	(344,386)
Net transfers	$ (344,386)	$	$ (344,386)	$	$ (344,386)

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, 2012 were as follows:

Guaranteed loans outstanding at June 30, 2012	$	502,286,000
Guarantee claims paid during the year		18,011,000
Balance on line of credit		5,783,000
FFELP Rehabilitation loan balance		1,390,000
Loan repayment due from RIHEAA		17,000

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 $341,000,000 of loans payable to the R.I. Clean Water Finance Agency.

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"), a component unit of the Rhode Island Economic Development Corporation. The seven-member commission is authorized to plan, implement, administer and oversee the redevelopment of the Interstate 195 surplus properties. 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. No bonds have been issued as of June 30, 2012.

C. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

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

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.2 percent of estimated general revenues. The remaining 2.8 percent is contributed to the Budget Reserve Account until such account equals 4.6 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	$ 5,911	Operating assistance
R.I. Economic Development Corporation	16,659	Operating and capital assistance
University of Rhode Island	58,581	Operating assistance
Rhode Island College	38,395	Operating assistance
Community College of Rhode Island	44,862	Operating assistance
Central Falls School District	49,999	Operating assistance
R.I. Public Transit Authority	7,106	Operating assistance
IST		
R.I. Public Transit Authority	40,939	Operating assistance
Bond Capital		
University of Rhode Island	18,689	Construction, improvement or purchase of assets
Certificates of Participation		
Community College of Rhode Island	6,223	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	11,328	Construction, improvement or purchase of assets
Rhode Island College	5,150	Construction, improvement or purchase of assets
Total Governmental Activities	$ 303,842	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2012:

- Assessed Fringe Benefits ($1,673,000)
- Central Utilities ($250,000)
- State Telecommunications ($188,000)
- Records Center ($116,000)

The deficits will be eliminated through charges for services in fiscal year 2013.

F. Restatements – Net Assets and Fund Balances

The beginning net assets of the discretely presented component units were restated by $4,157,000. Rhode Island College (RIC) holds certain funds for various student organizations, agencies and others affiliated with RIC. RIC has determined that certain funds collected were not on behalf of others and should have been classified as revenue to RIC upon receipt. Accordingly, RIC restated its beginning net assets by $3,519,000. The classification of the Central Falls School District (CFSD) was changed from a related organization to a discretely presented component unit of the State for fiscal year 2012. For fiscal year 2011 the CFSD was considered legally part of the City of Central Falls and was included in the City's financial statements for that fiscal year. A subsequent court decision in March 2012 clarified that the CFSD had a separate legal existence and was not a department of the City. The CFSD had beginning net assets of $638,000.

Note 18. Subsequent Events

Primary Government

In June 2012, the General Assembly enacted a law requiring the transfer of the Sakonnet River and Jamestown Verranzano bridges from the Rhode Island Department of Transportation to the Rhode Island Turnpike and Bridge Authority. The transfer process will begin during the fiscal year ending June 30, 2013.

In October 2012 the State issued $81,400,000 of General Obligation Bonds. The bonds mature in 2014 through 2033 and will be used for a variety of purposes including higher education facilities and transportation infrastructure projects.

In November 2012, the voters of the State approved the issuance of general obligation bonds for (1) Higher Education Facilities - $50,000,000, (2) Veterans' Home - $94,000,000, (3) Clean Water Finance Agency - $20,000,000, (4) Environmental Management - $20,000,000, and (5) Affordable Housing - $25,000,000.

Component Units

On June 25, 2012, the Rhode Island Public Telecommunications Authority Board voted to authorize management of WSBE-TV/DT to petition the Federal Communications Commission (FCC) to transfer the licenses held by the Authority to the Rhode Island PBS Foundation. On August 1, 2012, the Board of the Rhode Island PBS Foundation voted to acquire all licenses, permits, rights and assets of the Authority used or related to the operation of non-commercial television station WSBE-TV/DT. On August 12, 2012, the Authority applied to the FCC to assign the broadcasting license to the Foundation. The FCC approved the proposal on September 24, 2012, and the Authority and the Foundation consummated the assignment of the broadcasting license to the Foundation effective October 10, 2012. As of that date, the Authority no longer has responsibility for operating WSBE-TV/DT.

In July and August 2012, the Rhode Island Student Loan Authority (RISLA) retired $126,750,000 of bonds for various Student Loan Programs. These transactions resulted in a gain in the amount of $8,332,500.

On August 30, 2012, RISLA issued $111,000,000 in taxable LIBOR floating rate notes. Proceeds from this issuance were used to refinance FFLEP loans that were previously pledged to secure other debt obligations of the RISLA and to provide funds to retire those obligations. RISLA also issued $78,000,000 in taxable bonds on August 30, 2012. These proceeds were used to retire bonds from the 2008 B 1-4 Series bonds.

In November 2012, RISLA issued $260,000,000 in Taxable LIBOR Floating Rate Notes (FFELP Loan Backed Bonds, Series 2012-2). The funds from the issuance were used to extinguish a Note Payable in the amount of $276,330,959 due to the US Department of Education for funds advanced as part the Asset Backed Commercial Paper Straight A Conduit Program.

Subsequent to June 30, 2012, the Rhode Island Housing and Mortgage Finance Corporation issued and redeemed or refunded various series of Homeownership Opportunity Bonds.

On November 8, 2012, Rhode Island Clean Water Finance Agency issued $65,860,000 of Water Pollution Refunding Revenue Bonds.

In July 2012, the Rhode Island Public Transit Authority's (RIPTA) management ordered a third-party investigation regarding a potential security breach involving a security camera in the fare box pulling location. Subsequently, the Governor appointed a resource team to assume day-to-day managerial control of RIPTA. The resources team is investigating and identifying operational and administrative inefficiencies, if any, and other management concerns with RIPTA. The resources team is expected to make, and if approved by RIPTA, to implement, recommendations to address those inefficiencies and management concerns. The Rhode Island State Police is also conducting a criminal investigation related to the above security breach in the fare box pulling location. Management is currently unable to predict the outcome of the resources team's efforts or the criminal investigation being conducted by the State Police.

On November 28, 2012, Narragansett Bay Commission issued Wastewater Systems Revenue Bond Anticipation Notes, 2012 Series 1, in the amount $40,000,000 with an interest rate of .50% with a maturity date of May 23, 2013.

Subsequent to June 30, 2012, Quonset Development Corporation entered into a loan agreement to borrow $7,500,000 to support the Davisville Dredging project.

State of Rhode Island

Fiscal Year Ended June 30, 2012

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, 2012
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,010,021	$ 1,046,200	$ 1,060,482	$ 14,282
General Business Taxes:				
Business Corporations	121,225	131,600	123,054	(8,546)
Public Utilities Gross Earnings	99,400	98,300	100,631	2,331
Financial Institutions	500	2,500	3,558	1,058
Insurance Companies	102,600	89,000	89,488	488
Bank Deposits	2,000	2,100	2,001	(99)
Health Care Provider Assessment	41,327	41,600	41,922	322
Sales and Use Taxes:				
Sales and Use	846,513	846,000	851,056	5,056
Motor Vehicle	51,600	47,700	48,392	692
Motor Fuel	1,100	1,000	733	(267)
Cigarettes	133,500	133,600	131,086	(2,514)
Alcohol	12,100	12,000	11,874	(126)
Other Taxes:				
Inheritance and Gift	29,300	44,800	46,412	1,612
Racing and Athletics	1,200	1,300	1,327	27
Realty Transfer Tax	6,500	5,900	6,435	535
Total Taxes *(1)*	2,458,886	2,503,600	2,518,451	14,851
Departmental Revenue	343,543	344,500	339,895	(4,605)
Total Taxes and Departmental Revenue	2,802,429	2,848,100	2,858,346	10,246
Other Sources:				
Other Miscellaneous	6,325	16,800	20,110	3,310
Lottery	361,042	378,500	377,706	(794)
Unclaimed Property	6,200	14,000	14,556	556
Total Other Sources	373,567	409,300	412,372	3,072
Total General Revenues	3,175,996	3,257,400	3,270,718	13,318
Federal Revenues	2,232,560	2,296,461	2,119,476	(176,985)
Restricted Revenues	187,698	225,865	192,642	(33,223)
Other Revenues	76,339	75,001	67,640	(7,361)
Total Revenues *(2)*	5,672,593	5,854,727	5,650,476	(204,251)
Expenditures *(4)*:				
General government	682,832	756,766	668,592	88,174
Human services	3,086,250	3,062,175	2,969,166	93,009
Education	1,316,394	1,332,215	1,305,922	26,293
Public safety	457,376	480,377	459,137	21,240
Natural resources	96,246	105,078	75,141	29,937
Total Expenditures *(2)*	5,639,098	5,736,611	5,477,958	$ 258,653
Transfer of Excess Budget Reserve to RI Capital Fund			70,264	
Total Expenditures	$ 5,639,098	$ 5,736,611	5,548,222	
Change in Fund Balance			102,254	
Fund balance - beginning			270,900	
Fund balance - ending			$ 373,154	

(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, 2012
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures by Source:				
General Revenues	$ 3,142,501	$ 3,139,286	$ 3,110,242	$ 29,044
Federal Funds	2,232,559	2,296,461	2,121,017	175,444
Restricted Receipts	187,699	225,863	180,842	45,021
Other Funds	76,339	75,001	65,857	9,144
	$ 5,639,098	$ 5,736,611	$ 5,477,958	$ 258,653

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

Budgeted Surplus:		
Total Revenue - Final Budget	$ 5,854,727	
Total Expenditures - Final Budget	5,736,611	
Final Budget - Projected Surplus (3)		$ 118,116
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (204,251)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	258,653	
Surplus resulting from operations compared to final budget		$ 54,402
Total General Fund Surplus - Fiscal Year Ended June 30, 2012		$ 172,518
Less:Transfer of Excess Budget Reserve to RICAP Fund		(70,264)
Net Change in General Fund - Fund Balance		$ 102,254
Fund Balance, Beginning		270,900
Fund Balance, Ending		$ 373,154

Notes:

(1) Transfers from the Historic Tax Credit Special Revenue Fund reported as "Other Financing Sources" on the General Fund have been allocated to General Revenue Tax Categories on this schedule 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 97.2% of estimated general revenue for the fiscal year ending June 30, 2012.

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

General government	$ 160,894
Education	24,043
Public safety	23
	$ 184,960

(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, 2012
(Expressed in Thousands)

Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective

			Budgetary Perspective			
	Fund Balance Reported in the Financial Statements	**Fund Balance Not Available for Appropriation in Fiscal 2013**		**Fund Balance Available for Appropriation in Fiscal 2013**	
Restricted	$ 232,348	$ 232,348		$	
Committed	22,793	22,793			
Assigned	97,639	2,826	*(a)*	94,813	*(b)*
Unassigned	20,374			20,374	*(c)*
Total Fund Balance	$ 373,154	$ 257,967		$ 115,187	

(a) Assigned fund balance not available for appropriation in fiscal 2013 includes (1) centralized cost allocation surplus that requires offset through fiscal 2013 centralized charges and (2) general revenue appropriations carried forward by the Governor.

(b) Assigned fund balance available for appropriation in fiscal 2013 includes fiscal 2012 ending surplus amounts of $93.9 million appropriated as resources in the 2013 enacted budget, and fund balance amounts encumbered at June 30, 2012.

(c) 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, 2012
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
Taxes	$ 136,853	$ 137,363	$ 136,646	$ (717)
Departmental restricted revenue	1,000	2,699	1,637	(1,062)
Federal grants	309,996	338,457	291,786	(46,671)
Other revenues	16,713	5,086	1,235	(3,851)
Total revenues	464,562	483,605	431,304	(52,301)
Other financing sources:				
Operating transfers in			52,841	52,841
Total revenues and other financing sources	464,562	483,605	484,145	540
Expenditures:				
Central Management				
Gasoline Tax	1,109	1,282	1,333	(51)
Federal Funds	11,394	9,515	6,450	3,065
Total - Central Management	12,503	10,797	7,783	3,014
Management and Budget				
Gasoline Tax	1,177	1,511	852	659
Total - Management and Budget	1,177	1,511	852	659
Infrastructure - Engineering				
Gasoline Tax	52,274	53,797	54,128	(331)
Land Sale Revenue	16,603	1,995	1,242	753
GARVEE Residual Revenue		2,981		2,981
Federal Funds	298,601	328,942	285,069	43,873
Restricted Receipts	1,000	2,699	2,518	181
Subtotal - Infrastructure - Engineering	368,478	390,414	342,957	47,457
State Match - FHWA			49,811	(49,811)
Total - Infrastructure - Engineering	368,478	390,414	392,768	(2,354)
Infrastructure - Maintenance				
Gasoline Tax	41,452	35,832	33,909	1,923
Outdoor Advertising	100	100		100
Nonland Surplus	10	10		10
Total - Infrastructure - Maintenance	41,562	35,942	33,909	2,033
Total Expenditures	423,720	438,664	435,312	3,352
Other financing uses:				
Transfers to other funds				
Gas tax			46,129	
Other			18	
Total expenditures and other financing uses			481,459	
Net change in fund balance			2,686	
Fund balance - beginning			31,928	
Fund balance - ending (excluding GARVEE)			$ 34,614	

For financial statement presentation the GARVEE fund has been 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, 2012
(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)
06/30/2011		$ 6,220,099	$ 10,581,304	$ 4,361,206	58.8%	$ 1,635,802	266.6%
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%

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)
06/30/2011		$ 73,152	$ 74,186	$ 1,034	98.6%	$ 19,712	5.2%
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%

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)
06/30/2011		$ 40,106	$ 46,594	$ 6,488	86.1%	$ 8,475	76.6%
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%

** 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, 2012
(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)
06/30/2011	$ 11,545	$ 786,293	$ 774,748	1.5%	$ 600,273	129.1%
06/30/2009	0	673,640	673,640	0.0%	574,569	117.2%
06/30/2007	0	679,538	679,538	0.0%	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)
06/30/2011	$ 2,040	$ 11,512	$ 9,472	17.7%	NA	NA
06/30/2009	0	13,529	13,529	0.0%	NA	NA
06/30/2007	0	10,243	10,243	0.0%	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)
06/30/2011	$ 841	$ 2,610	$ 1,769	32.2%	$ 10,813	16.4%
06/30/2009	0	8,665	8,665	0.0%	9,395	92.2%
06/30/2007	0	14,024	14,024	0.0%	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)
06/30/2011	$ 1,488	$ 81,759	$ 80,271	1.8%	$ 17,384	461.8%
06/30/2009	0	67,079	67,079	0.0%	16,725	401.1%
06/30/2007	0	54,620	54,620	0.0%	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)
06/30/2011	$ 1,442	$ 1,443	$ 1	99.9%	$ 1,615	0.1%
06/30/2009	0	11,752	11,752	0.0%	1,612	729.0%
06/30/2007	0	29,764	29,764	0.0%	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)
06/30/2011	$ 3,189	$ 53,751	$ 50,562	5.9%	$ 125,340	40.3%
06/30/2009	0	47,704	47,704	0.0%	112,884	42.3%
06/30/2007	0	57,881	57,881	0.0%	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, 2011 follows:

Summary of Actuarial Assumptions Used in the June 30, 2011 Valuation

	ERS		MERS	SPRBT	JRBT
	State Employees	*Teachers*			
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.				
Amortization Method	Level Percent of Payroll – Closed				
Equivalent Single Remaining Amortization Period	24 years	24 years	24 years	24 years	24 years
Asset Valuation Method	5 Year Smoothed Market				
Actuarial Assumptions					
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%	7.50%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	*General Employees* 4.00% to 8.00% *Police & Fire Employees* 4.25% to 14.25%	4.00% to 12.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments [1]	COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time. COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police and MERS Police and Fire for which the COLA is delayed until the later of age 55 or 3 years after retirement.				

Note 1 – 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.

For the MERS plan, a 2% COLA is assumed after July 1, 2012. For all other plans, a COLA of 2% is assumed only every five years until the plans achieve a 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 16 years.

2. Schedules of Funding Progress

Changes affecting the June 30, 2011 actuarial valuation:

The retirement rates were modified to be consistent with the retirement eligibility changes instituted by the Rhode Island Retirement Security Act of 2011. Members that were assumed to retire prior to the Act, but before the earliest allowable age under the Act, are assumed to retire once eligible.

For future cost of living benefit adjustments, the benefit adjustments are assumed to be suspended for approximately 16 years, except for the intermittent adjustment every fifth year.

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.

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, 2011, follows:

Summary of Actuarial Methods and Assumptions as of June 30, 2011 Valuations

	Plan					
	State Employees	**Teachers**	**Judicial**	**State Police**	**Legislators**	**Board of Governors**
Valuation Date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
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 Dollar	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	25 years	4 years	25 years	25 years	25 years	25 years
Asset Valuation Method	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	4.00% To 7.00%	N/A	4.00%	4.00% To 12.00%	4.25% To 8.50%	4.00% To 7.00%
Valuation Health Care Cost Trend Rate	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021

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, 2011 Actuarial Valuation:

A number of changes in actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI) and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions as well as the provisions of the Retirement Security Act, which was enacted on November 18, 2011 and included comprehensive pension reform measures. The June 30, 2011 valuation also reflects the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates and salary expectations. In addition, new mortality assumptions were adopted for all plans which provide for future mortality improvement by using generational mortality.

The significant decrease in the unfunded actuarial accrued liability for the Judicial and Legislator plans is primarily due to retirement eligibility changes resulting from enactment of the Retirement Security Act and an increase in the Medicare election rate.

Changes to the OPEB specific assumptions include a change in the medical trend assumption of 9% decreasing to 4.5% in 8 years to 9% decreasing to 4.0% in 10 years, a change in the Medicare election rate for Legislators from 75% electing Medicare to 100% electing Medicare and the addition of the assumption that current retired Teachers over age 65 in the Early Retiree Plan are assumed to not be eligible for Medicare.

The June 30, 2011 actuarial valuation employs a four-year smoothed market methodology for the determination of the actuarial value of assets. In addition, the Judicial and Legislator plans changed from a level percent of payroll amortization method to the level dollar method.

The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2018. The excise tax is 40% of costs above a threshold. The actuarial assumptions used in the most recent valuation assume that the plans will be subject to the excise tax as early as 2018.

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

Table of Contents

PAGE

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

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2012

Federal Grantor / Program Title	CFDA or Contract Number		Total Expenditures
U.S. Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$	165,336
Avian Influenza Indemnity Program	10.029		4
Federal - State Marketing Improvement Program	10.156		13,091
Inspection Grading and Standardization	10.162		(11,741)
Market Protection and Promotion	10.163		4,607
Specialty Crop Block Grant Program	10.169		219,683
Grants for Agricultural Research, Special Research Grants	10.200		55,913
Very Low to Moderate Income Housing Loans (See Note 2)	10.410		4,125,647
State Mediation Grants	10.435		5,164
SNAP Cluster:			
Supplemental Nutrition Assistance Program	10.551		289,854,758
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		10,504,890
Child Nutrition Cluster:			
School Breakfast Program	10.553		8,672,306
National School Lunch Program (See Note 2)	10.555		30,696,954
Special Milk Program for Children	10.556		85,339
Summer Food Service Program for Children	10.559		797,692
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557		24,513,663
Child and Adult Care Food Program	10.558		7,803,686
State Administrative Expenses for Child Nutrition	10.560		1,509,606
Emergency Food Assistance Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568		230,731
Emergency Food Assistance Program (Food Commodities) (See Note 2)	10.569		1,319,345
WIC Farmers' Market Nutrition Program (FMNP)	10.572		123,112
Team Nutrition Grants	10.574		16,977
Senior Farmers Market Nutrition Program	10.576		23,088
WIC Grants To States (WGS)	10.578		38
ARRA - WIC Grants To States (WGS)	10.578		79,713
Child Nutrition Discretionary Grants Limited Availability	10.579		178,837
Fresh Fruit and Vegetable Program	10.582		1,726,951
Cooperative Forestry Assistance	10.664		609,109
Forest Legacy Program	10.676		25,726
Total U.S. Department of Agriculture		$	383,350,225
U.S. Department of Commerce			
Personal Census Search	11.006	$	1,400
Economic Development - Support for Planning Organizations	11.302		97,951
Economic Development Cluster:			
Economic Adjustment Assistance (See Note 2)	11.307		12,646,768
ARRA - Economic Adjustment Assistance (See Note 2)	11.307		1,112,099
Interjurisdictional Fisheries Act of 1986	11.407		10,282
Sea Grant Support	11.417		6
Coastal Zone Management Administration Awards	11.419		1,421,715
Coastal Zone Management Estuarine Research Reserves	11.420		763,057
Marine Fisheries Initiative	11.433		645,464
Unallied Management Projects	11.454		3,798
Habitat Conservation	11.463		149,616
ARRA - Habitat Conservation	11.463		1,262,726
Unallied Science Program	11.472		191,548
Atlantic Coastal Fisheries Cooperative Management Act	11.474		351,015
ARRA - State Broadband Data and Development Grant Program	11.558		1,178,916
Total U.S. Department of Commerce		$	19,836,361

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
U.S. Department of Defense			
Procurement Technical Assistance for Business Firms	12.002	$	36,268
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		411,460
Basic and Applied Scientific Research	12.300		73,436
National Guard Military Operations and Maintenance (O&M) Projects	12.401		10,915,093
Other Department of Defense Awards (See Note 9)	12.000		149,896
Total U.S. Department of Defense		$	11,586,153
U.S. Department of Housing and Urban Development			
Mortgage Insurance - Homes (See Note 2)	14.117	$	36,493,304
Qualified Participating Entities (QPE) Risk Sharing (See Note 2)	14.189		27,417,500
Section 8 Project-Based Cluster:			
Section 8 Housing Assistance Payments Program - Special Allocations	14.195		140,176,092
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856		684,280
Emergency Shelter Grants Program	14.231		348,933
CDBG - State-Administered CDBG Cluster:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		7,226,822
ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.255		415,630
Supportive Housing Program	14.235		3,097,820
Shelter Plus Care	14.238		1,346,529
HOME Investment Partnerships Program	14.239		6,594,867
Housing Opportunities for Persons with AIDS	14.241		623,385
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257		1,008,558
ARRA - Tax Credit Assistance Program	14.258		2,455,531
Neighborhood Stabilization Program	14.264		99,975
Fair Housing Assistance Program - State and Local	14.401		209,131
Sustainable Communities Regional Planning Grant Program	14.703		2
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871		15,277,797
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		413,584
Total U.S. Department of Housing and Urban Development		$	243,889,740
U.S. Department of the Interior			
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	15.605	$	2,974,438
Wildlife Restoration and Basic Hunter Education	15.611		1,293,890
Fish and Wildlife Management Assistance	15.608		34,648
Cooperative Endangered Species Conservation Fund	15.615		76,903
Clean Vessel Act	15.616		152,401
Sportfishing and Boating Safety Act	15.622		535,467
State Wildlife Grants	15.634		808,493
Endangered Species Conservation – Recovery Implementation Funds	15.657		20,886
Historic Preservation Fund Grants-In-Aid	15.904		537,821
Outdoor Recreation - Acquisition, Development and Planning	15.916		495,011
Total U.S. Department of the Interior		$	6,929,958
U.S. Department of Justice			
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	$	(56)
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203		89,900
Juvenile Accountability Block Grants	16.523		127,776
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		688,422
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541		69,077
Missing Children's Assistance	16.543		148,382

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Victims of Child Abuse	16.547		76,130
State Justice Statistics Program for Statistical Analysis Centers	16.550		51,388
National Criminal History Improvement Program (NCHIP)	16.554		63,798
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		84,278
Crime Victim Assistance	16.575		1,635,311
Crime Victim Compensation	16.576		888,466
Edward Byrne Memorial Formula Grant Program	16.579		424,827
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		74,392
Drug Court Discretionary Grant Program	16.585		162,177
Violence Against Women Formula Grants	16.588		1,045,339
ARRA - Violence Against Women Formula Grants	16.588		144,491
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		249,582
Residential Substance Abuse Treatment for State Prisoners	16.593		87,150
State Criminal Alien Assistance Program	16.606		702,695
Bulletproof Vest Partnership Program	16.607		750
Enforcing Underage Drinking Laws Program	16.727		386,631
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		805,898
ARRA - Eward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803		1,042,314
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		124,642
Anti-Gang Initiative	16.744		(4,425)
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745		100,922
Support for Adam Walsh Act Implementation Grant Program	16.750		5,703
Congressionally Recommended Awards	16.753		16,107
ARRA - Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	16.800		151,984
ARRA - Recovery Act - State Victim Assistance Formula Grant Program	16.801		185,012
Second Chance Act Prisoner Reentry Initiative	16.812		43,393
John R. Justice Prosecutors and Defenders Incentive Act	16.816		115,581
Total U.S. Department of Justice		$	9,788,037
U.S. Department of Labor			
Labor Force Statistics	17.002	$	839,093
Compensation and Working Conditions	17.005		20,714
Registered Apprenticeship and Other Training	17.201		(2,342)
Employment Service Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207		3,839,530
ARRA - Employment Service/Wagner-Peyser Funded Activities	17.207		(12,365)
Disabled Veterans' Outreach Program (DVOP)	17.801		165,168
Local Veterans' Employment Representative Program (LVER)	17.804		338,074
Unemployment Insurance (See Note 5)	17.225		412,542,947
ARRA - Unemployment Insurance (See Note 5)	17.225		157,071,250
Senior Community Service Employment Program	17.235		613,475
Trade Adjustment Assistance	17.245		3,144,090
WIA Cluster:			
WIA Adult Program	17.258		4,076,636
ARRA - WIA Adult Program	17.258		(4,687)
WIA Youth Activities	17.259		5,393,089
ARRA - WIA Youth Activities	17.259		(34,319)
WIA Dislocated Workers	17.260		550,569
ARRA - WIA Dislocated Workers	17.260		(147,873)
WIA Dislocated Worker Formula Grants	17.278		6,950,696
WIA Pilots, Demonstrations, and Research Projects	17.261		226,152
Employment and Training Administration Evaluations	17.262		(427)

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Workforce Investment Act (WIA) National Emergency Grants	17.277		49,014
Consultation Agreements	17.504		481,780
Total U.S. Department of Labor		$	596,100,264
U.S. Department of Transportation			
Airport Improvement Program	20.106	$	3,871,302
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205		259,754,283
ARRA - Highway Planning and Construction	20.205		11,153,416
National Motor Carrier Safety	20.218		913,039
Transportation Infrastructure Finance and Innovation Act (TIFIA) Program (See Note 2)	20.223		16,220,825
Performance and Registration Information Systems Management	20.231		83,903
Commercial Driver's License Program Improvement Grant	20.232		119,900
ARRA	20.319		315,393
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants	20.500		12,426,086
ARRA - Federal Transit - Capital Investment Grants	20.500		4,632
Federal Transit - Formula Grants	20.507		23,414,431
ARRA - Federal Transit - Formula Grants	20.507		(36,751)
ARRA - Formula Grants for Other Than Urbanized Areas	20.509		761,433
State Planning and Research	20.515		32,239
Transit Services Programs Cluster:			
Job Access - Reverse Commute Program	20.516		384,269
New Freedom Program	20.521		549,396
Clean Fuels	20.519		1
Alternatives Analysis	20.522		71,543
Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523		58,180
Highway Safety Cluster:			
State and Community Highway Safety	20.600		2,241,975
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601		586,451
Occupant Protection Incentive Grants	20.602		173,784
Safety Belt Performance Grants	20.609		95,408
State Traffic Safety Information System Improvements Grants	20.610		151,283
Incentive Grant Program to Prohibit Racial Profiling	20.611		176,103
Incentive Grant Program to Increase Motorcyclist Safety	20.612		142,446
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		3,322,605
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614		16,178
Pipeline Safety Program Base Grants	20.700		97,171
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		49,016
Surface Transportation - Discretionary Grants for Capital Investment	20.932		16,359,456
Total U.S. Department of Transportation		$	353,509,396
Equal Employment Opportunity Commission			
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	$	105,862
Total Equal Employment Opportunity Commission		$	105,862
General Services Administration			
Donation of Federal Surplus Personal Property (See Note 2)	39.003	$	127,436
Total General Services Administration		$	127,436
National Foundation on the Arts and the Humanities			
Promotion of the Arts - Partnership Agreements	45.025	$	824,067
Promotion of the Humanities - Federal/State Partnership	45.129		8,425
Promotion of the Humanities - Public Programs	45.164		3,000

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Museums for America	45.301		1,245,643
Grants to States	45.310		(2,171)
National Leadership Grants	45.312		36,007
Total National Foundation on the Arts and the Humanities		$	2,114,971
National Science Foundation			
Education and Human Resources	47.076	$	138,813
International Science and Engineering (OISE)	47.079		2,500
Office of Experimental Program to Stimulate Competitive Research	47.081		10,151
Total National Science Foundation		$	151,464
U.S. Department of Veterans Affairs			
Veterans Domiciliary Care	64.008	$	6,270,528
All-Volunteer Force Educational Assistance	64.124		58,492
State Cemetery Grants	64.203		(416)
Total U.S. Department of Veterans Affairs		$	6,328,604
Environmental Protection Agency			
Air Pollution Control Program Support	66.001	$	872,102
State Indoor Radon Grants	66.032		357,037
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		111,271
State Clean Diesel Grant Program	66.040		342,312
ARRA - State Clean Diesel Grant Program	66.040		965,854
State Public Water System Supervision	66.432		428,507
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436		(105)
Water Quality Management Planning	66.454		89,662
ARRA - Water Quality Management Planning	66.454		131,802
National Estuary Program	66.456		286,010
Capitalization Grants for Clean Water State Revolving Funds	66.458		13,094,261
ARRA - Capitalization Grants for Clean Water State Revolving Funds	66.458		113,563
Capitalization Grants for Drinking Water State Revolving Funds	66.468		14,712,194
ARRA - Capitalization Grants for Drinking Water State Revolving Funds	66.468		1,181,322
Beach Monitoring and Notification Program Implementation Grants	66.472		298,398
Water Protection Grants to the States	66.474		43,786
Performance Partnership Grants	66.605		4,447,750
Environmental Information Exchange Network Grant Program and Related Assistance	66.608		66,318
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		157,193
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		134,773
Multi-Media Capacity Building Grants for States and Tribes	66.709		21,282
Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements	66.802		412,453
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		290,669
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		619,354
ARRA - Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		89,086
Solid Waste Management Assistance Grants	66.808		60,747
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		115,325
State and Tribal Response Program Grants	66.817		1,091,207
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		225,523
ARRA - Brownfields Assessment and Cleanup Cooperative Agreements	66.818		631,546
Environmental Policy and State Sustainability Grants	66.940		22,373
Total Environmental Protection Agency		$	41,413,575
U. S. Nuclear Regulatory Commission			
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	$	4,163

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Total U.S. Nuclear Regulatory Commission		$	4,163
U.S. Department of Energy			
State Energy Program	81.041	$	177,259
ARRA - State Energy Program	81.041		8,677,233
Weatherization Assistance for Low-Income Persons	81.042		804,122
ARRA - Weatherization Assistance for Low-Income Persons	81.042		6,917,556
Renewable Energy Research and Development	81.087		132,112
University Nuclear Science and Reactor Support	81.114		91
Nuclear Energy Research, Development and Demonstration	81.121		74,804
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		495,147
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		5,961,275
Total U.S. Department of Energy		$	23,239,599
U.S. Department of Education			
Adult Education - Basic Grants to the State	84.002	$	2,149,086
Student Financial Assistance Cluster: (See Note 6)			
Federal Supplemental Educational Opportunity Grants	84.007		2,462,236
Federal Family Education Loans (See Note 2)	84.032		2,490,830
Federal Work - Study Program	84.033		2,027,447
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038		15,247,786
Federal Pell Grant Program	84.063		54,348,117
Federal Direct Student Loans (See Note 2)	84.268		150,813,711
Academic Competitiveness Grants	84.375		6,700
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		9,000
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies (Title I, Part A of the ESEA)	84.010		51,609,513
ARRA - Title I Grants to Local Educational Agencies	84.389		2,547,226
Title 1 State Agency Program for Neglected and Delinquent Children and Youth	84.013		757,491
Special Education Cluster:			
Special Education - Grants to States (IDEA Part B)	84.027		45,215,829
ARRA - Special Education - Grants to States (IDEA Part B)	84.391		3,412,667
Special Education - Preschool Grants (IDEA Preschool)	84.173		1,788,497
ARRA - Special Education - Preschool Grants (IDEA Preschool)	84.392		462,814
Higher Education - Institutional Aid	84.031		5,275
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032		1,267,629,268
TRIO Cluster:			
ARRA - TRIO - Student Support Services	84.042		563,017
ARRA - TRIO-Talent Search	84.044		527,514
ARRA - TRIO - Upward Bound	84.047		615,779
ARRA - TRIO-Educational Opportunity Centers	84.066		711,521
Career and Technical Education - Basic Grants to States	84.048		5,239,787
Fund for the Improvement of Postsecondary Education	84.116		76,994
Vocational Rehabilitation Cluster:			
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		11,982,012
ARRA - Rehabilitation Services -Vocational Rehabilitation Grants to States	84.390		228,425
National Institute on Disability and Rehabilitation Research	84.133		6,638
Independent Living - State Grants	84.169		252,185
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177		262,660
Early Intervention Services (IDEA) Cluster:			
Special Education - Grants for Infants and Families	84.181		1,853,023
ARRA - Special Education - Grants for Infants and Families	84.393		518,501
Safe and Drug-Free Schools and Communities - National Programs	84.184		60,831
Byrd Honors Scholarships	84.185		2,439
Safe and Drug-Free Schools and Communities - State Grants	84.186		31,055

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	395,572
Education of Homeless Children and Youth Cluster:		
Education for Homeless Children and Youth	84.196	224,653
ARRA - Education for Homeless Children and Youth	84.387	38,102
Even Start - State Educational Agencies	84.213	87,788
Fund for the Improvement of Education	84.215	206,679
Assistive Technology	84.224	412,354
Tech-Prep Education	84.243	494,115
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	24,713
Charter Schools	84.282	832,341
Twenty-First Century Community Learning Centers	84.287	6,641,300
Educational Technology State Grants Cluster:		
Education Technology State Grants	84.318	444,255
ARRA - Education Technology State Grants, Enhancing Education Through Technology Program	84.386	1,153,606
Special Education - State Personnel Development	84.323	609,800
Research in Special Education	84.324	207,458
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	82,062
Special Education - Technology and Media Services for Individuals with Disabilities	84.327	3
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	56,401
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	35,322
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	2,669,348
Teacher Quality Partnership Grants	84.336	27,400
Reading First State Grants	84.357	165,463
English Language Acquisition Grants	84.365	1,724,572
Mathematics and Science Partnerships	84.366	850,906
Improving Teacher Quality State Grants	84.367	12,597,774
Grants for State Assessments and Related Activities	84.369	3,807,900
Striving Readers	84.371	54,504
Statewide Data Systems	84.372	1,673,293
School Improvement Grants Cluster:		
School Improvement Grants	84.377	515,138
ARRA - School Improvement Grants	84.388	4,242,739
College Access Challenge Grant Program	84.378	208,758
State Fiscal Stabilization Fund (SFSF) Cluster:		
ARRA - SFSF - Education State Grants, (Education Stabilization Fund)	84.394	21,885,328
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants	84.395	17,662,413
ARRA - Education Jobs Fund	84.410	16,924,924
ARRA - Race to the Top – Early Learning Challenge	84.412	30,007
National Writing Project	84.928	30,583
Other Department of Education Awards (See Note 9)	08-0068	102,862
Total U.S. Department of Education		$ 1,723,036,310
Elections Assistance Commission		
Help America Vote Act Requirements Payments	90.401	$ 95,253
Help America Vote Mock Election Program	90.402	7,619
Total Elections Assistance Commission		$ 102,872
U.S. Department of Health and Human Services		
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	$ 89,773
Public Awareness Campaigns on Embryo Adoption	93.007	9,461
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	18,327

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	83,746
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	157,788
Aging Cluster:		
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	2,909,252
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	3,144,953
Nutrition Services Incentive Program	93.053	537,412
Special Programs for the Aging-Title IV - and Title II - Discretionary Projects	93.048	663,318
National Family Caregiver Support, Title III, Part E	93.052	837,293
Centers for Genomics and Public Health	93.063	16,158
Public Health Emergency Preparedness	93.069	5,846,616
Environmental Public Health and Emergency Response	93.070	363,536
Medicare Enrollment Assistance Program	93.071	79,329
Lifespan Respite Care Program	93.072	169,013
Guardianship Assistance	93.090	122,201
ARRA - Guardianship Assistance	93.090	1,971
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	157,483
Food and Drug Administration - Research	93.103	271,966
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	877,616
Maternal and Child Health Federal Consolidated Programs	93.110	521,598
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	319,095
Emergency Medical Services for Children	93.127	134,461
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	130,559
Injury Prevention and Control Research and State and Community Based Programs	93.136	569,713
Projects for Assistance in Transition from Homelessness (PATH)	93.150	298,053
Grants to States for Loan Repayment Program	93.165	114
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	96,175
Family Planning - Services	93.217	1,295,847
Grants to States to Support Oral Health Workforce Activities	93.236	297,407
Mental Health Research Grants	93.242	68,415
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	2,603,839
Public Health Training Centers Grant Program	93.249	3,190
Universal Newborn Hearing Screening	93.251	310,069
Immunization Cluster:		
Immunization Grants (See Note 2)	93.268	13,360,865
ARRA - Immunization	93.712	531,583
Substance Abuse and Mental Health Services - Access to Recovery	93.275	4,401,165
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	11,155,421
Student Financial Assistance Cluster: (See Note 6)		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342	1,899,537
Nursing Student Loans (See Note 2)	93.364	1,594,400
Advanced Nursing Education Traineeships	93.358	14,039
Cancer Detection and Diagnosis Research	93.394	72,229
ARRA - Health Careers Opportunity Program	93.416	185,372
Affordable Care Act (ACA) Nursing Assistant and Home Health Aide Program	93.503	176,359
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	19,320
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	93.506	476

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	584,538
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	2,360,852
Promoting Safe and Stable Families	93.556	982,629
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	75,604,001
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	(47,769)
Child Support Enforcement	93.563	8,654,552
Child Support Enforcement Research	93.564	142,371
Refugee and Entrant Assistance - State Administered Programs	93.566	325,365
Low-Income Home Energy Assistance	93.568	18,903,865
CSBG Cluster:		
Community Services Block Grant	93.569	3,577,445
CCDF Cluster:		
Child Care and Development Block Grant	93.575	15,911,134
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	10,985,158
ARRA - Child Care and Development Block Grant	93.713	331,142
Refugee and Entrant Assistance - Discretionary Grants	93.576	104,064
State Court Improvement Program	93.586	248,542
Grants to States for Access and Visitation Programs	93.597	136,646
Chafee Education and Training Vouchers Program (ETV)	93.599	10,250
Head Start Cluster:		
Head Start	93.600	136,919
ARRA - Head Start	93.708	116,414
Adoption Incentive Payments	93.603	98,253
Family Connection Grants	93.605	18,276
Voting Access for Individuals with Disabilities - Grants to States	93.617	64,349
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	530,713
Children's Justice Grants to States	93.643	97,014
Stephanie Tubbs Jones Child Welfare Services Program	93.645	872,172
Foster Care - Title IV-E	93.658	12,191,895
ARRA - Foster Care - Title IV-E	93.658	(63)
Adoption Assistance	93.659	7,696,255
ARRA - Adoption Assistance	93.659	136
Social Services Block Grant	93.667	14,931,994
Child Abuse and Neglect State Grants	93.669	455,983
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	428,778
Chafee Foster Care Independence Program	93.674	765,459
ARRA - HIV Care Formula Grants	93.717	94,748
ARRA - Prevention and Wellness - State, Territories and Pacific Islands	93.723	2,594,576
ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	1,828,719
ARRA - Prevention and Wellness - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	107,583
ARRA – Health Information Technology and Public Health	93.729	225,249
Children's Health Insurance Program	93.767	49,256,527
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	904,462
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	2,781,104
Medical Assistance Program (See Note 4)	93.778	1,056,508,427
ARRA - Medical Assistance Program	93.778	(3,247)
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	419,533

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Alternate Non-Emergency Service Providers or Networks	93.790		105
Money Follows the Person Rebalancing Demonstration	93.791		246,071
Medicaid Transformation Grants	93.793		573,038
Child Health and Human Development Extramural Research	93.865		39,543
National Bioterrorism Hospital Preparedness Program	93.889		1,798,623
Grants to States for Operation of Offices of Rural Health	93.913		169,676
HIV Care Formula Grants	93.917		4,219,577
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		308,940
HIV Prevention Activities - Health Department Based	93.940		1,270,516
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943		344,275
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		271,707
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946		147,412
Block Grants for Community Mental Health Services	93.958		1,505,267
Block Grants for Prevention and Treatment of Substance Abuse	93.959		6,717,170
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		383,051
Preventive Health and Health Services Block Grant	93.991		210,408
Maternal and Child Health Services Block Grant to the States	93.994		3,081,961
Other Department Of Health and Human Services Awards (See Note 9)	290-04-007		(375,070)
Total U.S. Department of Health and Human Services		$	1,369,265,796
Corporation for National and Community Service			
Learn and Serve America - School and Community Based Programs	94.004	$	(474)
Foster Grandparent/Senior Companion Cluster:			
Senior Companion Program	94.016		369,441
Total Corporation for National and Community Service		$	368,967
Social Security Administration			
Disability Insurance/SSI Cluster:			
Social Security - Disability Insurance	96.001	$	8,075,259
Social Security - Research and Demonstration	96.007		221,839
Total Social Security Administration		$	8,297,098
U.S. Department of Homeland Security			
State and Local Homeland Security National Training Program	97.005	$	715
Non-Profit Security Program	97.008		201,264
Boating Safety Financial Assistance	97.012		670,884
Community Assistance Program - State Support Services Element (CAP-SSSE)	97.023		93,290
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		9,962,558
Hazard Mitigation Grant	97.039		97,677
National Dam Safety Program	97.041		51,235
Emergency Management Performance Grants	97.042		2,091,893
State Fire Training Systems Grants	97.043		21,760
Cooperating Technical Partners	97.045		91,556
Pre-Disaster Mitigation	97.047		5,974
Emergency Operations Centers	97.052		145,384
Interoperable Emergency Communications	97.055		498,395
Port Security Grant Program	97.056		120,646
Port Security Research and Development Grant	97.060		107,560
Homeland Security Advanced Research Projects Agency	97.065		675,901
Homeland Security Grant Program	97.067		7,668,556
National Explosives Detection Canine Team Program	97.072		128,403

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Rail and Transit Security Grant Program	97.075		3,095,206
Buffer Zone Protection Program (BZPP)	97.078		119,688
Driver's License Security Grant Program	97.089		104,876
Law Enforcement Officer Reimbursement Agreement Program	97.090		176,891
ARRA - Port Security Grant Program	97.116		240
Advanced Surveillance Program (ASP)	97.118		2,352,937
Total U.S. Department of Homeland Security		$	28,483,489
Agency for International Development			
Global Development Alliance	98.011	$	20,854
Total for Agency for International Development		$	20,854
Research and Development Cluster:			
U.S. Department of Agriculture			
Agricultural Research - Basic and Applied Research	10.001	$	117,047
Plant and Animal Disease, Pest Control, and Animal Care	10.025		26,657
Grants for Agricultural Research, Special Research Grants	10.200		413,692
Cooperative Forestry Research	10.202		73,610
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		2,033,106
Grants for Agricultural Research - Competitive Research Grants	10.206		141,145
Animal Health and Disease Research	10.207		1,577
Food and Agricultural Sciences National Needs Graduate Fellowship Grants	10.210		30,244
Sustainable Agriculture Research and Education	10.215		78,423
1890 Institution Capacity Building Grants	10.216		4,536
Biotechnology Risk Assessment Research	10.219		27,356
Integrated Programs	10.303		1,393,047
Homeland Security - Agricultural	10.304		31,235
International Science and Education Grants	10.305		38,462
Organic Agriculture Research and Extension Initiative	10.307		2,196
Agriculture and Food Research Initiative (AFRI)	10.310		483,239
Beginning Farmer and Rancher Development Program	10.311		26,004
Trade Adjustment Assistance for Farmers Training Coordination Program (TAAF)	10.315		9,705
Crop Insurance Education in Targeted States	10.458		195,652
Cooperative Extension Service	10.500		1,580,741
Forestry Research	10.652		33,395
Forest Health Protection	10.680		14,754
Soil and Water Conservation	10.902		88,973
Soil Survey	10.903		55,815
Environmental Quality Incentives Program	10.912		12,074
Other Research and Development - Department of Agriculture	10.000		94,402
U.S. Department of Commerce			
Ocean Exploration	11.011		195,002
Integrated Ocean Observing System (IOOS)	11.012		93,524
Economic Development - Support for Planning Organizations	11.302		9,116
Sea Grant Support	11.417		2,271,293
Coastal Zone Management Administration Awards	11.419		4,324
Coastal Zone Management Estuarine Research Reserves	11.420		50,053
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427		87,458
Climate and Atmospheric Research	11.431		361,473
National Oceanic and Atmospheric Administration Cooperative (NOAA) Institutes	11.432		72,283
Marine Fisheries Initiative	11.433		96,743
Cooperative Fishery Statistics	11.434		25,611
Pacific Coast Salmon Recovery - Pacific Salmon Treaty Program	11.438		635
Environmental Sciences, Applications, Data, and Education	11.440		29,703

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Regional Fishery Management Councils	11.441	1,880
Weather and Air Quality Research	11.459	70,225
Special Oceanic and Atmospheric Projects	11.460	88,636
Meteorologic and Hydrologic Modernization Development	11.467	139,538
Applied Meteorological Research	11.468	13,985
Unallied Science Program	11.472	539,083
Coastal Services Center	11.473	86,134
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478	219,792
Congressionally-Identified Projects	11.617	668,564
Other Research and Development - Department of Commerce	11.000	445,673
U.S. Department of Defense		
Basic and Applied Scientific Research	12.300	3,800,299
Military Medical Research and Development	12.420	173,689
Basic Scientific Research	12.431	64,183
The Language Flagship Grants to Institutions of Higher Education	12.550	23,995
Air Force Defense Research Sciences Program	12.800	2,453,968
ARRA - Air Force Defense Research Sciences Program	12.800	7,511
Research and Technology Development	12.910	85,868
Other Research and Development - Department of Defense	12.000	198,077
U.S. Department of the Interior		
Coastal Impact Assistance Program (CIAP)	15.426	42,954
Fish and Wildlife Management Assistance	15.608	45,643
Coastal Program	15.630	24,102
Assistance to State Water Resources Research Institutes	15.805	90,655
U.S. Geological Survey - Research and Data Collection	15.808	57,600
National Land Remote Sensing - Education Outreach and Research	15.815	24,861
Natural Resource Stewardship	15.944	88,794
Cooperative Research and Training Programs – Resources of the National Park System	15.945	106,837
Other Research and Development - Department of the Interior	15.000	771,873
U.S. Department of Justice		
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	105,395
ARRA - Public Safety Partnership and Community Policing Grants	16.710	32,380
Juvenile Mentoring Program	16.726	13,928
Other Research and Development - Department of Justice	16.000	243,320
U.S. Department of Transportation		
Highway Research and Development Program	20.200	2,682
Highway Planning and Construction	20.205	92,452
Highway Training and Education	20.215	3,529
University Transportation Centers Program	20.701	52,622
University Transportation Centers	20.760	604,208
General Services Administration		
Other Research and Development	39.000	3,184
National Aeronautics and Space Administration		
Science	43.001	290,435
Aeronautics	43.002	51,744
Other Research and Development - National Aeronautics and Space Administration	43.000	381,678
National Science Foundation		
Engineering Grants	47.041	631,079
Mathematical and Physical Sciences	47.049	165,082
Geosciences	47.050	8,259,114
ARRA - Geosciences	47.050	352,813
Computer and Information Science and Engineering	47.070	360,396

Federal Grantor / Program Title	CFDA or Contract Number	Total Expenditures
Biological Sciences	47.074	452,222
Social, Behavioral, and Economic Sciences	47.075	17,864
Education and Human Resources	47.076	3,322,662
Polar Programs	47.078	522,910
ARRA - Polar Programs	47.078	32,854
International Science and Engineering (OISE)	47.079	245,242
Office of Experimental Program to Stimulate Competitive Research	47.081	3,986,023
ARRA - Trans-NSF Recovery Act Research Support	47.082	1,536,435
Other Research and Development - National Science Foundation	47.000	102,506
ARRA - Other Research and Development	47.000	284,727
Department of Veterans Affairs		
Grants to States for Construction of State Home Facilities	64.005	45,579
Veterans Rehabilitation - Alcohol and Drug Dependence	64.019	18,887
Environmental Protection Agency		
Climate Showcase Communities Grant Program	66.041	99,391
National Estuary Program	66.456	301,887
Great Lakes Program	66.469	123,167
Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development	66.510	11,808
Science To Achieve Results (STAR) Fellowship Program	66.514	16,422
Pollution Prevention Grants Program	66.708	67,119
Other Research and Development - Environmental Protection Agency	66.000	89,590
U. S. Nuclear Regulatory Commission		
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	71,494
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	35,000
U.S. Department of Energy		
ARRA - Office of Science Financial Assistance Program	81.049	1,073,988
Conservation Research and Development	81.086	32,331
Renewable Energy Research and Development	81.087	868,717
ARRA - Renewable Energy Research and Development	81.087	80,112
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	134,890
Nuclear Energy Research, Development and Demonstration	81.121	116,906
National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program	81.123	5,115
Advanced Research and Projects Agency – Energy Financial Assistance Program	81.135	43,581
Other Research and Development - Department of Energy	81.000	163,742
U.S. Department of Education		
Undergraduate International Studies and Foreign Language Programs	84.016	90,409
Magnet Schools Assistance	84.165	2,140
Javits Fellowships	84.170	41,794
Safe and Drug-Free Schools and Communities National Programs	84.184	419,038
Education Research, Development and Dissemination	84.305	29,041
Education Technology State Grants	84.318	215,827
ARRA - Education Technology State Grants	84.318	202,603
Research in Special Education	84.324	132,732
Teacher Quality Partnership Grants	84.336	(313)
U.S. Department of Health and Human Services		
Food and Drug Administration - Research	93.103	20,193
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	26,168
Environmental Health	93.113	767,848
Biometry and Risk Estimation - Health Risks from Environmental Exposures	93.115	2,078

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Oral Diseases and Disorders Research	93.121		27,150
Grants to Increase Organ Donations	93.134		119,965
Human Genome Research	93.172		43,682
Mental Health Research Grants	93.242		178,971
Advanced Nursing Education Grant Program	93.247		151,298
Alcohol Research Programs	93.273		18,880
Drug Abuse and Addiction Research Programs	93.279		2,005,693
Advanced Nursing Education Traineeships	93.358		33,937
Nursing Research	93.361		838,782
National Center for Research Resources	93.389		3,247,545
Academic Research Enhancement Award	93.390		104,894
Cancer Cause and Prevention Research	93.393		431,030
Cancer Detection and Diagnosis Research	93.394		1,016,433
Cancer Biology Research	93.396		306,400
Developmental Disabilities Basic Support and Advocacy Grants	93.630		510,743
ARRA -Trans - NIH Recovery Act Research Support	93.701		1,950,641
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768		441,533
Cardiovascular Diseases Research	93.837		86,034
Blood Diseases and Resources Research	93.839		312,226
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		439,307
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		206,558
Allergy, Immunology and Transplantation Research	93.855		4,709,290
Biomedical Research and Research Training	93.859		505,211
Child Health and Human Development Extramural Research	93.865		313,888
Aging Research	93.866		76,152
Health Care and Other Facilities	93.887		1,086
Research, Prevention, and Education Programs on Lyme Disease in the United States	93.942		124,537
Geriatric Education Centers	93.969		438,784
Other Research and Development - Deparment of Health and Human Services	93.000		72,795
Corporation for National and Community Service			
AmeriCorps	94.006		58,230
U.S. Department of Homeland Security			
Centers for Homeland Security	97.061		3,042,535
Homeland Security Advanced Research Projects Agency	97.065		73,079
Homeland Security Grant Program	97.067		13,290
Competitive Training Grants	97.068		259,480
Agency for International Development			
USAID Foreign Assistance for Programs Overseas	98.001		9,936,453
Total Research and Development Cluster		$	80,234,006
Other Expenditures of Federal Awards (See Note 9)	N/A	$	187,253
Total Expenditures of Federal Awards (See Note 2)		$	4,908,472,453

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the State of Rhode Island and Providence Plantations (the State). The reporting entity is defined in the Notes to the Basic Financial Statements that are presented in section A of this report (see Note 1 to the basic financial statements – Summary of Significant Accounting Policies – B. Reporting Entity).

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

Programs are generally listed in CFDA number order by federal funding agency. When the CFDA or contract number is not available from the State or component unit's accounting records, amounts are presented as *Other Awards* either within the applicable grantor section (when the grantor is known) or at the end of the schedule when unidentified.

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).

Adjustments are sometimes made to grant expenditures in subsequent periods which may result in negative amounts appearing on the schedule.

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, 2012	Non-monetary Assistance June 30, 2012
10.410	Very Low to Moderate Income Housing Loans	$ 4,125,647	$ 4,125,647
11.307	Economic Adjustment Assistance	12,646,768	12,646,768
11.307	ARRA- Economic Adjustment Assistance	1,112,099	1,112,099
14.117	Mortgage Insurance – Homes	36,493,304	36,493,304
14.189	Qualified Participating Entities (QPE) Risk Sharing	27,417,500	27,417,500
20.223	Transportation Infrastructure Finance and Innovation Act (TIFIA) Program	16,220,825	16,220,825
84.032	Federal Family Education Loans	2,490,830	2,490,830
84.032	Federal Family Education Loans (Guaranty Agency)	1,267,629,268	1,265,921,286
84.038	Federal Perkins Loan Program – Federal Capital Contributions	15,247,786	15,247,786
84.268	Federal Direct Student Loans	150,813,711	150,813,711
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,899,537	1,899,537
93.364	Nursing Student Loans	1,594,400	1,594,400
	Other Non-Monetary Assistance		
10.555	National School Lunch Program (Food Commodities)	30,696,954	3,671,615
10.569	Emergency Food Assistance Program (Food Commodities)	1,319,345	1,319,345
39.003	Donation of Federal Surplus Personal Property	127,436	127,436
93.268	Immunization Grants (Vaccines)	13,360,865	11,536,212
	Total Non-Cash Assistance	$1,583,196,275	$1,552,638,301

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); and Qualified Participating Entities (QPE) Risk Sharing (CFDA 14.189).

- 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, 2012.

- 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, 2012, Rhode Island Airport Corporation had approximately $40,059,000 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) includes the value of vaccines received at the contracted price (amount paid by the federal Centers for Disease Control to the manufacturer) and cash assistance for administrative costs.

NOTE 3. FEDERAL AWARDS RECEIVED FROM PASS-THROUGH ENTITIES

The majority of expenditures of federal awards reflected in the schedule are from awards made directly by the federal government to the State and its component units. An immaterial amount of funds have been passed-through from other entities to component units of the State totaling approximately $7.8 million. Of this amount, $7.3 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity.

Amounts passed through the State to the University of Rhode Island (a component unit) and reflected by the University as Research and Development Cluster expenditures have been adjusted to eliminate duplication within the Schedule.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 2012:

Program	CFDA Number	Rebate Amount
Medical Assistance Program	93.778	$ 25,403,866
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	$ 4,597,123

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 ($25.4 million) earned during fiscal year 2012. 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 $161.9 million funded from the State's account in the federal Unemployment Trust Fund, $224.6 million loaned to the State's account in the federal Unemployment Trust Fund, $26 million funded by federal grants, and $157.1 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 $230.9 million.

NOTE 7. SMALL BUSINESS CREDIT INITIATIVE

In 2012, the State entered into a contract with the U.S. Department of the Treasury as part of the State Small Business Credit Initiative. The State received $4,345,555 under this agreement during fiscal year 2012, which was reported as federal revenue in the State's financial statements but not reported on the Schedule of Expenditures of Federal Awards in accordance with federal guidance.

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 $2,015,980 in interest subsidy payments during fiscal year 2012, 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.

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

Table of Contents

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

oag.ri.gov

86 Weybosset Street • Providence, RI • 02903-2800
tel: 401.222.2435 • fax: 401.222.2111

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, 2012, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 20, 2012. 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:

- a component unit which represents 1% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 4% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 64% of the assets and 2% of the revenues of the business-type activities;

- the external investment trust – Ocean State Investment Pool which represents less than 1% of the assets and revenues of the aggregate remaining fund information; 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.

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

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 responses, we and the other auditors identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Findings 2012-2, 2012-3, 2012-7, 2012-11, 2012-13, 2012-16, 2012-18, and 2012-20. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Findings 2012-26, 2012-27 and 2012-37.

A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Findings 2012-1, 2012-4, 2012-5, 2012-6, 2012-8, 2012-9, 2012-10, 2012-12, 2012-14, 2012-15, 2012-17, 2012-19, 2012-21, 2012-22, 2012-23, 2012-24, and 2012-25. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Findings 2012-29, 2012-30, 2012-31, 2012-32, 2012-33, 2012-34, 2012-35, and 2012-36.

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 that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as Finding 2012-28.

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

We also noted certain other matters, 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. These management comments were communicated separately.

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
Auditor General

December 20, 2012

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
oag.ri.gov
86 Weybosset Street • Providence, RI • 02903-2800
tel: 401.222.2435 • fax: 401.222.2111

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, 2012. 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 41% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2012. Those audits were performed by other auditors whose reports on compliance with requirements applicable to the major federal programs were furnished to us, and this report, insofar as it relates to those programs that were audited by other auditors, is based solely on the reports of the other auditors. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

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

We were unable to obtain sufficient documentation supporting the State's compliance with federal requirements regarding the activities allowed/unallowed and eligibility of Costs Not Otherwise Matchable (CNOM) expenditures (as more fully described in Finding 2012-72) within the Medicaid Cluster (CFDA

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

93.775, 93.777, and 93.778), nor were we able to satisfy ourselves as to the State's compliance with these requirements by other auditing procedures.

As described in Finding 2012-55 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 Highway Planning and Construction Program (CFDA 20.205). 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 2012-64 in the accompanying schedule of findings and questioned costs, the State did not comply with the requirements regarding subrecipient monitoring that are applicable to its TANF Cluster (CFDA 93.558 and 93.714) and Social Services Block Grant (CFDA 93.667). 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 2012-66 in the accompanying schedule of findings and questioned costs, the State did not comply with the requirements regarding subrecipient monitoring that are applicable to its Low-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 2012-74 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 effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence relating to the State's compliance with federal requirements regarding the activities allowed/unallowed and eligibility of Costs Not Otherwise Matchable (CNOM) expenditures within the Medicaid Cluster (CFDA 93.775, 93.777, and 93.778), and except for the noncompliance described in the preceding four 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, 2012. 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 2012-59, 2012-76 and 2012-78.

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 41% of the reporting

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

entity's total major federal program expenditures of federal awards in fiscal year 2012. The other auditors have furnished us their reports on their consideration and testing of the internal control over compliance with requirements that could have a direct and material effect on a major federal program.

Our consideration, and the other auditors' consideration, of internal control over compliance was for the limited purpose described in the second preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2012-39, 2012-40, 2012-50, 2012-51, 2012-53, 2012-55, 2012-60, 2012-63, 2012-64, 2012-66, 2012-67, 2012-68, 2012-69, 2012-72, 2012-73, 2012-74, 2012-75, 2012-79, and 2012-83 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 2012-38, 2012-41, 2012-42, 2012-43, 2012-44, 2012-45, 2012-46, 2012-47, 2012-48, 2012-49, 2012-52, 2012-54, 2012-56, 2012-57, 2012-58, 2012-61, 2012-62, 2012-65, 2012-70, 2012-71, 2012-77, 2012-80, 2012-81, 2012-82, 2012-84, 2012-85, 2012-86, and 2012-87 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 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
Auditor General

March 27, 2013

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Table of Contents

Basic Financial Statements

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

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 #
Highway Planning and Construction	20.205
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
Social Services Block Grant	93.667
Medicaid Cluster: State Medicaid Fraud Control Units State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare Medical Assistance Program	 93.775 93.777 93.778

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

7) Major programs are listed in the table 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
Section 8 Housing Choice Vouchers	14.871
Unemployment Insurance	17.225
WIA Cluster:	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Workers	17.260
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
Surface Transportation - Discretionary Grants for Capital Investment	20.932
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
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 - State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants	84.395
ARRA - Education Jobs Fund	84.410
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
Social Services Block Grant	93.667
Children's Health Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777
Medical Assistance Program	93.778
Research and Development Cluster	Various

8) The dollar threshold used to distinguish between Type A and Type B programs was $14,725,417.

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

Finding 2012-1

COMPLETE IMPLEMENTATION OF A COMPREHENSIVE FULLY-INTEGRATED ENTERPRISE RESOURCE PLANNING (ERP) 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 ERP 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 ERP 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.

To successfully implement additional Oracle modules, the State needs to significantly enhances it information technology resources that support RIFANS, especially in the areas of Oracle applications support and database administration. Investments in additional IT personnel should be considered within the planning for any additional Oracle module implementation to ensure project success and continued support for the RIFANS system after implementation.

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.

The fiscal 2013 enacted budget provides a funding mechanism for IT projects including the completion of RIFANS. Additionally, a new Office of Digital Excellence has been added to, among other objectives, promote the use of technology within State government. The Office of Digital Excellence, Division of Information Technology and the Office of Accounts and Control should document the potential benefits to be derived from completing the RIFANS implementation and use that information to support funding requests, commitment of resources, and prioritization among other information technology projects.

RECOMMENDATIONS

2012-1a Develop a strategic plan to either continue the installation of Oracle modules necessary to complete and fully realize the benefits of RIFANS as a comprehensive fully-integrated ERP system or meet those ERP system objectives through other means.

2012-1b Address deficiencies in information technology resources needed to successfully implement and support additional RIFANS modules.

2012-1c Document the potential benefits derived from completing the RIFANS ERP implementation to support funding requests, commitment of resources, and prioritization among other information technology projects.

Finding 2012-2

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

Appropriate controls over cash receipts and disbursements require segregation of duties. Specifically, the authorization and recording of transactions should be performed by individuals totally separate from those with responsibility for the actual movement of cash and subsequent reconciliation of bank and book balances. Over time, responsibility for what should be separate functions has become less distinct, due in part to the incomplete implementation of the RIFANS ERP system (see Finding 2012-1). 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.

Recording of Payments made from Subsidiary Accounting Systems

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.

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.

RECOMMENDATION

2012-2 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 2012-3

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 $2.4 billion for fiscal 2012. Financial reporting risks include categorizing expenditures as federally reimbursable when grant funds have either been exhausted or the expenditures do not meet the specific program limitations.

Generally, federal revenue is recognized as expenditures, considered reimbursable, 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.

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

The Office of Accounts and Control has continued to enhance its required *Federal Grants Information Schedule* (FGIS) which is completed by the administering departments and agencies. The goal of the FGIS is to efficiently reconcile RIFANS program activity with amounts drawn and claimed on federal reports. Timely recording of adjustments is necessary to ensure that federal program expenditures recorded in RIFANS are consistent with amounts reported to the federal government and do not exceed federal grant awards. Segregating prior period adjustments in the accounting system facilitates reconciliation of current period claimed expenditures to RIFANS amounts as well as improves financial reporting by isolating amounts that may warrant consideration of restatement of prior periods financial statements.

While recent enhancements to the schedule and increased frequency of submission for larger programs are appropriate, the FGIS process is ultimately limited in its overall effectiveness to improve controls over federal revenue recognition. One critical component missing from the FGIS process is ensuring that expenditures reported within RIFANS have not exceeded available grant awards. Additionally, the Office of Accounts and Control has limited capabilities to validate information on the FGIS since grant documentation is maintained at the department level.

Presently, there is no statewide control measure to ensure that grant expenditures do not exceed available award authority.

Due to the limited effectiveness of the FGIS, other comprehensive control procedures should be considered. Additionally, the various factors that cause differences between amounts reported to the federal government and amounts included in the RIFANS accounting system should be addressed. Many departments utilize subsidiary systems, independent of the RIFANS accounting system, to administer federal programs and provide data for federal reporting. Consequently, this presents multiple opportunities for data to be inconsistent with or require reconciliation to financial data included in RIFANS. Improved functionality with the RIFANS accounting system to facilitate federal grant administration (grants management, cash management, and cost allocation functionalities – see Finding 2012-1)) could reduce or eliminate such differences and significantly improve statewide controls over federal program administration.

Additionally, the newly formed Office of Management and Budget within the Department of Administration has responsibility for oversight of federal program administration. This could include building effective statewide processes to supplement accounting controls within the RIFANS accounting system. Ultimately, this could improve controls over recognition of federal revenue and statewide federal program administration.

<u>RECOMMENDATIONS</u>

2012-3a Improve functionality with the RIFANS accounting system to facilitate federal grant administration (grants management, cash management, and cost allocation).

2012-3b Build statewide processes over federal grant administration within the newly formed Office of Management and Budget to supplement accounting controls within the RIFANS accounting system.

2012-3c Enforce State accounting system procedures that require timely adjustments to federal program activity once identified including appropriate segregation and coding of adjustments related to prior periods.

Finding 2012-4

ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

While the State has significantly improved processes and controls to record capital assets in recent years, RIFANS capabilities can be enhanced to better accumulate costs for "project-based" capital assets. Additionally, physical controls over capital assets can be enhanced at the departmental level by requiring periodic inventories in addition to those performed by the Office of Accounts and Control.

Accounting for "Project-Based" Capital Assets

The largest capital asset additions, from a dollar perspective, are project-based rather than single item acquisitions. The RIFANS capital asset module is programmed to flag expenditures in designated natural account codes as potential capital asset additions. This works well for single capital items but not as effectively for projects that involve multiple categories of expenditures and span more than one fiscal year. "Work-arounds" have been developed which include accumulation of project costs on spreadsheets. Due to the limited effectiveness of these manual processes, capital assets totaling approximately $6.5 million, mostly building and infrastructure improvement projects in construction, were not initially capitalized at June 30, 2012. Implementation of the capital projects module would facilitate accumulation and management of project costs (reference Finding 2012-1). A near-term solution will likely need to be found through a combination of improved system coding, continued manual project tracking, and potential capital asset identification through preparation of the capital budget.

Enhancing Departmental Controls over Capital Assets

The State has increased efforts devoted to performing physical inventories of capital assets. Recent inventories have reported exceptions related to older equipment, which was disposed of but not reported to the Office of Accounts and Control as required by State policy. Controls over capital assets should be improved by emphasizing that departments have primary responsibility for the physical control over their capital assets and accordingly should perform departmental inventories in addition to those performed on a cyclical statewide basis.

Departments and agencies do not have direct access to the RIFANS capital asset module; however, reports generated from the capital assets module are available to the departments for managing their capital assets. Use of this information by the departments to manage capital assets including performing periodic departmental inventory counts would enhance statewide accounting and physical controls over capital assets. Expanded use of this capital asset information would also assist the departments in complying with federal grant requirements when assets were purchased with federal funds.

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 timely recording of inventory results could also be improved.

RECOMMENDATIONS

2012-4a Improve controls to ensure all "project-based" capital asset acquisitions are identified for capitalization.

2012-4b Formalize and emphasize departmental responsibility for physical control over capital assets by requiring periodic departmental inventories and use of the State's capital asset accounting information to manage those assets including the specific compliance requirements for assets acquired with federal funds.

Finding 2012-5

ELEANOR SLATER HOSPITAL – MEDICAL ASSISTANCE CLAIMING

As described in Finding 2012-82 (Section III- Federal Award Findings and Questioned Costs) the majority of patients residing in the Eleanor Slater Hospital operated by the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) are eligible for Medical Assistance making the federal program the predominant source of hospital revenue. BHDDH bills Medicaid, through the Medicaid Management Information System (MMIS), based on an all-inclusive per diem hospital rate similar to the manner in which nursing facilities bill for services.

BHDDH, in conjunction with the Executive Office of Health and Human Services, the State agency responsible for the administration of the Medicaid program, should examine the hospital's current billing process to ensure more timely and accurate billing to Medicaid. Improvements to be considered include a quarterly evaluation of the rate being charged to Medicaid, timely adjustments to rates when material changes occur, complete readjudication of claims for approved rate changes, earlier completion of hospital cost reports and final rate determination, and ensuring that claims for all Eleanor Slater Medicaid-eligible patients can be processed through the MMIS.

Finding 2012-6

MEDICAL ASSISTANCE PROGRAM – MANUAL PAYMENTS BY FISCAL AGENT

As described in Finding 2012-77 (Section III- Federal Award Findings and Questioned Costs) manual payments, which approximated $200 million in fiscal 2012, are issued when the State's fiscal agent receives formal authorization from the Executive Office of Health and Human Services (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.

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. These enhancements will improve overall control over program expenditures currently being made through fiscal agent manual payments.

Finding 2012-7

MEDICAL ASSISTANCE PROGRAM – PROGRAM OVERSIGHT AND MONITORING

The Executive Office of Health and Human Services (EOHHS) is responsible for the administration and oversight of the State's Medicaid program and accordingly must have sufficient personnel to meet that responsibility. As departmental resources have declined over time, the State has utilized its fiscal agent and other contractors to perform various program operations. 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 Medicaid, 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.

We noted significant control deficiencies that are, at least in part, caused by insufficient personnel resources allocated to effectively administer and monitor these aspects of the program:

- *Contracted Program Functions* – EOHHS utilizes numerous consultants and contractors within the operation and administration of the Medicaid Program. However, EOHHS's program oversight and monitoring responsibilities remain which require a dedication of personnel resources currently lacking. EOHHS, as the Single State Medicaid agency, is responsible for the consideration and documentation of internal controls over significant program operations (i.e., program eligibility, contract compliance, and provider payments, as examples). Due to the size and complexity of the Medicaid program, the State should consider additional personnel resources specifically dedicated to this function in addition to EOHHS's other program integrity operations.

- *Program operations administered by other State departments and agencies* – A significant volume of services are paid through Medicaid for (1) children in the State's custody, (2) developmentally disabled adults, and (3) various CNOM programs operated by the Department of Children, Youth, and Families (DCYF), the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH), and other State agencies. Material control weaknesses have been identified over these program areas.

- *Inpatient Hospital and Long-term Care Facility Audits* – EOHHS has not performed nursing home field audits and is significantly behind in conducting 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.

- *Controls over Recipient and Provider Eligibility* – EOHHS's inability to conduct timely Medicaid Eligibility Quality Control (MEQC) reviews weakens controls over recipient eligibility. Additionally, controls over Medicaid provider eligibility were deficient due to delays in re-enrolling providers after the fiscal agent's headquarters was destroyed by flooding in March 2010.

The State must allocate adequate personnel resources to ensure proper oversight and control over program expenditures that approximated $2 billion in fiscal 2012. Sustained reductions in personnel resources in key program areas continue to negatively impact control over program expenditures and compliance with federal program requirements.

RECOMMENDATIONS

2012-7a Address personnel resource deficiencies in critical program areas to ensure proper administration of and control over the Medicaid program.

2012-7b 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 2012-8

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.

The State must evaluate each mission critical information system's compliance with formalized system security standards. This process will 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. The State may need to consider contracting for the performance of IT security compliance reviews of its mission critical systems until such time that sufficient internal resources are in place to ensure that the State can conduct such reviews on a periodic basis for all mission critical systems. In addition, new information systems or significant system modifications should be subjected to a formalized systems security certification by DoIT or an external IT security consultant prior to becoming operational.

RECOMMENDATIONS

2012-8a Complete an initial assessment of compliance with systems security standards for the State's mission critical systems.

2012-8b 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.

2012-8c Require systems security certification procedures to be performed by DoIT prior to any significantly modified application systems becoming operational.

2012-8d Consider additional information system security personnel resources to assist in the daily information systems security operational and monitoring procedures.

Finding 2012-9

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 applications require changes or updates during their production lifecycle. Users may encounter errors, seek new programmable features, or require adaptations to accommodate changes in operation.

Within the State of Rhode Island there are a number of agencies who have mature complex application systems that periodically need maintenance and/or code changes made to them. These customized, home grown applications require a robust formalized change management system in order to properly control changes made to them.

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 – Enterprise-wide

Throughout our review of the various departments and their application systems that are under the control of DoIT, we have found a number of disparate methods used to control program change management. For the most part, these methods rely upon the use of partially implemented change management systems and a series of manual and automated procedural controls that incorporate emails, memorandums and other paper-based forms to document and control application changes. In a number of instances, we have found no automated control system that can evidence that only authorized and proper changes have been implemented. Additionally, there is no way of knowing if all elements of a proper change management process have been followed.

It is imperative that a proper change management process be in place to insure that authorized, tested and accepted changes be implemented in a timely and efficient manner. The process should be a standardized, repeatable process that documents all movement of code, changes made, testing, acceptance, and implementation and provide management with a history of what transpired. This standardized repeatable control process insures that enterprise and industry best practices are being followed for all changes made within the enterprise. This leads to consistent outcomes, efficient use of resources and enhanced integrity of the application systems which flow through the process. Automated tools vastly help control this process and make the process consistent, predictable, repeatable and aids in the reduction of "human error" in the process.

Program Change Control – Current Operational Issues

In response to prior audit recommendations regarding this subject dating back to fiscal 2007, DoIT has attempted to implement software designed to better maintain and control application system changes. However, for various reasons, the products selected were never properly configured and implemented to fully utilize their control features. Instead of making the program change process more efficient and productive, the process continued to be a cumbersome and time-consuming process that could circumvent DoIT's change control policy and procedural guidance.

Because these packages were never implemented fully and effectively, they were never rolled out enterprise-wide, thus leaving agencies to develop their own methods and procedures to control application changes. This has led to multiple methods both manual and partially automated to be developed and supported by limited DoIT staff.

DoIT should implement a standardized formal enterprise program change control process for the application systems it supports. The program change process should provide a comprehensive, standard method and process to process application system changes throughout the enterprise. To assist this process, DoIT should evaluate enterprise software solutions to complement their program change process. The evaluation process should determine the appropriate combination of operational, procedural and/or technical adjustments required to use the package in a manner that results in adequate and repeatable program change control across the entire enterprise.

In addition, once a process and software package have been selected and implemented associated procedural guidance should be developed that provides detailed information pertaining to the specific activities required of DoIT support staff in order to accomplish meaningful and controlled change management. This type of guidance would provide DoIT personnel with detailed instructions pertaining to the development and correct use of change management software and mandated internal control practices and procedures, thus ensuring a documented, monitored, and repeatable process.

RECOMMENDATIONS

2012-9a Re-assess the use of a standard 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 for the entire enterprise.

2012-9b Design, develop, formalize and implement procedural guidance manuals detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.

Finding 2012-10

MONITORING RIFANS ACCESS CONTROLS AND AGENCY APPROVAL HIERARCHIES

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.

There is no current system capability that establishes and preserves a clear audit trail of additions, deletions, and changes in authorization that are routinely made to RIFANS system access. RIFANS has not activated 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 presently retroactively access the data tables that existed at a prior point in time, nor does it log the changes for ease of monitoring. The State should explore activating the "versioning" functionality within RIFANS as a means of providing a more comprehensive and automated means to monitor changes in system access.

The Office of Accounts and Control documents agency hierarchies periodically 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 ineffective in documenting changes in user access over a period of time.

Activities of individuals with system administrator roles are logged but not reported and 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's (DoIT) policies and procedures require the activities of privileged users (system administrators) to be logged by the system and reviewed for propriety by assigned personnel.

The State should develop reports that show when individuals have delegated their authority to other employees, a functionality that RIFANS allows in certain situations. In June 2012, the State implemented a policy that restricts employees from delegating their authority to others with a lower level of authority and requiring notification of the delegation to the Office of Accounts and Control in certain circumstances. Monitoring of delegated RIFANS access authority also requires monitoring to ensure such delegations are appropriate and consistent with policy.

RECOMMENDATIONS

2012-10a Enable the "versioning" functionality within RIFANS to allow for enhanced monitoring of system access changes.

2012-10b Review activities of privileged users (system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate.

2012-10c Develop procedures to monitor delegated access within RIFANS.

Finding 2012-11

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 $2.4 billion) are 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, which 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.

Taxation utilizes two financial institutions for ACH payments. One institution has the primary contractual responsibility for most operations; however, responsibilities handled by the second institution have still not been transitioned to the primary financial institution. Enhanced coordination with the primary financial institution regarding file layouts and unique processing requirements could alleviate the need to modify the tax payment files prior to upload to Taxation's systems.

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.

RECOMMENDATIONS

2012-11a Perform a "data classification" review consistent with DoIT policy to ensure the proper level of data protection (e.g. encryption) is in place.

2012-11b Secure all electronic files containing taxpayer information residing on the Division of Taxation's network to ensure data integrity.

2012-11c 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.

2012-11d Develop monitoring and reporting procedures to ensure the proper upload of data files.

2012-11e Improve controls over the processing of electronic insurance tax returns by better segregating certain duties performed by Taxation.

Finding 2012-12

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 2011 were due February 28, 2012. During fiscal 2012, W-3 paper returns for tax years 2000 through 2011 were posted to the mainframe system. However, as of June 30, 2012, the system-generated W-3 reconciliation returns for tax years 2009 through 2011 had not yet been posted. The backlog in posting W-3 reconciliation returns delays identifying potential overpayments and underpayments of employer withholding taxes.

RECOMMENDATION

2012-12a 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

2012-12b 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, 2012, there were 54,949 returns dating from 1991 through 2012. Approximately 29,000 returns include requests for refunds totaling more than $16.5 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

2012-12c 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

2012-12d Review and update taxpayer information to ensure taxpayers are remitting tax withholdings on the required frequency.

Finding 2012-13

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

The 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 2012, 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 2012.

"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 2012, 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

2012-13a 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.

2012-13b Establish an allowance for uncollectible taxes receivable, which reflects the unique collection characteristics of the data warehouse notices/billings.

2012-13c 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 2012-14

DEPARTMENT OF REVENUE – CONTROLS OVER TAX RECEIVABLE WRITE-OFF BALANCES

The Division of Taxation (Taxation) analyzes tax receivable balances close to fiscal year end to "write-off" amounts deemed uncollectible. Such analysis is for financial reporting purposes and does not represent a legal discharge of the debt to the State.

During fiscal 2012, Taxation used only one criterion in identifying accounts for potential write-off – the number of days delinquent. As a result, some balances written-off were collectible as evidenced by taxpayer payment or other activity. For financial reporting purposes, tax receivable balances were understated and audit adjustments were proposed to correct the understatement. Taxation's identification of accounts for potential write-off should include additional criteria such as evidence of recent payment activity, whether the account is in hearing or bankruptcy status, etc. as part of a comprehensive analysis of balances to be written-off.

We also noted that controls should be enhanced to ensure balances coded for write-off are recorded appropriately and timely within Taxation's subsidiary tax receivable systems.

RECOMMENDATIONS

2012-14a Utilize comprehensive criteria in identifying tax receivable balances for potential write-off rather than just a number of days delinquent threshold.

2012-14b Enhance controls to ensure the approved written-off taxes receivable balances are appropriately posted in a timely fashion.

Finding 2012-15

DEPARTMENT OF REVENUE – RECONCILIATION OF TAXATION RECEIPTS TO RIFANS

The Division of Taxation (Taxation) does not reconcile receipts posted to its systems with receipts reported in the RIFANS accounting system. Although Taxation reconciles their cash receipts ledger (subsidiary system) to RIFANS, controls would be improved if receipts reported within the mainframe system were reconciled to RIFANS. RIFANS data is the basis for much of the information utilized by the State for financial reporting and the reconciliation of that data with Taxation's systems (the Division's official record for tracking tax payments and refunds) would provide enhanced control over the State's reporting of tax revenue.

RECOMMENDATION

2012-15 Develop the reporting capability to facilitate reconciliation of receipts reported by Taxation's systems with RIFANS.

Finding 2012-16

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 2012-17

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

A finding concerning the IT governance and security of the Division of Taxation's information systems was communicated confidentially due to the potential impact on taxpayer compliance.

Finding 2012-18

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 necessitates mapping 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. Various supplemental manual 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 for a more efficient process to yield reliable information in support of timely financial reporting.

RECOMMENDATION

2012-18 Re-evaluate 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 2012-19

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 2012 draft financial statements required material adjustment due to weaknesses in controls over financial reporting as described below:

- 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 process to accumulate accounts payable is manually intensive and therefore susceptible to omitting, incorrect posting or duplicating payables. RIDOT's controls over estimating and recording the liability at fiscal year-end for legal claims and settlements can improve. Additionally, the process to match legal settlements to purchase order/contract data can be improved.

- Multiple activities and funding streams are included within the IST Fund. Although combined for financial reporting purposes, each activity or funding stream requires separate analysis to ensure amounts are accurately reported. Classification of fund balance by category – nonspendable, restricted, committed, assigned, and unassigned is dependent upon the analysis of each activity and/or funding stream. Our analysis discovered unrecorded federal receivables and misclassification of various fund balance categories. RIDOT should improve its controls over the reporting of fund balance by analyzing activity and funding stream components periodically throughout the fiscal year.

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.

The trustee maintains separate accounts for each GARVEE bond issue and various subaccounts consistent with the bond indenture. Accounts have also been established in RIFANS for each of the three GARVEE bond issuances. During fiscal 2012, the individual RIFANS accounts did not reconcile to the respective Trustee accounts, although the balances reconciled in total. RIDOT's reconciliation focused on the total asset balances rather than the specific asset accounts. RIDOT's reconciliation process can be further improved by reconciling the detailed RIFANS accounts to the respective accounts established by the trustee.

RECOMMENDATIONS

2012-19a Strengthen control procedures over financial reporting to ensure accurate identification of accounts payable, amounts due from the federal government, and classification of fund balance categories.

2012-19b Improve controls over the estimation of the liability at fiscal year-end for legal settlements and the process to match legal settlements to purchase order/contract data.

2012-19c Analyze each activity and/or funding source within the IST fund to ensure activity is accurately recorded and to improve controls over the categorization and reporting of fund balance components. Perform the analysis periodically throughout the fiscal year.

2012-19d Enhance the GARVEE trustee statement to RIFANS reconciliation process by reconciling the detailed RIFANS accounts to the respective accounts established by the trustee.

Finding 2012-20

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.

We noted misstatements relating to the infrastructure balances initially reported for fiscal 2012. Certain completed projects totaling $19.6 million were still included in construction in progress and $16.4 million was excluded from construction in progress at June 30, 2012. Although corrected through audit adjustment, these misstatements indicate that controls should be improved to capitalize all infrastructure expenditures and more accurately identify when infrastructure assets are placed in service.

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 2012-18 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 the 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.

Asset Impairments

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.

RECOMMENDATIONS

2012-20a Improve controls over the recording of infrastructure investment in the State's financial statements.

2012-20b Improve controls for determining when infrastructure assets are placed in service.

2012-20c 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.

2012-20d 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.

2012-20e 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 2012-21

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 are 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

2012-21 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 2012-22

RIDOT – CONTROLS OVER PROGRESS PAYMENT DATA FILES

Controls should be enhanced to ensure that data integrity is maintained over progress payment data as it moves from the Project Management Portal (PMP) to RIDOT's Financial Management System (FMS) and ultimately RIFANS (the State's accounting system) for vendor payment. 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, should be performed to identify critical points where automated controls should be implemented to eliminate all manual involvement.

Upon upload to the FMS, a hold is automatically placed on progress payments pending supervisory approval. RIDOT 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.

In addition to implementing more automated controls over data transmission between RIDOT's systems, controls could be further enhanced by ensuring that final vendor payments as disbursed through the RIFANS system are consistent with progress payments initiated through the PMP.

RECOMMENDATIONS

2012-22a Review the progress payment file transfer process to identify critical points where automated controls could be implemented to eliminate the need for manual intervention.

2012-22b Create and implement appropriate approval hierarchies. Automatically identify RIFANS/FMS payment discrepancies for review.

Finding 2012-23

INTERMODAL SURFACE TRANSPORTATION FUND – FEDERAL BILLING

There are instances where the Highway Planning and Construction draw down file is modified prior to submission to the Federal Management Information System (FMIS). These modifications to the file are required since RIDOTs Financial Management system (FMS) does not fully provide the level of data required to draw federal funds as required by the Federal Highway Administration. We observed the following weaknesses:

- The FMS does not have the capability to link multiple funding sources award numbers (FSAN) to one Federal Aid Project (FAP). The Federal Highway Administration links many FSANs to one FAP and requires RIDOT to draw down funds by the FSAN. Consequently, RIDOT after creating the drawdown file, manually splits draw requests between multiple FSANs.

- The file is in an open text format with no encryption. This open text format allows anyone who has access to the server directory to modify the file and send it to FMIS.

- There is no change management system in place tracking changes to the file, documenting who made the change or requiring management approval of changes.

RIDOT should improve its controls and processes over the FMS and the drawdown file to ensure accuracy and completeness of data transmitted to the Federal Management Information System (FMIS) from RIDOT's Financial Management System (FMS).

RECOMMENDATIONS

2012-23a Modify the FMS to maintain an audit log of award information.

2012-23b Improve controls over the RIDOT federal billing process to include transferring files without modification.

2012-23c Modify the Financial Management System to allow for multiple funding source award numbers (FSAN) to be linked to one Federal Aid Project.

Finding 2012-24

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 DLT'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.

RECOMMENDATION

2012-24 Implement an automated program change management process over DLT computer applications. Coordinate with DoIT to implement the approved and supported State enterprise change management solution.

Finding 2012-25

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.

RECOMMENDATION

2012-25 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 2012-26

CENTRAL FALLS SCHOOL DISTRICT – FINANCIAL REPORTING

An entity's system of internal controls should be designed and operate to allow the entity to prepare accurate financial statements in conformance with generally accepted accounting principles and be designed and operate to prevent, detect, and correct misstatements in the financial statements on a timely basis. The system should also be designed and operate to allow the entity to properly monitor the financial position of the entity.

The financial reports prepared by the Central Falls School District for the year ended June 30, 2012 had misstatements that resulted in the proposal of several audit adjustments. The misstatements resulted from inadequate review of the financial statement accounts throughout the year and in particular, at year-end. The School District's Finance Director position was vacant for the last six months, leading to no formal review and reporting procedures. Central Falls School District's internal controls over financial reporting are not operating as intended and did not prevent and detect misstatements in the financial statements.

The School District's procedures do not include formal preparation and review of monthly and year-end financial reports including budget to actual revenue and expenditure reports, and the distribution of monthly financial reports to the Board of Trustees and Superintendent. The School District has approved a written policy that includes monthly financial reporting, but it has not been implemented.

RECOMMENDATION

2012-26 We recommend that the School District implement internal control procedures that include monthly reconciliation of all significant account balances. The procedures should also include the preparation and review of monthly and year-end financial reports for all funds. The financial reports should include a balance sheet, and a detail budget to actual report for the revenues and expenditures. The monthly reconciliations and financial reports should also be reviewed and approved by the Director of Finance and the financial reports should be submitted to the Superintendent and the Board of Trustees.

Finding 2012-27

CENTRAL FALLS SCHOOL DISTRICT – CAPITAL ASSETS

The School District does not have formal policies and procedures and an accounting system in place to properly maintain and account for their capital assets on a perpetual basis. Although a list of capital assets and depreciation expense were prepared as of June 30, 2012, the list was prepared after year-end. The School District does not have procedures in place to maintain the list of capital assets on a perpetual basis or to provide for the periodic physical inventory of the capital assets.

RECOMMENDATION

2012-27 We strongly recommend that the School District implement policies and procedures and utilize the Unifund capital asset accounting system to account for the addition and deletion of capital assets and related depreciation expense, throughout the year. We also recommend that the School District perform an inventory of the capital assets and compare it to the list of capital assets at least annually. This will ensure proper recording and safeguarding of capital assets.

Finding 2012-28

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

During the fiscal year ended June 30, 2012, the Convention Center Authority was unable to fund the Operating Reserve and Debt Service Reserve components of its restrictive covenants pursuant to the bond indentures.

Finding 2012-29

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

As noted during the prior year audit, the Chief Financial Officer (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

2012-29 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:

- Assign wire authorization to the Executive Director and the Chairman of the Board of Directors only.

- Assign to the Executive Director the function of reviewing the month-end reconciliations 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 2012-30

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – RECONCILIATION OF INVESTMENTS

During our audit, we noted a significant increase in the recorded amount of investment fees and investment income compared to amounts recorded in the prior year. The differences resulted principally from the misclassification of recording investment income and expenses. Although correcting entries were required to be recorded, the entries did not have an effect on total net assets.

RECOMMENDATION

2012-30 We recommend that the Authority's management prepare a monthly detailed investment reconciliation for each investment account summarizing sales, purchases, investment income, and investment fees. Also, as part of each month-end closing, the CFO should reconcile the amounts recorded in each general ledger account to the respective activity within the reconciliation to determine whether all transactions occurring within all investment accounts have been completely and accurately recorded.

Finding 2012-31

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – ACCOUNTS PAYABLE AND YEAR-END CUTOFF PROCEDURES

During our procedures to reconcile net assets reported at the beginning of the year under audit to the total of net assets reported in the prior year's audited financial statements, we noted that certain expense and accounts payable transactions occurring during the year ended June 30, 2012 were incorrectly recorded as 2011 transactions.

RECOMMENDATION

2012-31 We recommend that a person independent of the person recording accounts payable activity in the Authority's General Ledger reconcile the amounts and determine whether such amounts have been reported in the period to which they relate. We also recommend that controls be implemented to mitigate the potential for recording activity in a period other than the period to which the transactions relate.

Finding 2012-32

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – RECORDING OF NONRECURRING TRANSACTIONS

During our audit, we noted that the Turnpike and Bridge Authority (the Authority) recorded as revenue amounts received from a vendor in settlement of disputed costs that were capitalized by the Authority, rather than as a reduction of previously capitalized costs.

RECOMMENDATION

2012-32 We recommend that the Authority review the nature of recurring transactions and the applicable accounting guidance to determine whether amounts for recurring transactions are recorded in the general ledger in accordance with accounting principles generally accepted in the United States.

Finding 2012-33

RHODE ISLAND PUBLIC TELECOMMUNICATIONS AUTHORITY – RECONCILIATION OF NET ASSETS

The opening net asset balance as of July 1, 2011 did not agree to the ending net asset balance reported on the Public Telecommunications Authority's (the Authority) audited financial statements as of June 30, 2011.

RECOMMENDATION

2012-33 Revise policies and procedures to include a procedure to reconcile net assets as recorded to the audited financial statements.

Finding 2012-34

RHODE ISLAND PUBLIC TELECOMMUNICATIONS AUTHORITY – YEAR-END CUT-OFF

During the fiscal 2012 audit, the auditors of the Rhode Island Public Telecommunications Authority (Authority) noted that amounts related to auction and membership revenue related to the year ended June 30, 2012, totaling approximately $38,500, were not recorded at June 30, 2012.

Additionally , we noted expenses related to a termination agreement, certain prepaid expenses, and other amounts related to operating expenses related to the year ended June 30, 2012, totaling approximately $52,800 in the aggregate, were not recorded at June 30, 2012.

RECOMMENDATION

2012-34 Refine year-end procedures to ensure that a proper cut-off is attained.

Finding 2012-35

RHODE ISLAND PUBLIC TELECOMMUNICATIONS AUTHORITY – RECORDING INVENTORY ACTIVITY

During the fiscal 2012 audit, the auditors of the Rhode Island Public Telecommunications Authority (Authority) noted that the receipt and issuance of membership premiums inventory occurring throughout the year are not recorded within the Authority's inventory system.

RECOMMENDATION

2012-35 Implement procedures that would require entering the movement of membership premium inventory into the inventory system.

Finding 2012-36

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY – CONTROLS OVER FINANCIAL REPORTING

During the fiscal year ended June 30, 2012, 9 of 40 cash disbursements did not have proper approval in accordance with policies and procedures of the Higher Education Assistance Authority (the Authority). Due to the significant amount of exceptions noted during this test, the Authority's auditors recommended that the Authority evaluate the current internal controls over this function and modify them to match the controls that are in place or implement a review process that ensures that the controls have been implemented and documented appropriately.

During the fiscal year ended June 30, 2012, there were times where the Chief Financial Officer (CFO) prepared, reviewed and approved certain transactions; 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. The Authority's auditors recommended that the Authority evaluate its current human resources and segregate the above functions such that the CFO can independently exercise his review responsibilities.

RECOMMENDATIONS

2012-36a Evaluate the current internal controls over cash disbursements and modify them to match controls that are in place or implement a review process that ensures that the controls have been implemented and documented appropriately.

2012-36b Evaluate the current human resources and segregate the above functions such that the CFO can independently exercise his review responsibilities.

Finding 2012-37

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION – UNDERSTATEMENT OF EXPENSE AND REVENUE

During the audit of the Small Business Loan Fund trial balance, the auditors of the Economic Development Corporation (Corporation) noted that the Corporation booked a $1,500,000 grant expense as an asset. An entry was proposed and made to reduce the investment and increase the grant expense, causing a net decrease in income of $1,500,000.

The Corporation has programs where grant funds are recognized as income, only as related expenses are incurred. Unexpended funds are reported as deferred revenue. During fiscal year ended June 30, 2012, we noted that $3,200,000 of expenses that should have been recognized as revenue. As a result, an entry was proposed and made to increase grant revenue and decrease deferred revenue for $3,200,000 as of June 30, 2012.

RECOMMENDATION

2012-37 Take steps to ensure that the general ledger accounts are reconciled during the year to minimize significant year–end adjustments.

Table of Findings by Federal Program		
Program Title	**CFDA**	**Applicable Findings**
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	None
State Administrative Matching Grants for the SNAP Program	10.561	12-41, 12-42, 12-43
Child Nutrition Cluster:		
School Breakfast Program	10.553	12-39, 12-40
National School Lunch Program	10.555	12-39, 12-40
Special Milk Program for Children	10.556	12-39, 12-40
Summer Food Service Program for Children	10.559	None
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	12-38
Mortgage Insurance – Homes	14.117	None
Qualified Participating Entities (QPE) Risk Sharing	14.189	None
Section 8 Project-Based Cluster:		
Section 8 Housing Assistance Payments Program – Special Allocations	14.195	None
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	None
Section 8 Housing Choice Vouchers	14.871	None
Unemployment Insurance	17.225	12-44, 12-45
WIA Cluster:		
WIA Adult Program	17.258	12-46, 12-47, 12-48, 12-49
WIA Youth Activities	17.259	12-46, 12-47, 12-48, 12-49
WIA Dislocated Workers	17.260	12-46, 12-47, 12-48, 12-49
WIA Dislocated Worker Formula Grants	17.278	12-46, 12-47, 12-48, 12-49
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	12-38, 12-50, 12-51, 12-52, 12-53, 12-54, 12-55
Transportation Infrastructure Finance and Innovation Act (TIFIA) Program	20.223	None
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	None
Federal Transit – Formula Grants	20.507	None
Surface Transportation - Discretionary Grants for Capital Investment	20.932	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	12-57
Federal Direct Student Loans	84.268	12-58
Academic Competitiveness Grants	84.375	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	12-56
ARRA - Title I Grants to Local Educational Agencies	84.389	12-56, 12-59
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	84.394	None
ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants	84.395	12-60
ARRA - Education Jobs Fund	84.410	None
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	12-38, 12-43, 12-61, 12-62, 12-63, 12-64
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs	93.714	12-43, 12-61, 12-62, 12-63, 12-64
Low-Income Home Energy Assistance	93.568	12-38, 12-66, 12-67, 12-68
CCDF Cluster:		
Child Care and Development Block Grant	93.575	12-38, 12-43, 12-61, 12-65
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	12-38, 12-43, 12-61, 12-65
ARRA - Child Care and Development Block Grant	93.713	12-43, 12-61, 12-65
Social Services Block Grant	93.667	12-43, 12-64
Children’s Health Insurance Program	93.767	12-63, 12-69, 12-70, 12-71
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	None
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	None
Medical Assistance Program	93.778	12-43, 12-63, 12-69, 12-70, 12-72, 12-73, 12-74, 12-75, 12-76, 12-77, 12-78, 12-79, 12-80, 12-81, 12-82, 12-83, 12-84, 12-85
Research and Development Cluster	43.000 66.456 81.041	12-86, 12-87

Finding 2012-38

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 thirteen (13) 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, 2012:

1) Eight (8) programs attempted a "good faith effort" to comply by seeking guidance from the federal grantor and/or by successfully reporting subaward data during fiscal 2012;

2) Five programs, Special Supplemental Nutrition Program for Women, Infants and Children, Highway Planning and Construction, Temporary Assistance for Needy Families, CCDF Cluster and Low-income Home Energy Assistance Program, were not found to have made a reasonable effort to comply with FFATA during fiscal 2012; and

While the State made efforts to comply with FFATA during fiscal 2012, significant progress is still needed to ensure full compliance in fiscal 2013. 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.

Questioned Costs: None

RECOMMENDATIONS

2012-38a Standardize agency documentation requirements for compliance with FFATA reporting.

2012-38b Ensure that FFATA-applicable subawards are reported to FSRS in a complete and timely manner.

Finding 2012-39

CHILD NUTRITION CLUSTER:
School Breakfast Program – CDFA 10.553
National School Lunch Program – CFDA 10.555
Special Milk Program for Children – CFSA 10.556
Administered by: Central Falls School District

ELIGIBILITY

For a child to be eligible for free or reduced lunch benefits the child must be directly certified or the household must submit a complete application and be determined to be either categorically eligible or income eligible. The certifying school official must verify the application is complete, determine eligibility and approve the application.

During our testing of compliance of the eligibility requirements, we noted six out of forty applicants selected did not have the required application on file. In addition to the applications on file, three were incomplete. For example, the applications were missing the social security number. It was also determined that the School District is responsible for the applications for the two private/charter schools in the District that are included in the count of free and reduced meals. The School District was unaware that they were required to monitor the eligibility status, including obtaining the required applications from these two schools.

Questioned Costs: None

RECOMMENDATION

2012-39 We recommend that more care be taken to ensure all applications are completed and completed properly as required by USDA guidelines. We also recommend that all supporting documentation be maintained on file to support the determination of eligibility.

Finding 2012-40

CHILD NUTRITION CLUSTER:
School Breakfast Program – CDFA 10.553
National School Lunch Program – CFDA 10.555
Special Milk Program for Children – CFDA 10.556
Administered by: Central Falls School District

VERIFICATION OF FREE AND REDUCED PRICE APPLICATIONS

By November 15th of each school year, the School District must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals. The School District must follow-up on children whose eligibility status has changed as a result of the verification process and put them in the correct category.

The School District has nine schools participating in the National School Lunch and Breakfast program and only three schools performed the required verifications. Of the three schools that performed the verification, only one school completed the verification in conformance with the compliance requirements.

Questioned Costs: None

RECOMMENDATION

2012-40 We recommend that the School District ensure that all personnel responsible for the food service program are aware of the federal compliance requirements.

Finding 2012-41

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
State Administrative Matching Grants for the SNAP - CFDA 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Year 2010-2011
Federal Award Number: 4RI400405
Administered by: Department of Human Services (DHS)

DOCUMENTATION OF IN-KIND MATCHING EXPENDITURES

DHS contracted with and paid the University of Rhode Island (URI) federal funds totaling $635,339 to provide SNAP outreach services for FFY 2011. The contract states 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 budget appear allowable, DHS can improve its documentation and monitoring of required matching expenditures to ensure compliance with federal program requirements. For example, during the fiscal year, DHS reported matching expenditures equal to the amount paid to URI without any documentation that the services promised were actually performed. Documentation of the in-kind matching expenditures *actually* provided by the third party entities was not received until after the end of grant period in December 2011.

In order to be considered an allowable matching cost contribution, costs must be verifiable in accordance with 7 CFR 277.4(d).

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 $574,528 submitted by third parties 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. We were advised by DHS management and the URI outreach project director that neither DHS nor URI requested supporting documentation.

- Two reports with in-kind match totaling $30,913 were submitted without the required certification about the source of funds.

- Of the above two reports, one (with in-kind match totaling $26,413) was not signed.

Also, reported in-kind match provided by URI and totaling $53,653 did not include supporting documentation such as time cards and payroll records.

DHS should enhance its procedures to ensure required matching expenditures have been incurred at the time they are reported and require enhanced documentation be provided of those expenditures or make site monitoring visits to review related documentation supporting amounts claimed.

Questioned Costs: None

RECOMMENDATION

2012-41 Enhance control procedures to ensure that adequate supporting documentation is maintained for in-kind matching expenditures reported in the SNAP Federal Financial Status Report.

Finding 2012-42

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
State Administrative Matching Grants for the SNAP - CFDA 10.561
Federal Award Agency – Department of Agriculture
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Number: 4RI400405, 4RI430405, 4RI420412
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING

We found that the expenditures reported on the final Financial Status Report (SF-269) for the federal fiscal year ended September 30, 2011 grant were understated. DHS reported federal expenditures totaling $240,971 and an equal amount of non-federal matching expenditures while the amounts reported should have included federal expenditures totaling $635,339 and an equal amount of non-federal matching expenditures.

The SF-269 - Federal Financial Status Report is prepared from DHS' cost allocation system. A coding error involving the extract of State accounting system data for input to the cost allocation system caused the omission of $394,368 from the cost allocation system and, consequently, reported expenditures on the SF-269. This was an isolated occurrence and subsequent quarters were not affected. However, DHS did not detect the omitted payments.

We also found that the that the Federal Financial Report (SF-425) for the quarter ended June 30, 2012 for the FFY 2012 SNAP administration grant under-reported "*Other expenditures*" by $502,419 (federal share $251,210 and non-federal share $251,210) due to a clerical error in preparing the report. This error has not been corrected in subsequent report submissions.

These errors could be prevented and/or detected through reconciliation of expenditures included on the federal reports and expenditures recorded in the State accounting system. DHS does not prepare such a reconciliation.

Questioned Costs: None

RECOMMENDATIONS

2012-42a Amend the final close-out federal financial report to correct Administration and Outreach Services charges for the FFY 2011 grant.

2012-42b Reconcile expenditures between federal financial reports and the State accounting system quarterly. Investigate and resolve any differences.

Finding 2012-43

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
State Administrative Matching Grants for the SNAP – CFDA 10.561
Federal Award Agency – Department of Agriculture
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Number: 4RI400405, 4RI430405, 4RI420412
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
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 2011G966115, 2012G996115
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
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: G996005, G999004, G999005
SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2012 and 2011-2013
Federal Award Numbers: 1101RISOSR and 12RISOSR
Administered by: Department of Human Services (DHS)

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

COST ALLOCATION PLAN (CAP)

The Department of Human Services (DHS) accounts for administrative expenditures relating to various activities, objectives, and programs administered by DHS 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 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.

DHS 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.

Employees paid through cost centers which are allocated based on time study are required to submit a timesheet for a randomly selected day for each pay period. The time study system summarizes all the randomly selected employee time study data for the quarter and allocates the cost center to the various DHS programs for that quarter. We found two employees had not submitted timesheet activities for the period we selected for testing. If these employees had been included in the time study analysis, the allocation percentages assigned to the various programs for that cost center may have differed - some programs may have been undercharged while others overcharged for that quarter.

Questioned Costs: None

RECOMMENDATION

2012-43 Require supervisory/management review to ensure that all randomly selected employees complete and submit required timesheets.

Finding 2012-44

UNEMPLOYMENT INSURANCE – 17.225
Federal Award Agency: US Department of Labor / ETA Division of Federal Assistance
Award Years: Federal Fiscal Years 2010, 2011 and 2012
Federal Award Numbers: TA-19730-10-55-A-44, UI-21124-11-55-A-44, TA-21241-11-55-A-44, UI-22336-12-55-A-44 and TA-22681-12-55-A-44
Administered by Department of Labor and Training (DLT)

FEDERAL REPORTING - 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).

Federal guidance for the revised TAPR report (TEGL06-09) 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 DLT complete the two reports. DLT indicated they were aware that the reports were not complete and continue to work with USDOL to improve the accuracy of the TAPR information. We attempted reconciling the TAPR and the corresponding ETA 9130 reports and found the TAPR significantly understated, indicating that the TAPR reports are still missing data as we noted in our prior year finding. Reporting could be improved with increased communication between divisions within DLT.

Participant wage data is also reported in the TAPR. We found that wage information was reported and that the underlying detailed wage data was retained in SFY 2012. As a result, we were able to determine the propriety of the majority of wage data included in the TAPR reports submitted to the federal government; however, a few discrepancies could not be resolved.

DLT should strengthen controls to ensure that data used to prepare federal reports is archived at the time of reporting to adequately support amounts reflected in the reports.

Questioned Costs: None

RECOMMENDATIONS

2012–44a Review reports prior to submission to ensure data agrees to supporting information systems and is reasonable.

2012–44b Coordinate reporting efforts across divisions to ensure consistent reporting and proper reconciliations of the TAPR to the corresponding ETA 9130 reports.

Finding 2012-45

UNEMPLOYMENT INSURANCE – 17.225
Federal Award Agency: US Department of Labor
Award Years: Not Applicable – Entitlement Program
Federal Award Numbers: Not Applicable – Entitlement Program Funded through U.S Treasury Trust Fund – State of Rhode Island
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, BAM 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 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 may have been registered, but the job service registration information may not have transferred over properly during the conversion due to a known conversion issue. Since this conversion occurred over three years ago, DLT should register all UI recipients prior to first payment whether or not they may have been previously registered prior to conversion. State law requires registration for both fully and partially unemployed recipients.

We tested samples of UI benefit cases (combined sample size of 100 cases) for compliance with controls over eligibility determination and some for compliance with BAM quality control procedures. We found that for six clients in the combined sample, registration with RI Job Service at the time of their UI claim was uncertain. In six other cases, DLT could not provide any documentation that these claimants were registered with RI Job Service. 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.

DLT should enhance controls to ensure that all eligible UI cases are registered with RI Job Services prior to the first UI payment.

Questioned Costs: None

RECOMMENDATION

2012-45a Enhance controls to ensure that all currently eligible UI cases, both fully unemployed and partially unemployed, are registered with RI Job Services prior to first UI benefit payment and maintain evidence of registration in the BAM claim review file.

The CY 2011 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 – DLT only completed 67% within that timeframe.
- 95% of the investigations are required to be completed within 90 days – DLT completed 90%.

The federal government subsequently reviewed the BAM Annual Report and indicated that for CY 2011, the State did not meet its completion targets for the timeliness of paid claims investigations within 60 or 90 days. The department informed us that they missed these targets due to a reduction in the number of BAM investigators during the past few years.

Questioned Costs: None

RECOMMENDATION

2012-45b Further strengthen controls to ensure that BAM investigations are completed within the required federal timeline targets.

Finding 2012-46

WIA CLUSTER
WIA Adult Program – 17.258
WIA Youth Activities – 17.259
WIA Dislocated Workers – 17.260
WIA Dislocated Worker Formula Grants – 17.278
Federal Award Agency: US Department of Labor / ETA Division of Federal Assistance
Award Years: State Program/Federal Fiscal Years 2011/2012
Federal Award Numbers: AA-21420-11-55-A-44
Administered by Department of Labor and Training (DLT)

FEDERAL 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.

The client participation amounts reported appear to be significantly understated in comparison to the prior year data and to the unemployment rate. This disparity was disclosed by DLT in a note in the Annual Report and was questioned by USDOL in their analysis of the annual report submitted by DLT. We were informed that DLT is currently working on determining the nature of the error.

Wage record data information represents major key line items required to be reported in the WIASRD data records section of the WIA Annual Report. DLT did maintain the wage data utilized as the basis for the wage data reported during SFY 2012 for PY 11. As a result, we were able to determine the propriety of the majority of the wage information included in the WIASRD portion of the report, however we did note a few discrepancies that could not be resolved.

DLT should further enhance controls to ensure that all data used to prepare federal reports is archived at the time of reporting to adequately support amounts reflected in the reports.

Questioned Costs: None

RECOMMENDATIONS

2012-46a Strengthen controls to ensure that data is complete prior to submitting federal reports to USDOL.

2012-46b Implement controls to ensure all data used to prepare federal reports is archived at the time of reporting to adequately support amounts reflected in the reports.

Finding 2012-47

WIA CLUSTER
WIA Adult Program – 17.258
WIA Youth Activities – 17.259
WIA Dislocated Workers – 17.260
WIA Dislocated Worker Formula Grants – 17.278
Federal Award Agency: US Department of Labor/ ETA Division of Federal Assistance
Award Years: State Program/Federal Fiscal Years 2008/2009, 2009/2010, 2010/2011 and 2011/2012
Federal Award Numbers: AA-17146-08-55-A-44, AA-18666-09-55-A-44, AA-20218-10-55-A-44 and AA-21420-11-55-A-44
Administered by Department of Labor and Training (DLT)

SUBRECIPIENT MONITORING

A pass-through entity is responsible for monitoring its subrecipients. Monitoring activities such as site visits are intended to provide assurance that federal awards are administered consistent with federal compliance requirements. We noted that during state fiscal year 2012, the State Workforce Investment Office (SWIO) performed on-site monitoring and significantly improved its documentation of the monitoring procedures and results, which were communicated to the subrecipient in a timely fashion. Although DLT did monitor some administrative requirements, DLT should further enhance its monitoring effectiveness by including procedures to address subrecipient compliance with other grant requirements, such as, earmarking, cost limitations, and financial reporting.

Also in reviewing supporting documentation for the subrecipient's audit report for SFY 2011, we noted that there was a variance of $46,000 between the expenditures identified in the Schedule of Expenditures of Federal Awards (SEFA) for the Youth Program and the amount reflected in the subrecipient's summary general ledger. DLT was unable to determine the nature of the variance. DLT should revise its audit report review procedures to more closely review audit report information (including the SEFA) and follow up on discrepancies as appropriate.

Questioned Costs: None

RECOMMENDATIONS

2012-47a Enhance monitoring procedures to address subrecipient compliance with other grant requirements, such as, earmarking, cost limitations, and financial reporting.

2012-47b Determine the nature of the $46,000 variance and take appropriate action, if necessary.

2012-47c Strengthen audit report review procedures to more closely review audit report information and perform appropriate follow up when required.

Finding 2012-48

WIA CLUSTER
WIA Adult Program – 17.258
WIA Youth Activities – 17.259
WIA Dislocated Workers – 17.260
WIA Dislocated Worker Formula Grants – 17.278
Federal Award Agency: US Department of Labor/ ETA Division of Federal Assistance
Award Years: State Program/Federal Fiscal Years 2008/2009, 2009/2010, 2010/2011 and 2011/2012
Federal Award Numbers: AA-17146-08-55-A-44, AA-18666-09-55-A-44, AA-20218-10-55-A-44, and AA-21420-11-55-A-44
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 9 adult files, 35 dislocated worker and 16 youth files for eligibility testing from the June 30, 2012 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) office. We found there was significant improvement in the completeness and consistency of case file documentation supporting eligibility determinations; however, we noted three cases involving discrepancies between case file source documentation and information recorded in the DLT's client reporting database. Each of these cases had been determined to be eligible for the Dislocated Worker Program per case file documentation, but one case was mistakenly entered in the client database under the Adult Program and the other two cases were mistakenly recorded in the client database as both Adult and Dislocated Worker cases. Controls should be further enhanced to ensure that client reporting database information is consistent with case file source documentation.

Questioned Costs: None

RECOMMENDATION

2012-48a Further strengthen supervisory review over the eligibility process to ensure consistency between the case file information and DLT's client database.

Electronic Eligibility and Reporting Database System

In order to facilitate required federal reporting of WIA client information and outcomes, the State uses the GEOSOL system. We obtained 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 exit dates per the case files were not consistent with the system database for one adult client, 2 dislocated worker clients and 3 youth clients. The information in the database should agree to case file source documentation. Inconsistent data could result in outcomes being improperly reported.

Questioned Costs: None

RECOMMENDATION

2012-48b Ensure that GEOSOL system data is consistent with case file documentation.

Finding 2012-49

WIA CLUSTER
WIA Adult Program – 17.258
WIA Youth Activities – 17.259
WIA Dislocated Workers – 17.260
WIA Dislocated Worker Formula Grants – 17.278
Federal Award Agency: US Department of Labor/ ETA Division of Federal Assistance
Award Years: State Program/Federal Fiscal Year 2009
Federal Award Number: AA-17146-08-55-A-44
Administered by Department of Labor and Training (DLT)

EARMARKING

Federal regulations (20 CFR section 664.320) requires that 30% of Youth Activity funds allocated to local areas, excluding administrative funds, be used to provide services to out-of-school youth clients.

In reviewing final closeout reports, we found that only 23.4% of total FY 2009 ARRA Youth Activity funds allocated by DLT to the two local areas (excluding administrative costs) were spent to provide services to out-of-school youth. One local area only spent 20.4 % of its Youth Activity funds on out-of-school youth and the other local area only spent 25.5% of its Youth Activity funds on out-of-school youth.

DLT should implement controls to monitor and ensure compliance with the 30% federal requirement relating to the use of Youth Activity funds.

Questioned Costs: None

RECOMMENDATION

2012-49 Develop controls to monitor and ensure compliance with the 30% federal requirement relating to Youth Activity funds.

Finding 2012-50

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

SPECIAL TESTS AND PROVISIONS - MATERIALS TESTING

RIDOT should strengthen controls over its materials sampling and testing program to ensure compliance with federal regulations. 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 *Procedures for Uniform Recordkeeping* (PURK) manual outlines the policies, procedures and employee responsibilities relating to materials sampling and testing.

RIDOT utilizes the Federal Highway Administration's (FHWA) approved *Master Schedule for Sampling, Testing and Certification of Materials (MST)* to develop a materials test book for each construction project. The MST is loaded into the Materials Testing System Module (MTS) in the Project Management Portal System (PMP), from which the Construction Office uses to produce the Materials test book for each project. Materials test books are unique to each project based on the materials, the types of and number of required tests.

Controls over the Master Schedule of Testing

RIDOT's controls to ensure that the federally approved *Master Schedule for Sampling, Testing and Certification of Materials (MST)* is used to develop project specific materials testing procedures were deficient as follows:

- Documentation of the most recent specific master schedule approved by the FHWA in 2010 could not be provided to validate that data in RIDOT's Materials Testing System Module was consistent with the federally approved schedule.

- Use and reference of the federally approved master schedule between RIDOT divisions is inconsistent. The Materials Section performs testing and answers questions from field personnel based on the 1998 MST and updated testing requirements for specific materials approved by FHWA while the 2010 schedule is the most recent approved schedule.

- Program change controls are inadequate over the Materials Testing System Module - multiple users, including non-engineers and engineers, can modify the MTS, without review or approval. Additionally, any user with edit access in the Construction Management System Module (CMS) can modify testing requirements for individual projects without review or approval.

- RIDOT does not have a process to update the MTS module for FHWA approved changes to required testing procedures including notification to field personnel of changes to the MST and MTS.

RIDOT should significantly improve its controls to ensure that materials testing procedures are consistent with the federally approved *Master Schedule for Sampling, Testing and Certification of Material.*

RECOMMENDATIONS

2012-50a Improve controls to ensure materials testing procedures are consistent with the most recent federally approved *Master Schedule for Sampling, Testing and Certification of Materials.* Ensure consistent application of materials test requirements by RIDOT divisions.

2012-50b Enhance program change controls over the Construction Management and Materials Testing System modules to prevent unauthorized changes in the Master Schedule or the specific materials test book developed for each project.

Materials Testing

We selected a sample of 70 items from 25 fiscal 2012 projects, to determine whether RIDOT completed the required materials testing as specified in each project's materials test book. We noted exceptions for 14 (56%) of the 25 projects as follows:

- Contractors are required to provide a Certificate of Compliance to ensure that the specific materials used on a project meet standard specifications. We found three (3) contractor Certificates of Compliance were not on file at the construction field office - RIDOT's Construction Office subsequently obtained all of the Certificates of Compliance.

- In 19 instances, related to ten (10) projects, documentation of material test results were not sufficiently documented and/or on file at the project field office; 15 material test results were subsequently obtained by RIDOT. Due to the lack of materials test results in the remaining four (4) instances, the amount paid for the materials is questioned.

- One instance where a materials quality pay factor was not applied timely.

- Six (6) instances where there was an inconsistency between the test applied and the Master Schedule of Testing.

- Four (4) instances where pages of the pre-printed materials test book were missing from the project field office.

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

Questioned Costs: $11,639

RECOMMENDATIONS

2012-50c Ensure required certificates of compliance are obtained and on file in the construction field office and required test results are documented in the materials test book prior to vendor payment.

2012-50d Improve documentation for tests completed to comply with the FHWA approved *Master Schedule for Sampling, Testing and Certification of Materials.*

Finding 2012-51

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

SUBRECIPIENT MONITORING

The Rhode Island Department of Transportation (RIDOT) can improve its policies and procedures to monitor subrecipients. RIDOT is unable to adequately identify all amounts passed through to subrecipients; however, we estimated that payments to subrecipients totaled $13.9 million in fiscal 2012. RIDOT has attempted to code projects and project expenditures as subrecipient relationships both within the RIDOT FMS and the State's accounting system; but these efforts are not yet consistently reliable to ensure identification of all subrecipients.

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 cannot demonstrate the review of all subrecipient audit reports due to the lack of a complete list of all 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 all subrecipient agreements as required. During fiscal 2011, RIDOT implemented new standard agreements that included all required federal award information; however, we noted agreements issued during the current fiscal year that still lacked some of the required elements. Additionally, RIDOT did not amend prior agreements still in effect 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, the department did not document all these monitoring activities. RIDOT indicated 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.

RIDOT has improved certain aspects of subrecipient monitoring but can further improve its efforts by ensuring the identification of all subrecipients timely, appropriate notification to subrecipients of federal compliance information, and overall departmental monitoring efforts are better coordinated.

Questioned Costs: None

RECOMMENDATIONS

2012-51a Enhance written policies and procedures for subrecipient monitoring and scheduling of on-going projects for review and document the monitoring performed.

2012-51b Identify all federal awards passed through to subrecipients by project.

2012-51c Ensure subrecipients have required Single Audits performed and review the audit reports on a timely basis including issuing management decisions within required timeframes. Evaluate the impact of subrecipient activities on RIDOT's ability to comply with applicable federal regulations.

2012-51d Provide required information to subrecipients in contracts such as CFDA title and number, federal awarding agency and applicable compliance requirements including identification of ARRA funding. Ensure that the requirement to maintain current 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) are communicated to first-tier subrecipients.

Finding 2012-52

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

ALLOWABLE COSTS/COST PRINCIPLES

Police Detail Charges

Expenditures for police details paid by RIDOT in fiscal 2012 were approximately $4 million – approximately $3.2 million of which was reimbursed by the federal government as an allocable project cost. RIDOT can improve documentation maintained to ensure the reasonableness of police detail charges reimbursed through federally funded construction projects by specifying more uniform reimbursement policies.

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 represented that the department must pay the hourly rate specified in the collective bargaining agreement covering police officers in each municipality; but did not have copies of such agreements or other supporting documentation to support the charges. We also observed that municipalities charged differing rates for vehicles and applicable administrative fees.

Subsequent to fiscal 2012, RIDOT drafted new cooperative agreements with most police agencies and created billing templates to ensure consistency in the application of billing policies. Uniform vehicle rates and administrative fees have been implemented.

Questioned Costs: None

RECOMMENDATION

2012-52a Complete implementation of the revised cooperative agreements and billing procedures for police detail charges.

Disadvantaged Business Enterprise Support Services

The Department of Transportation established a loan program, Mission 360, with a $1 million grant from the Federal Highway Administration (FHWA) to facilitate DBE firms to develop into viable, self-sufficient businesses capable of competing for and performing on federally assisted highway and bridge projects. A vendor administers this loan program and is responsible for writing checks for loans approved by RIDOT, servicing the loans (i.e., collections, loan delinquency, asset verification, etc.) and providing a report of activity to RIDOT.

Through June 30, 2012, the vendor had custody of the revolving loan fund and utilized a bank account outside of State control to disburse and receive funds. No bank reconciliations were performed and program activity was not recorded within the State's accounting system. We identified activity on the bank statement that differed from the activity reported to RIDOT. The differences between the reported activity and bank statements related to the vendor advancing itself the monthly contract fee.

RIDOT should regain custody of the loan program bank account and all program funds. Program receipts and disbursement should be controlled through the State accounting system. Oversight and monitoring of the loan program should be enhanced to ensure appropriate controls are in place over the loan program activities performed by the vendor.

Questioned Costs: None

RECOMMENDATIONS

2012-52b Establish control procedures to ensure accountability and oversight of the DBE Loan Program activities performed by the vendor.

2012-52c Regain custody of the loan program bank account and all State funds that are deposited in the name of the vendor servicing the loan program.

Finding 2012-53

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

VALUE ENGINEERING

Federal regulation 23 CFR 627.1(b) states that State transportation departments shall assure that a Value Engineering (VE) analysis has been performed on all applicable projects and that all resulting, approved recommendations are incorporated into the plans, specifications and estimates. Applicable projects generally include those with an estimated total project cost of $25 million or more ($20 million for bridge projects) that utilize Federal-aid highway program funding.

In June 2012, RIDOT issued a memorandum indicating that the Department shall maintain a Value Engineering Program in accordance with provisions of 23 CFR Part 627. In addition, the memo identified a RIDOT Engineer as the VE Program Coordinator to ensure department compliance going forward.

RIDOT provided evidence where value engineering analyses had been performed for various projects. However, RIDOT can improve its controls and procedures to (1) identify those projects that must include a value engineering analysis and delineate the appropriate point in the project timeline for such analysis to be performed, and (2) ensure value engineering recommendations are evaluated, and approved recommendations are incorporated into the plans, specifications, and cost estimate for the project. Enhanced control procedures should include an appropriate monitoring component to ensure compliance.

Questioned Costs: None

RECOMMENDATION

2012-53 Enhance policies, procedures, and controls to ensure compliance with Value Engineering analysis requirements contained in 23 CFR 627.

Finding 2012-54

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

ACTIVITIES ALLOWED OR UNALLOWED

RIDOT's procedures include review and approval (signature approval) of vendor invoices, prior to payment, by the Resident Engineer or Design Project Manager. This is consistent with the Resident Engineer having responsibility for all aspects of project oversight and management.

During our testing of a sample of program expenditures, we noted three instances where vendor invoices were not approved by the Resident Engineer but instead by subordinate project staff.

RIDOT's official written polices (PURK Manual) do not specifically state that the Construction Resident Engineer or Design Project Manager must sign vendor invoices prior to processing by Financial Management for payment. RIDOT can enhance controls over vendor payments by clarifying and documenting its policy of requiring Construction Resident Engineer or Design Project Manager approval of all vendor invoices and delineating alternate approval authority when required (vacation and other absences).

Questioned Costs: None

RECOMMENDATION

2012-54 Update the PURK manual to include a formal policy of who is able to verify and authorize an invoice for payment.

Finding 2012-55

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

CASH MANAGEMENT

RIDOT has a Memorandum of Understanding (MOU) with FHWA that allows RIDOT to draw Highway Planning and Construction funds three business days in advance of the GARVEE debt service payment by the Trustee. RIDOT drew down and received the June 2012 GARVEE debt service payment of $38.9 million on March 26, 2012 - 58 days prior to the June 15 debt service payment. This resulted in excess cash on hand (in this instance - on deposit with the trustee) and noncompliance with MOU and federal cash management requirements.

This excess cash on hand was not reflected in the calculation of interest due the federal government on the federal Cash Management Improvement Act (CMIA) annual interest calculation report. Additionally, the specific draw provision for GARVEE debt service outlined in the MOU with FHWA should be incorporated into the Treasury/State agreement which specifies the drawdown technique to be followed for larger federal programs subject to the agreement.

Questioned Costs: None

RECOMMENDATIONS

2012-55a Adhere to the Memorandum of Understanding with FHWA that allows RIDOT to draw GARVEE debt service transfers to the Trustee three business days in advance of the payment.

2012-55b Include all drawdown components in the Treasury-State Agreement.

Finding 2012-56

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

ALLOWABLE COSTS/COST PRINCIPLES

Attachment B of OMB Circular A-87 "*Cost Principles for State, Local, and Indian Tribal Governments"* states that wages, salaries and fringe benefits charged to federal awards are allowable only to the extent that they are determined and documented as provided in Section 8(h). Specifically, where employees that work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared semi-annually and signed by the employee or supervisory official having first-hand knowledge of the work performed by the employee. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must reflect after-the-fact distribution of the actual activity of the employee and must account for the total activity for which the employee was compensated. Personnel activity reports must be prepared at least monthly and must coincide with one or more pay periods. Finally, personnel activity reports must be signed by the employee. Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for the charges to federal awards.

Although the School District has implemented a system that requires periodic certifications for employees that work solely on a single federal award or cost objective, and personnel activity reports or equivalent documentation for those employees who work on multiple activities or cost objectives, we selected employees that had incomplete or missing time and effort documentation. One employee who worked on worked on multiple activities and was charges to the Title I grant did not prepare personnel activity reports during the year. Two employees did not complete the required semi-annual certifications and one employee certified that he was working on the Title II grant, but his salary was charged to Title I.

Questioned Costs: None

RECOMMENDATION

2012-56 We recommend that the School District review the current procedures for monitoring compliance with the time and effort reporting requirements to ensure that all employees that are charged to federal programs are completing the required documentation.

Finding 2012-57

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Pell Grant Program – CFDA 84.063
Administered by: Community College of Rhode Island

ELIGIBILITY

Schools are required to maintain policies and procedures to ensure that the Title IV financial aid is only awarded to eligible students.

According to CFR Section 668.32 (c)(2)(i)(A):

> A student is eligible to receive Title IV, HEA program assistance if the student either meets all of the requirements in paragraphs (a) through (m) of this section or meets the requirement in paragraph (n) of this section as follows:
>
> (c)(2) For purposes of the Federal Pell Grant Program – (i) (A) does not have a baccalaureate or first professional degree.

Management of the Community College informed us during our audit that certain ineligible students were awarded financial aid, specifically, the Pell grant. The majority of students had earned the equivalent to a baccalaureate degree from an institution outside of the United States and had responded "no" to the question on the Free Application for Federal Student Aid (FAFSA). Although the Office of Enrollment had the documentation from the Center for Educational Documentation , Inc. (CED), this information was not communicated in a timely manner to the Office of Student Financial Aid.

Questioned Costs: $119,688

RECOMMENDATION

2012-57 We recommend that the Community College update their process to track the status of all applicants, including those who have an educational background from outside of the United States. Based on the information the student completes on their application, as well as other information obtained, including during the verification process, the Community College should ensure that the software is updated to track the necessary information, so that financial aid can only be awarded to the eligible students.

Finding 2012-58

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Direct Student Loans – CFDA 84.268
Administered by: Community College of Rhode Island

STUDENT STATUS REPORTS

One of the underlying assertions regarding the student status reports is the accuracy of the information as it relates to the effective dates of status changes. According to 34 CFR Section 685.309(b):

> A school shall (1) upon receipt of a student status confirmation report from the Secretary, complete and return that report to the Secretary within 30 days of receipt; and (2) unless it expects to submit its next student status report to the Secretary within the next 60 days, notify the Secretary within 30 days of it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who (i) enrolled at that school but has ceased to be enrolled on at least a half time basis; (ii) has been accepted for enrollment at that school but failed to enroll on at least a half time basis for the period for which the loan was intended; or (iii) has changed his or her permanent address. (3) The Secretary provides student status confirmation reports to a school at least semiannually. (4) The Secretary may provide the student status confirmation report in either paper or electronic format.

Our audit disclosed that although the Community College of Rhode Island had policies and procedures for transmitting information to the National Student Clearinghouse (NSC), they did not establish an appropriate policy to ensure the accuracy of the information. The Community College does have a policy in place to ensure that the reporting is completed timely, but the information uploaded was not independently reviewed to ensure the reports generated were accurate.

Questioned Costs: None

RECOMMENDATION

2012-58 We recommend that the Community College have a manual process for at least one individual to manually review the information being uploaded to ensure that the software is pulling the accurate information on a test basis.

Finding 2012-59

TITLE I, PART A CLUSTER:
ARRA – Title I Grants to Local Educational Agencies – CFDA 84.389
Administered by: Central Falls School District

ALLOWABLE COSTS/COST PRINCIPLES

OMB Circular A-87 – "*Cost Principles for State, Local, and Indian Tribal Governments*" establishes the principles and standards for determining allowable costs incurred by government units under federal awards. A cost is allowable for federal reimbursement only to the extent of benefits received by federal awards and its conformance with the general policies and principles stated in this Circular.

The requirements for the period of availability of Federal funds contained in the A-102 Common Rule and OMB Circular 110. The requirements state where a funding period is specified, a grantor may charge to the award only costs resulting from obligation of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balance may be charged for costs resulting from obligations of the subsequent funding period.

We determined based on the test of Title I – ARRA expenditures, that the School District charged to the Title I – ARRA Grant costs for a contract for consulting services over a three year period starting July 1, 2011 and ending June 30, 2014. The contract was signed in February 2011. The contract states that the services will be provided over the three year period and invoiced on an annual basis. The School District paid the costs of all three years in September 2011. The Title I – ARRA grant period ended September 30, 2011. This expenditures does not meet the allowable costs/cost principles in conformance with OMB Circular A-87 and does not meet the basic guidelines of allowability of costs, in particular, that the allocable to a particular cost objective if the goods or services involved are chargeable or assigned to such cost objective in accordance with the relative benefits received. The benefits of the costs charged for the subsequent two years on the contract have not been received. In addition the contract does not meet the criteria that an obligation has been incurred during the funding period, which ended September 30, 2011.

Questioned Costs: $269,620

RECOMMENDATION

2012-59 We recommend that the School District review the requirements regarding allowable costs/cost principles and period of availability to ensure the School District is in compliance with all applicable requirements.

Finding 2012-60

ARRA – STATE FISCAL STABILIZATION FUND (SFSF) – RACE-TO-THE-TOP INCENTIVE GRANTS – CFDA 84.395
Federal Award Agency: US Department of Education
Award Years: 2010-2014
Federal Award Number: S35A100073
Administered by RI Department of Education (RIDE)

ALLOWABLE COSTS/COST PRINCIPLES

RIDE contracted with a number of consultants to implement the Race to the Top program. Payments to these consultants totaled $10.7 million in fiscal 2012 generally in reimbursement of expenses for staff salaries/fringe benefits, indirect costs, computer software, teacher model guidebooks, travel, and other miscellaneous expenses. Program expenditures in fiscal 2012 included payments to 33 separate contractor/vendors.

We found that RIDE can improve its oversight and verification of consultant invoices to better ensure that the use of Race to the Top funds are adequately supported as prescribed by federal cost circulars (OMB Circular A-87) and are consistent with contract terms. We found that some of the consultants' invoices did not provide sufficient detail. As a result, we were unable to ascertain that some of the consultants' expenditure claims for salaries/fringe benefits were reasonable and supported by contract provisions.

Generally, contracts between RIDE and its consultants included project budgets, project milestones and deliverables, and specified hourly rates for various staff levels working on the project. However, we noted that the contracts were generally not explicit as to the required level of documentation to be provided to RIDE in support of the invoices requesting reimbursement for costs incurred.

A large part of the expenditure claims were for the consultants' staff salaries/fringe benefits. All of these contracts established a budget cap for these costs, but the contractual details varied. In some cases, the contracts specified the names of the employees, position and hourly rates to be charged. In other instances, the contracts delineated only the number of employees expected to provide services in certain positions at specified hourly rates. Some other contracts indicated that an unspecified number of employees would be charged at a certain hourly rate.

For example, one consultant submitted two bills each covering a one month period for its contracted hourly rate for certain staff salaries/fringe benefits totaling $924,961. These two invoices requested payment for 7,197 hours of effort in one month, and 4,394 hours in the other month at the rates specified in the contract. The invoices did not indicate the number of employees working in this position and the contract specified only that the consultant expected 16-20 employees would be employed for this position.

We also found that another consultant was paid $51,840 for the time one of its employees worked on the Race to the Top program. The invoice indicated that it was for 1,296 hours between September 22, 2011 and December 31, 2011. The billing rate agreed to the contractual rate, but we found that the purchase order was not executed until October 26, 2011. In addition, we believe the invoice should have included a detailed breakdown of the employee's billable hours.

The same consultant submitted another bill dated January 25, 2012 totaling $195,840. The invoice indicated it was for 3,264 billable hours for a position that was contracted at a rate of $60/hour. The invoice did not indicate the billing period or the number of employees billed. The contract also was not clear concerning the number of employees that would fill this position. We found that the related purchase order was executed on October 24, 2011 and RIDE indicated that the invoice represented the billable hours for two of the consultant's employees.

Certain of the invoices included hours that, given the time frame and number of individuals assigned per the contract, would appear well in excess of a normal work schedule. However, the consultant invoices provided insufficient documentation to allow a full reasonable analysis.

In addition, we found that RIDE should request more detailed documentation to support non-personnel consultant charges. Several billings were supported only by the claim for various expenses – i.e., there were no receipts or other detail. For example, one consultant was paid $317,000 for unspecified materials and supplies costs and another consultant submitted claims for travel costs totaling $15,397 without support detailing the traveler, destination, and specific costs reimbursed.

RIDE should revise its procedures regarding oversight of consultant invoices and delineate minimum documentation standards for consultants that are compensated on an hourly basis. The revised procedures should ensure that RIDE has sufficient evidence and support for work performed and paid to meet federal documentation requirements. This could include requesting more detail from the contractor and/or performing inspection/audit by RIDE or its agent.

Questioned Costs: None

RECOMMENDATIONS

2012-60a Improve the oversight and verification of consultant invoices requesting reimbursement for hours expended and other contract costs.

2012-60b Delineate minimum documentation standards for consultants that are compensated on an hourly basis to ensure that RIDE has sufficient evidence and support for work performed and paid to meet federal documentation requirements. Modify/amend existing contracts as needed to meet the revised documentation requirements.

Finding 2012-61

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs – CFDA 93.714
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 2011G966115, 2012G996115
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
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: G996005, G999004, G999005
Administered by: Department of Human Services (DHS)

ELIGIBILITY - CASE FILE DOCUMENTATION

DHS provides cash assistance and other services to eligible families in an approved employment plan of the State's Rhode Island Works Program (RI Works) which is funded by TANF. It also provides services to children of low-income families whose gross income is within established eligibility limits – these are primarily child care services funded through the CCDF Cluster programs.

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.

We tested the case files of 60 families receiving RI Works cash assistance and 25 receiving child care services to determine whether the proper eligibility determinations were made, and whether payments were calculated in accordance with program requirements, including obtaining any required documentation and performing required verifications. We noted the following documentation exceptions concerning the RI Works Program and Child Care Programs applications eligibility determination process:

- One TANF case file selected was not provided for review. For two additional cases, we received an application for the period subsequent to our testing period.

- Five TANF cases did not include an interim report although InRhodes case notes indicated reports may have been completed.

- Six instances where no employment activity plan was in place for the client for the selected month. In one case, a client exemption had expired and no plan was created; however, the client continued to receive benefits without participation or sanction for an additional six months until the time limit was reached and the case was closed.

- One client continued to receive benefits for one and a half months after her hardship extension ended and was not renewed.

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, DHS 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

2012-61a Strengthen controls to ensure adherence to procedures requiring agency personnel maintain 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. Close cases timely.

2012-61b 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.

Finding 2012-62

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
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 2011G966115, 2012G996115
Administered by: Department of Human Services (DHS)

SPECIAL REPORTING AND TANF FINANCIAL REPORT

DHS'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. DHS has improved documentation and analysis of certain maintenance of effort expenditures compared to prior years. However, documentation and analysis of certain maintenance of effort expenditures reported for federal fiscal year (FFY) 2011 can be improved as described in the following paragraph.

DHS reported approximately $24.4 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 443 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).

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.

Questioned Costs: None

RECOMMENDATION

2012-62 Continue to enhance control procedures over the documentation and analysis of maintenance of effort expenditures reported on the ACF-196 and ACF-204 reports to ensure that all such costs meet required TANF criteria.

Finding 2012-63

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
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 2011G966115, 2012G996115
Administered by: Department of Human Services (DHS)
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5021 and 1205RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

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 DHS 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 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 2012 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 INRHODES system of all interface matches during state fiscal 2012. We compared this file to another file containing all TANF benefit payments made during fiscal years 2011 and 2012. 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:

- Twenty-two (22) cases with discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, twelve discrepancies would not appear to impact eligibility or the household's benefits. The remaining ten discrepancies may impact eligibility or the household's benefits.

- Three (3) 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.

Failure to promptly investigate and resolve IEVS interface data weakens DHS's controls over the determination of eligibility and benefit levels for the TANF program. Management acknowledged that, due to various factors, IEVS interface discrepancies are not always resolved promptly.

Questioned Costs: None

RECOMMENDATIONS

2012-63a 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.

2012-63b Maintain documentation supporting the resolution of data match discrepancies and initiate modifications when discrepancies impact eligibility and/or amount of benefits.

Finding 2012-64

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
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 2011G966115, 2012G996115
SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2021 and 2011-2013
Federal Award Numbers: 1101RISOSR and 12RISOSR
Administered by: Department of Human Services (DHS)

SUBRECIPIENT MONITORING

OMB Circular A-133 requires pass-through agencies to monitor subrecipients to ensure the subrecipients' compliance with laws, regulations, and the provisions of contracts and grant agreements. Monitoring can be accomplished through a combination of procedures including site visits and other programmatic measures.

Guidance for pass-through agencies can be found at 31 USC 7502(f)(2)(A through C). It requires pass-through entities to provide subrecipients the program name, CFDA number (or other identifying number) and federal requirements of the award, The Circular also requires the pass-through agencies to (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 entity's ability to comply with applicable federal regulations.

We selected six TANF subrecipient files for testing. Only two of the subrecipients had provided their audit report timely to DHS. The other four subrecipients only forwarded their reports after our request of DHS and only two of these were timely. Once received, DHS staff did review them and noted no findings related to the TANF program. We noted that for one audit report, the Schedule of Expenditures of Federal Awards did not include the TANF contract awarded by the State - this was not noted during DHS' review.

The Social Services Block Grant is primarily administered by the Department of Human Services but program funds were provided to other departments. For example, DOA awarded contracts to provide services for homeless adults, BHDDH administered contracts covering mental health services and DCYF awarded one contract for the development of infrastructure for a system of care. We found that subrecipient monitoring, involving the awarding of contracts and monitoring of contracts both during and after the award process was lacking across all departments:

- DHS did not obtain audit reports from all of its grantees and did not have procedures to ensure compliance with subrecipient monitoring for SSBG funds expended by other state agencies.

- DOA did not obtain audit reports from any of its subrecipients. They did review fiscal records during monitoring visits.

- BHDDH did perform after the award monitoring by reviewing audit reports, but during the award monitoring was lacking as awardees were not required to submit invoices or periodic fiscal reports in order to receive payment. The funding source for one contract was changed from State to federal dollars after it was awarded. The agency should have been notified of the change since it may have affected their need for a Single Audit or compliance with other federal compliance requirements.

- DCYF did obtain an audit report from its one subrecipient, but failed to notice that the Schedule of Federal Awards did not contain the grant award made by the department. The contract did not contain the required federal award information.

DHS needs to improve it subrecipient monitoring procedures, specifically those related to receipt and review of subrecipient audit reports. DHS should also ensure that when grant funds are allocated for expenditure by other State departments, all applicable and appropriate subrecipient monitoring procedures are performed.

<u>Questioned Costs:</u> None

RECOMMENDATIONS

2012-64a Obtain and review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action. Ensure that all federal funds passed through the State are included in the subrecipient's audit report.

2012-64b Notify all subrecipients of federal award data and compliance requirements.

2012-64c Require subrecipients to submit appropriate documentation when requesting payment of federal funds.

Finding 2012-65

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
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: G996005, G999004, G999005
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) and to demonstrate that earmarking and period of availability requirements have been met.

DHS is allowed to spend up to 5% of its grant awards on administrative costs. Various categories of expenditures are identified from departmental cost allocation reports and amounts are totaled for reporting on the ACF-696 report. During our 2011 audit, 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 reporting error remains uncorrected; however, the grant has been finalized.

We also noted that the final report for the FFY 2010 grant included $198,101 in administrative expenditures that were not supported by cost allocation system information, which serves as the basis for reporting administrative costs. Since this was the end of the period of availability for this grant, the unspent funds should have been returned.

Certain categories of expenditures, known are earmarks, are accounted for in a single account that is combined with administrative expenditures. The cost allocation system reports one amount for "contracts" but this category involves several different earmarks. Consequently, the amounts reported for earmarks must be derived from RIFANS data. No reconciliation is performed between the cost allocation system and the RIFANS account to ensure that all of the expenditures recorded are reported in their proper categories. We noted numerous discrepancies in the FFY 2011 and FFY 2012 reports filed during the audit period. Some expenditures were reported late or not at all and it appears another amount was reported in two quarters.

DHS spent its fourth quarter allocation of mandatory funds in the third quarter of FFY 2012. Grantees are not allowed to spend funds in anticipation of an award, but must wait until funds are awarded to expend them and seek reimbursement from federal sources.

Questioned Costs: $198,101 (FFY 2010 funds not spent within the period of availability).

RECOMMENDATIONS

2012-65a Strengthen controls to ensure that federal reports are prepared accurately and reviewed prior to submission to ensure compliance with earmarking and period of availability requirements. Maintain all supporting documentation used in report preparation.

2012-65b Reconcile reports to the cost allocation system and RIFANS prior to submission.

2012-65c Improve cash management practices to limit pre-award expenditures.

Finding 2012-66

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services - Administration for Children and Families
Federal Award Numbers – 2012G992201, 2012G99BX11, 2011G992201, 2011G992212
Administered by: Department of Administration – Office of Energy Resources (OER)

SUBRECIPIENT MONITORING

The Office of Energy Resources (OER) can significantly improve its monitoring of subrecipients in a number of areas to ensure compliance with program requirements. The OER is required to monitor the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means as outlined in OMB Circular A-133 to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws and regulations.

The OER did not perform regular site visits, client data reviews, vendor monitoring, and fiscal reviews during fiscal 2012 due to insufficient program staff, delay in reassigning monitoring responsibilities and implementation of a new line of business system.

The OER indicated that they did review subrecipient audit reports and communicated regularly with its subrecipients; however, we found that these monitoring activities were not well documented. The OER was unable to provide two subrecipient audit reports and documentation of OER's review of the report.

During fiscal 2012, 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. ProCAP has been continually late in submitting audit reports – the June 30, 2011 report was submitted 18 months after the close of their fiscal year. The auditors disclaimed an opinion on the fiscal 2011 financial statements and did not perform compliance testing for major programs. Prior audit reports for this subrecipient contained multiple findings related to control weaknesses over financial reporting and federal compliance requirements including LIHEAP funds passed-through the State. This situation should have likely increased subrecipient monitoring activities rather than the decrease in such efforts that we observed.

Questioned Costs: None

RECOMMENDATIONS

2012-66a Perform regular schedule of site visits, client data reviews, vendor monitoring, and fiscal reviews of LIHEAP subrecipients and document the monitoring procedures performed.

2012-66b Evaluate the impact of subrecipient activities on the OER's ability to comply with applicable federal regulations.

2012-66c Ensure that all subrecipient audit reports are received and reviewed by management along with appropriate follow-up on audit findings reported in the subrecipient audit reports.

Finding 2012-67

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services - Administration for Children and Families
Federal Award Numbers – 2012G992201, 2011G992201, 2011G992212, 2010G992201
Administered by: Department of Administration – Office of Energy Resources (OER)

SUBRECIPIENT CASH MANAGEMENT

The Office of Energy Resources (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. In fiscal 2012, the current process enabled the subrecipient to have excess cash on hand. As required in the federal regulations (45 CFR 74.22), the OER must ensure that payments of LIHEAP program funds to subrecipients are limited to their immediate cash needs. The OER should strongly consider making payments to the subrecipients on scheduled intervals based on appropriate supporting documentation.

We found that the OER lacks consistent controls to restrict subrecipient cash balances to their immediate cash needs. The OER is advancing funds to the subrecipients, allowing for the possibility of a material positive cash balance being held for an extended period of time. As a result, we noted that various subrecipient CAP agencies reported a material positive cash balance on hand for more than 14 days. Cash is in excess of immediate cash needs.

Questioned Costs: None

RECOMMENDATIONS

2012-67a Restrict subrecipient funding to their immediate cash needs.

2012-67b Strengthen internal controls over subrecipient cash management.

Finding 2012-68

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services - Administration for Children and Families
Federal Award Numbers – 2011G992201, 2011G992212, 2010G992201, 2010G992212, 2009G992201
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 the Administration for Children and Families (ACF) – Department of Health and Human Services. There are no limits on the time period for expenditure of funds (42 USC 8626).

Accounts have been established within the State's accounting system to segregate expenditures and obligations by specific federal grant award. The OER uses expenditure data arrayed by specific grant award to monitor compliance with period of availability requirements; however, documentation was incomplete in that it lacked the required percentage calculation. Program personnel contend that they are aware of the requirements and know they are in compliance based on observation of expenditures. The OER complied with period of availability requirements; however, the OER's procedures to demonstrate compliance can be enhanced.

Questioned Costs: None

RECOMMENDATION

2012-68 Maintain documentation to better demonstrate compliance with period of availability requirements.

Finding 2012-69

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5021 and 1205RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

PROVIDER ELIGIBILITY AND SUSPENSION AND DEBARMENT

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 2012, EOHHS and its fiscal agent continued implementation of a new system to allow for the electronic re-enrollment of all providers. As of June 30, 2012, approximately 60% of active Medicaid providers had been re-enrolled. Although improved, we consider the continued lack of documentation of the above federal requirements relating to Provider Eligibility and Suspension and Debarment for a significant amount of providers during the year to represent a material weakness in internal control. EOHHS expects to complete its electronic re-enrollment of active providers to ensure compliance with federal regulations, 2 CFR section 180.300 (suspension and debarment certifications) and 42 CFR section 431.107 (required provider agreements and evidence of provider licensure) during fiscal 2013.

Questioned Costs: None

RECOMMENDATION

2012-69 Complete the re-enrollment of all Medicaid providers to ensure compliance with federal requirements for Provider Eligibility and Suspension and Debarment.

Finding 2012-70

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5021 and 1205RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

FEDERAL REPORTING

Federal regulations require that expenditures for the Medical Assistance Program (Medicaid) 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 Form CMS-21. While most of the information regarding claims paid is provided through the MMIS operated by the State's fiscal agent, RIFANS, the State's accounting system, 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 2012, RIFANS does not include the same level of Medicaid service detail that is available in the MMIS. This requires that financial management staff perform significant manual computations to derive amounts required for the preparation of the CMS-64 and CMS-21 reports. This often requires that estimated federal expenditures be reported on the federal financial report, Form SF-425, which must 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 to accommodate 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 upon 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 2012, Medicaid administrative expenditures reported on Form CMS-64 totaled $47,172,479 (federal share) while expenditures reported in the State's accounting system totaled $63,225,129. 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 expenditures when Form CMS-64 was not completed in time to determine the actual amount of federal expenditures. Our analysis of expenditures reported on quarterly SF-425 reports found that, for most quarters and for the State fiscal year as a whole, the reported amounts varied from those reported on federal expenditure reports. EOHHS adjusts expenditures reported in later quarters to account for differences caused by estimates used in earlier quarters. As previously noted, EOHHS should take appropriate steps to streamline the preparation of the CMS 64 reports so that preparers can avoid having to use estimates to prepare the SF-425 reports for each quarter.

Questioned Costs: None

RECOMMENDATIONS

2012-70a Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.

2012-70b Reconcile administrative expenditures reported on the CMS-64 report with those reported in the State's accounting system.

2012-70c Report cumulative disbursements accurately on the SF-425 report based on actual expenditures in accordance with report guidelines.

Finding 2012-71

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5021 and 1205RI5021
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. Rhode Island 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 2012 approximated $74 million (federal share - $49 million). Of the $74 million, $23 million was recorded subsequent to fiscal year-end after audit procedures identified material underclaimed costs. This demonstrates the need for more comprehensive monitoring of SCHIP claiming to ensure its completeness and compliance with eligibility requirements.

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 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

2012-71 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 2012-72

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

COSTS NOT OTHERWISE MATCHABLE (CNOM) – SCOPE LIMITATION

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 $35.1 million (federal share - $17.7 million) in CNOM expenditures during fiscal 2012. 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), as examples.

We were unable to obtain sufficient documentation to evaluate the allowability of the medical services or the eligibility of the service recipients being claimed for $10.9 million (federal share - $5.5 million) in CNOM expenditures. 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 $24.2 million in CNOM claiming was paid through the State's MMIS in fiscal 2012 (federal share - $12.2 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 CNOM claims paid through the MMIS, we were unable to obtain documentation supporting the eligibility of the service recipients with the eligibility criteria established in the State's Global Waiver.

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. These requirements had not been fulfilled by the respective agencies at the time of our audit, and thus, resulted in the above described limitation on the scope of our audit.

We noted the following control deficiencies over certain CNOM claiming populations:

- 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.

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 2012 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.

<u>Questioned Costs</u>: Undetermined

RECOMMENDATIONS

2012-72a Subject all CNOM claiming to the system edits and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.

2012-72b Ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during fiscal 2012 and credit the federal government for any amounts claimed in error.

2012-72c Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditures to the Medicaid program.

Finding 2012-73

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
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 has been unable to substantially complete active case reviews in recent years. For fiscal 2012, only 99 active cases of the 447 that were included in the fiscal 2012 sample has been completed at the time of our audit. No negative case reviews were completed in 2012. EOHHS did not provide evidence that an alternative negative case review plan was submitted for CMS approval.

42 CFR 431.814 requires that the agency submit a basic MEQC sampling plan (or revisions to a current plan) that meets the requirements of the section to the appropriate CMS regional office for approval at least 60 days before the beginning of the review period in which it is to be implemented. The regulations also require that the program submit the monthly list of cases to be reviewed to CMS beforehand. EOHHS was unable to provide evidence that it has submitted a sampling plan or monthly list of cases for review to CMS in accordance with the regulations. EOHHS stated that it last submitted a sampling plan to CMS for approval in 2008.

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 with which States must comply 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

RECOMMENDATIONS

2012-73a Address staffing deficiencies in the MEQC unit to ensure that EOHHS can meet its federal monitoring and reporting responsibilities.

2012-73b Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.

Finding 2012-74

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

NONCOMPLIANCE WITH INPATIENT HOSPITAL AND LONG TERM CARE FACILITY AUDITS

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

RI General Law requires 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. Most hospitals have 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 past years' settlements represents 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, 2012, EOHHS had approximately 73 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 2012, 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 80 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. Minimal field audits were performed in fiscal 2012 and the unit was still backlogged with 2008 desk audits that needed to be completed. Fiscal 2012 per diem rates should have been based upon 2010 desk audits, none of which were completed during the year. Our audit found that the unit's activities in fiscal 2012 were insufficient to ensure that allowable rates were reimbursed to nursing facilities by the Medicaid program.

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

2012-74 Eliminate the current hospital settlement report review and long-term care facility audit backlogs and ensure that sufficient resources are dedicated to ensuring compliance with federal inpatient hospital and long-term care facility audit requirements.

Finding 2012-75

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
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 2012, EOHHS made DSH payments totaling $127 million (federal share - $67 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. Only two of fourteen hospitals certified their uncompensated care costs to EOHHS as required to support the disproportionate share payment made in July 2011. 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 submit to the Secretary an independent certified audit that verifies various DSH-related information. During fiscal 2012, audits for the federal fiscal year ended September 30, 2008 were filed by EOHHS. EOHHS also received audits for the federal fiscal year ended September 30, 2009 in December 2012.

In addition to reaffirming that EOHHS needed to implement policies and procedures to validate the amounts reported for hospital uncompensated care, these audits 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 must address the above control deficiencies relating to disproportionate share payments to hospitals to ensure that such program expenditures comply with federal regulations. These control deficiencies also need to be addressed to ensure that future DSH audits can be completed without limitations caused by incomplete data submitted by hospitals that received DSH payments.

Questioned Costs: None

RECOMMENDATION

2012-75 Improve controls over Medicaid DSH payments by implementing the recommendations made within completed DSH audits.

Finding 2012-76

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

FEDERAL MATCHING REQUIREMENTS - FISCAL AGENT CONTRACT – QUESTIONED COSTS

Federal regulation 42 CFR 433.15(b)(4) 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 2012 audit, we reviewed invoices relating to services being provided under the Medicaid fiscal agent contract. Our review noted that, although EOHHS properly identified the portions of the contract services that qualified for 50% federal participation, clerical errors resulted in federal questioned costs of $20,797. EOHHS should credit the federal government for unallowable charges identified during our audit.

Questioned Costs: $20,797

RECOMMENDATION

2012-76 Credit the federal grantor for unallowable fiscal agent costs charged at the enhanced federal reimbursement rate.

Finding 2012-77

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
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;
- Medicaid recipients share of Medicare coverage;
- payments advancing nursing home providers for the current month's services;
- certain claims approved for payment by DHS 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 2012 (of which $127 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 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;

- Medicare coverage payments on behalf of Medicaid eligible individuals should be paid through the State Accounting System;

- Payments to inpatient hospitals for uncompensated care relating to inpatient and outpatient services, including disproportionate share payments, 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. These enhancements will improve overall control over program expenditures currently being made through fiscal agent manual payments.

Questioned Costs: None

RECOMMENDATIONS

2012-77a 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.

2012-77b Eliminate the practice of processing advances to state-operated providers at fiscal year-end.

Finding 2012-78

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

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 regardless of whether the State has recovered the overpayment from the provider.

Medicaid Eligibility – Questioned Costs

EOHHS uses 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. EOHHS 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 600 and 2,100 each month during fiscal 2012. EOHHS was able to remain reasonably current in resolving differences reported between the two systems each month. There were approximately $8,664 in questioned costs (federal share - $4,534) in cases where individuals remained eligible on the program when they no longer qualified for benefits. EOHHS did not credit the federal grantor on the CMS-64 Report for these questioned costs as required by federal regulations.

RIte Share Program

The State's RIte Share program provides 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 2012, RIte Share expenditures approximated $14 million covering approximately 11,500 individuals. Since inception of RIte Share, EOHHS has accumulated a receivable balance totaling $866,385 (federal share - $453,401) relating to payments made to individuals whose employer health insurance coverage had terminated. EOHHS has not credited the federal government for its share of these unallowable costs.

As part of the RIte Share enrollment process, EOHHS accumulates necessary health insurance information to determine the cost effectiveness of the coverage provided by the employer. Once enrolled, EOHHS periodically confirms that individuals have remained employed and covered by the employer's health coverage. EOHHS does not verify continued coverage with the health insurer.

In most instances, because Medicaid pays individuals prospectively for employer coverage, individuals will usually receive one or more months of payments before EOHHS 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. Under these circumstances, the State may pay both premiums and fee for service claims submitted on behalf of these individuals during the period of ineligibility. Overpayments to individuals that terminated employment coverage should be credited back to the federal government in accordance with federal regulations.

Hospital Settlements

R.I. General Law requires inpatient hospital providers to file cost settlement reports with 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. As of June 30, 2012, DHS had approximately 73 hospital years dating back to fiscal 2004 that had not been brought to final settlement. Finalized settlements generally approximate the amounts originally proposed by the hospitals. At June 30, 2012, EOHHS had net overpayments to hospitals of approximately $1.8 million (federal share - $1,100,000). EOHHS credits the federal grantor for its share of the overpayments only after payments have been received from the hospitals rather than within one year of identifying the overpayment as required by federal regulations.

Special Education Claims

The Executive Office of Health and Human Services pays special education claims on behalf of eligible recipients to school districts in the State. A contractor conducts regular audits of the school districts to determine compliance with program requirements for administrative and program costs reimbursed through Medicaid. The audits often find evidence of non-compliance resulting in questioned costs. EOHHS chooses not to credit the federal grantor for the questioned costs unless the audits identify errors deemed to be systematic and potentially wide-spread. EOHHS was unable to provide a quantification of questioned costs determined through these audits.

Outstanding Checks

The State's fiscal agent normally provides EOHHS Financial Management with a list of checks outstanding for more than 180 days. The fiscal agent has been unable to provide the outstanding checklist for an extended period due to flooding of its headquarters in March 2010. Consequently, EOHHS has not credited the federal grantor for amounts relating to uncashed checks for fiscal 2011 and 2012. Subsequently, EOHHS obtained an outstanding check report dating back to 2009 in January 2013. Questioned costs relating to outstanding checks that exceed the one year period for crediting the federal grantor were $45,805 (federal share - $23,970).

Questioned Costs: $1,581,905

RECOMMENDATION

2012-78 Reimburse the federal government for program overpayments within the time frame mandated by federal regulations.

Finding 2012-79

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

MANAGED CARE CONTRACT SETTLEMENTS

The State provides health coverage for certain Medicaid eligible individuals through health maintenance organizations (HMOs). Capitated managed care expenditures totaled $615 million or 32% of total program expenditures. Capitation fee schedules are negotiated annually and 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 reject 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. 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. EOHHS currently expects to begin receiving HMO encounter data in a manner that will allow it to be subjected to the claiming edits operational in the MMIS before the end of fiscal 2013.

Questioned Costs: None

RECOMMENDATIONS

2012-79a 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.

2012-79b 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.

Finding 2012-80

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
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 paid approximately $178 million for the more than 13,300 individuals enrolled in this program during fiscal 2012. Most individuals enrolled in Rhody Health are eligible under Medicaid because they qualify for federal Supplemental Security Income benefits. These individuals are mostly disabled adults that typically have long-term continued Medicaid eligibility. The goal of Rhody Health is to provide cost-effective medical management of this population while expanding the network of available providers.

The State currently pays monthly capitation amounts ranging between $864 to $1,395 depending on criteria such as age, gender, and medical condition. Although the Rhody Health monthly capitation is paid through the MMIS, identification of eligible individuals and the determination of capitation payment levels are not coded into the MMIS as they are for RIte Care. 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 Rhody Health enrollees are determined based upon documentation maintained external to the State's systems.

The State believes that enhancements to the Rhody Health enrollment process in combination with specific program coding in the MMIS are the most effective means of improving control over this managed care population.

Questioned Costs: None

RECOMMENDATION

2012-80 Improve systemic controls over Rhody Health Partners eligibility determination and capitation payments.

Finding 2012-81

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

BEHAVIORAL HEALTH FACILITIES AND DEVELOPMENTALLY DISABLED GROUP HOMES LICENSING

42 CFR sections 431.107 and 447.10 and section 1902(a)(9) of the Social Security Act require that providers furnishing services to Medicaid recipients be licensed in accordance with Federal, State, and local laws and regulations in order to receive Medicaid payments. The Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) licenses behavioral healthcare providers and providers of services to adults with developmental disabilities within the Medicaid program. The licenses authorize each agency to operate specific types of programs and services. BHDDH has promulgated rules and regulations titled "Licensing Procedure and Process for Facilities and Programs Licensed by the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (as amended July 2011)" (regulations) to create a uniform licensing process for all facilities and programs licensed by BHDDH. Licenses issued are effective for no more than a two year period. The rules and regulations apply to all facilities, programs and organizations that provide services for adults with developmental disabilities or mental health services for adults who are not in the custody of the Department of Children, Youth, and Families (DCYF) and/or substance abuse services for children and adults. The regulations are designed to ensure the effective operation of provider facilities and programs in the interest of public accountability, health, safety and welfare. BHDDH's Office of Licensure and Standards licenses, monitors and otherwise performs its administrative licensing function under Rhode Island General Laws Section 40.1-24.

All licensed providers are subject to periodic monitoring and review to ensure compliance with BHDDH's regulations. Biannual reviews play an important role in the granting of licenses. Providers must meet regulatory requirements to be issued an initial license or to have an existing license renewed.

Rhode Island General Laws section 42-35-14 allows a provider to continue to provide services when its license expires provided that the provider has submitted a timely license renewal application.

Departmental records showed that thirty-five (35) licenses out of a total of seventy-seven (77) providers licensed by BHDDH had expired as of June 30, 2012. Although management believes that all providers with expired licenses had submitted timely renewal applications as required by Rhode Island law to continue to provide services, no system exists to confirm that timely renewal applications had actually been filed by all providers with expired licenses.

BHDDH relies heavily upon reviews of provider agencies to make license renewal determinations. According to departmental records, ten (10) agency reviews were in varying stages of completion as of July 2012. The majority of departmental providers have not been reviewed in the past two years to evaluate their compliance with departmental regulations. Agency reviews are complex, time-consuming and multidisciplinary and may take longer than one month to complete. The survey and support staff available to perform reviews has been limited both in the numbers of required surveyors and the multidisciplinary skills required to perform the variety of clinical determinations required by departmental regulations. For example, surveyors with clinical and behavioral health skills, such as registered nurses and clinical social workers, would be required to adequately measure agencies against certain applicable departmental regulations. Administratively, licensing records are not assembled and summarized to readily access licensing and review status.

Given the numbers of provider agencies and the complexity of the agency reviews, BHDDH needs to reassess the additional resources required to ensure that provider licenses are maintained current and supported by documentation of compliance with agency adopted regulations as mandated by federal regulations.

Questioned Costs: None

RECOMMENDATION

2012-81 Address staffing deficiencies in BHDDH licensing division to ensure that all providers are licensed timely in accordance with promulgated rules and regulations as required for participation in the Medical Assistance Program.

Finding 2012-82

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

ELEANOR SLATER HOSPITAL – MEDICAL ASSISTANCE CLAIMING

The Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) operates the Eleanor Slater Hospital (the hospital), the State's only publicly-operated hospital. The majority of patients residing in the hospital are eligible for Medical Assistance making the federal program the predominant source of hospital revenue. BHDDH bills Medicaid, through the Medicaid Management Information System (MMIS), based on an all-inclusive per diem hospital rate similar to the manner in which nursing facilities bill for services. The hospital is reimbursed through Medicaid based on a cost reimbursement methodology that is reviewed in conjunction with their preparation of a Medicare cost report for each fiscal year. Once the report is audited by a Medicare fiscal intermediary, the final eligible per diem rate for the year is determined and the hospital performs its final settlement with the Medicaid program.

In recent years, the final reimbursement has been determined by BHDDH and reimbursed through a manual payment by the State's Medicaid fiscal agent with no reprocessing of the detailed claims submitted by BHDDH. This has weakened the overall support for these final settlements and undermined the detailed audit trail as the underlying claims are not reprocessed at the final per diem rate amount determined for the fiscal year. In fiscal 2012, hospital per diem rates in the MMIS were not adjusted from prior years and BHDDH did not determine in a timely manner the reasonableness of the rate being reimbursed in the system based on actual costs and patient census experience. This resulted in an estimated settlement amount of approximately $11 million being recorded at June 30, 2012 by the hospital for additional amounts owed for Medicaid claims submitted during fiscal 2012. BHDDH had difficulty documenting and explaining the reasons for the large reimbursement due from Medical

Assistance. In addition, the State's cash management was negatively impacted by not claiming the federal share of this amount from Medicaid in a timely manner during the fiscal year.

BHDDH, in conjunction with the Executive Office of Health and Human Services, the State agency responsible for the administration of the Medicaid program, should examine the hospital's current billing process to ensure more timely and accurate billing to Medicaid. Improvements to be considered should include a quarterly evaluation of the rate being charged to Medicaid, timely adjustments to rates when material changes occur, complete readjudication of claims for approved rate changes, earlier completion of hospital cost reports and final rate determination, and ensuring that claims for all Eleanor Slater Medicaid-eligible patients can be processed through the MMIS.

Questioned Costs: None

RECOMMENDATIONS

2012-82a Implement improved processes to ensure more timely and accurate billing to Medicaid for Eleanor Slater Hospital.

2012-82b Ensure that all Medicaid reimbursements to Eleanor Slater Hospital are based on claims processed through the MMIS.

Finding 2012-83

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
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 2012, contracted residential placements approximating $30 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 2012 to determine the percentage of contracted placement per diem rates that should be allocated for Medicaid activities. The allocation percentages applied to the fiscal 2012 provider payments were based on time-study results derived during fiscal 2011. DCYF contracted with a consultant 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 results establish the basis for 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:

- In four out of 10 cases in our sample, sufficient provider documentation of weekly individual or group counseling sessions performed within the contracted placement was not provided (federal questioned costs - $7,388).

- For those providers where some level of weekly individual or group counseling sessions was documented, 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. Monthly billings for certain limited placements ranged as high as $12,000 per month.

- 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 2012 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.

Questioned Costs: $7,388

RECOMMENDATIONS

2012-83a Develop a plan that would facilitate payment for Medicaid eligible services conducted within DCYF contracted placements through the MMIS.

2012-83b Develop allowable medical services with defined service units and appropriate reimbursement rates available for DCYF provider groups to bill directly to the MMIS.

2012-83c 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 2012-84

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

DOCUMENTATION OF MEDICAID ELIGIBILITY DETERMINATIONS

Individuals or families applying for Medical Assistance benefits, in most cases, are required to complete the appropriate application form (DHS-1, DHS-2, or Marc-1 application forms). These application forms gather the necessary information (household demographic, citizenship, income, resources, etc.) to make an accurate determination of eligibility for the program. Medicaid eligibility technicians review the forms, including the supporting documentation, for completeness and enter the information into the State's INRHODES system. This information ultimately determines whether the applicant is eligible for Medicaid benefits.

We reviewed the case files (program application and supporting documentation) for a sample of 25 individuals. We evaluated the completeness and accuracy of the information obtained from these individuals at the time of their eligibility determination in effect for fiscal 2012. We assessed whether (1) the required program application had been completed, (2) documentation supporting the information included on the application had been obtained, and (3) the information reported in the INRHODES system matched the data provided by the applicant.

We noted the following documentation deficiencies:

Documentation deficiencies	Exceptions noted in sample of 25 cases reviewed
Initial application or eligibility recertification	7
Documentation of household financial resources (bank accounts, vehicles, property, etc.)	7
Documentation regarding the absent parent, when applicable	3
Documentation of household employment (i.e., paystubs, W-2 forms, etc.)	2
Documentation of citizenship	2
Location of eligibility file	1

The Medical Assistance application forms require applicants to provide documentation of their reported citizenship, income, resources, living arrangements, and expenses. This application process and the program eligibility technicians that perform the initial intake processes for Medicaid represent a vital control over program eligibility. EOHHS should consider further training to reinforce the specific documentation that is required to be obtained in conjunction with the application and recertification processes. Also, EOHHS should consider developing a more systematic process for storing supporting documentation to allow for improved safeguarding and access to the data obtained.

Questioned Costs: None

RECOMMENDATION

2012-84 Improve controls over required eligibility documentation obtained during the Medical Assistance application process.

Finding 2012-85

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 and 2011-2012
Federal Award Numbers: 1105RI5MAP and 1205RI5MAP
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 2012 expenditures for home and community based services totaled in excess of $300 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 or home attendant care services). In certain instances, home-based service claims cover a period of service (e.g., a month) rather than a specific date for each unit of service provided. This lack of claim detail made it impossible to determine whether incompatible services were paid in these instances. In instances where detailed claim data showed home and community based services paid for when the Medicaid individual was hospitalized, the MMIS is not designed with edits to prevent payment for those services.

Controls over this claim group could be improved by requiring home and community service providers to detail specific service dates when submitting claims to the MMIS. This detail with enhanced edits in the MMIS would enhance control by identifying incompatible services before payment.

Enhanced MMIS system edits should be programmed to prevent home and community based services from being billed when individuals are receiving institutional care (hospital, hospice, nursing facility, etc.). 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

2012-85 Strengthen system processing controls over home and community based medical and support services to enhance overall program integrity for this claim group.

Finding 2012-86

RESEARCH AND DEVELOPMENT CLUSTER:
National Aeronautics and Space Administration – Other Research and Development Awards, CFDA 43.000
National Estuary Program – CFDA 66.456
Administered by: University of Rhode Island

MATCHING REQUIREMENTS

Matching or cost sharing includes requirements to provide non-Federal contributions of a specified amount or percentage to match Federal awards. Matching may be in the form of allowable costs incurred on in-kind contributions (including third party in-kind contributions). We noted that two contracts we selected for testing had not met the cost-sharing requirement by the end of the contract term in accordance with the respective agency agreements. The total amount of cost-sharing not met during fiscal year 2012 was $31,873.

Cost sharing is a requirement between the Federal agencies and an entity which is explicitly stated within the contract and required to be met by contract end. When cost sharing requirements are not met prior to program end date, the entity is in violation of the terms of the agreement with the agency. Each specific agency determines the penalties of violating the cost-sharing agreement.

The cause of this condition has been attributed to the University not having a proper policy to ensure that cost-sharing is met by the end of the program period. As a result, the University failed to meet its cost-sharing obligation on two of its programs.

Questioned Costs: $31,873

RECOMMENDATION

2012-86 We recommend that management of the University implement policies and procedures to ensure that proper cost-sharing is established by the end of the program.

Finding 2012-87

RESEARCH AND DEVELOPMENT CLUSTER:
State Energy Program – CFDA 81.041
Administered by: University of Rhode Island

IDENTIFICATION OF ARRA FUNDS TO SUBRECIPIENTS

Recipients who provide American Recovery and Investment 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 2012. The total amount of the ARRA funds provided to the subrecipient during fiscal year 2011 was $46,971.

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: $46,971

RECOMMENDATION

2012-87 We recommend that management of the University implement policies and procedures to ensure that the proper information is supplied to subrecipients.

(Note: - this finding is reported as part of the Research and Development (R&D) Cluster; however, the funding was passed through the State to the University of Rhode Island. Therefore, the Schedule of Expenditures of Federal Awards (SEFA) does not reflect CFDA 81.041 as part of the R&D Cluster as more fully described in Note 3 to the SEFA.

Corrective Action Plan

Finding 2012-1 – *Corrective Action*

2012-1a

A major accomplishment this past fiscal year was upgrading the current modules from Oracle Version 11 to Version 12. This was a significant upgrade to the E-Business Suite considering the Oracle resources that we currently have on board.

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 of 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.

Though we still are looking at attaining funding and resources to implement the future modules, we also have to look strategically, if the funding is not provided, on whether or not the State needs to take a different approach at the whole Oracle implementation and whether or not there are other methods of attaining internal efficiencies. We will look at other alternatives in FY14 and develop a future strategy on the Oracle implementation.

Anticipated Completion Date: TBD

2012-1b

DOIT has had difficulty in recruiting and retaining Oracle resources. To address this issue, we are creating three new positions to reflect the salary requirements to attract these resources. Two of the positions are for functional and technical resources while the other position is for a database administrator. The positions are currently scheduled for public hearing. Upon receiving public hearing approval, DOIT will request FTE's and post these positions to hire additional staff.

Anticipated Completion Date: August 2013

2012-1c

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 FY2014.

Anticipated Completion Date: N/A

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2012-2 – *Corrective Action*

The Office of the General Treasurer improved the control over cash receipts and disbursements by developing a process improvement that segregated certain duties to DLT and by creating compensating controls while meeting the required cash movement timelines. We will attempt to do the same for the TANF account and the TDI benefits payments. The time sensitivity of the required cash movements remains as a barrier.

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 all functions are performed by different individuals.

Anticipated Completion Date: June 30, 2013

Contact Person: Chris Feisthamel, COO, Office of the General Treasurer
Phone: 401.462.7660

Finding 2012-3 – *Corrective Action*

The recently formed Federal Grants Management Office (Office) within the Office of Management and Budget has been charged with the oversight of federal program administration. As a result, the Office will review the statewide federal grant administration process and implement additional controls where applicable and feasible.

Anticipated Completion Date: June 30, 2014

Contact Person: Laurie Petrone, Federal Grants Management Office
Phone: 401.574.8423

Finding 2012-4 – *Corrective Action*

The Controller's Office disagrees with the significant deficiency characterization regarding this finding.

The $6.5 million referenced in the finding is misleading to the reader as it includes proposed adjustments by the auditors that the State did not accept as capital asset additions since the related expenditures only preserved the utility of the assets (i.e., maintenance and repairs). Furthermore, it is a minor amount considering the asset base of the reporting entity.

The Controller's Office disagrees that there is an incremental benefit to allowing the agencies to have direct access to the Capital Asset Module, which is cumbersome to use, versus the reporting that is currently available. Particularly since the reporting was specifically developed to meet the needs of the agencies.

The Controller's Office has significantly increased awareness regarding controls over capital assets by increasing the frequency of inventories and disagrees that the agencies should perform periodic physical inventories as well.

Anticipated Completion Date: N/A

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.2271

Finding 2012-5 – *Corrective Action*

See corrective action plan for Finding 2012-82.

Finding 2012-6 – *Corrective Action*

See corrective action plan for Finding 2012-77.

Finding 2012-7 – *Corrective Action*

The fiscal agent is contractually obligated to perform a SOC II Type II audit annually by an independent third party. The report identifies any vulnerability in the controls the fiscal agent has in place for all aspects of its operation. The reports have indicated that all the proper controls are in place and the controls have been tested and validated by the auditors. In addition, the fiscal agent prepares monthly stewardship reports documenting recoveries made on the State's behalf. Quarterly Contract Monitoring reports provide a summary of the fiscal agent's activities for the prior quarter.

EOHHS agrees that there is a need to dedicate additional personnel to internal control functions to ensure proper administration and compliance with federal and program regulations and will work with the newly created Program Integrity Unit to develop processes to address the deficiencies cited in this finding.

Anticipated Completion Date*:* Ongoing

Contact Person: Ralph Racca, Administrator,
Phone: 401.462.1879

Finding 2012-8 – *Corrective Action*

2012-8a

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. This effort is ongoing and is resource dependent.

Anticipated Completion Date: TBD

Contact Person: Ernest Quaglieri, Chief Information Security Officer
Phone: 401.462.9292

2012-8b

The preparation of a corrective action plan is also resource dependent and funding depending.

Anticipated Completion Date: TBD

Contact Person: Ernest Quaglieri, Chief Information Security Officer
Phone: 401.462.9292

2012-8c

Currently, all new projects come through the PRC (Project Review Committee). Any new project that gets approved must provide the Chief Information Security Officer (CISO) a written security plan for review and approval.

DOIT now requires that all new systems and major changes require signoff by the CISO. However, due to limited staff, we are not able to be retroactive in review systems already in place and provide a certification.

Anticipated Completion Date: TBD

Contact Person: Ernest Quaglieri, Chief Information Security Officer
Phone: 401.462.9292

2012-8d

Currently, DOIT has one Chief Information Security Officer (CISO) and two FTE's assisting the CISO. One of these two additional FTE's was hired in FY12 as part of DOIT budget request and to address a similar audit finding. We will continue to pursue adding additional FTE but are subject to budget and FTE constraints.

Anticipated Completion Date: On Going

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2012-9 – *Corrective Action*

2012-9a

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 a better change management processes. We have started the process of reviewing our options with the product line as the current product line has been re-marketed into another product line. We have started discussions with IBM on a migration path or alternate product line to migrate too.

The Department of Labor and Training is also addressing issues with change management in their audit finding, 2012-24. 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.

Anticipated Completion Date: June 30, 2014

2012-9b

DOIT acknowledges that improvements need to be made to the original software implementation to better improve the program change control originally put into place. We currently have maintenance and support on those products. However, those products are now a new product line. In order to implement this finding, we are dependent on funding and resources. As mentioned in 2012-9a, the quality control group in place in 2006 is no longer in existence due to staff leaving state service. We will request funding to upgrade/replace the current environment, but will need to look at how pool resources across other state agencies to achieve the recommendation. As mentioned in 2012-24, 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, 2014

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2012-10 – *Corrective Action*

2012-10a

When the Oracle E-Business suite was implemented, the customized workflows were not built with the versioning feature enabled. If they were built with the versioning provision, versioning would have been much simpler to implement. Thus, the current work flows in the state that they are in can't be versioned without going through each and every workflow and modifying them to use this feature. This will be a significant project and with the very limited staff that we have that is familiar with workflow, this is not feasible at this time. If we are able to get additional staff as mentioned in 2012-1b, we will put this in the project queue. However, at this time, we are not able to address this finding.

Anticipated Completion Date: N/A

2012-10b

DOIT has implemented certain changes to the responsibilities of privileged users in RI-FANS in FY2012. These changes included creating a new responsibility with additional restrictions to limit functions performed.

With the recent upgrade to Oracle E-Business Suite 12, we will explore the new auditing features Oracle has built in this release for auditing. Based on those finding will implement those features to address 2012-10a.

Anticipated Completion Date: December 30, 2013

2012-10c

RIFANS allows users to delegate access. Such an example is a vacation rule in which a user delegates his or her authority to another user. On a given day a user can turn on or off a rule. We are not aware of any current feature within the business suite that would allow for monitoring of such features. A change was made last year to ensure that someone could not delegate to someone with lower authority. We would have to investigate if version 12 has such functionality as we do not know if this is possible in the environment we are in.

Anticipated Completion Date: February 28, 2014

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2012-11 – *Corrective Action*

As part of the Fiscal Year 2013 budget request, the Division of Taxation received funding over the next five fiscal years 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.

2012-11a

The Division of Taxation has reviewed DoIT policy # 05-02 – Data Categorization and it is our feeling that the data should be classified as "sensitive" and categorized as "critical". Data classified as sensitive requires 256 bit or higher encryption. Based on section 10.3 the Division of Taxation will work with DoIT to implement the needed security procedures base on DoIT policy #05-02.

The new integrated tax system utilizes Secure Socket Layer (SSL)/TLS for in-transit data encryption, and complies with IRS Publication 1075, FIPS 140-2, and IETF TLS (RFC 5246).

The integrated tax system's platform implicitly supports encryption of network traffic. SSL is utilized to encrypt the solution for all communications over the HTTP protocol. SSL is public key infrastructure which relies on certificate authority for verification of certificate trust. The solution uses strong SSL Certificates in compliance with FIPS 140-2 and IRS Publication 1075.

2012-11b

The Division of Taxation has contacted DoIT to provide options for the Division of Taxation to encrypt taxpayer information on our network. The Division of Taxation has an outstanding service request number 190591. Once the Division of Taxation has received recommendations from DoIT we will start the implementation process.

2012-11c

The Division of Taxation has worked with DoIT to come up with a new process that will limit manual intervention and track any changes made to the electronic files.

This process will be temporary until the new integrated tax system is fully implemented. Due to the mainframe limitations, Taxation is unable to completely remove the manual aspect of processing these returns. When the mainframe is eliminated, Taxation will modify the current processes and remove the manual intervention required to process these returns through the mainframe.

2012-11d

The Division of Taxation has worked with DoIT to come up with a new process that will provide a process to report on any changes to the electronic files.

This process will be temporary until the new integrated tax system is fully implemented. Due to the mainframe limitations, Taxation is unable to completely remove the manual aspect of processing these returns. When the mainframe is eliminated, Taxation will modify the current processes and remove the manual intervention required to process these returns through the mainframe.

2012-11e

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. Effective January 1, 2013, the Division of Taxation amended the procedures to have E-Government Section download the files from NAIC to ensure better segregation of duties. The returns will then be reviewed and verified by the Corporate Tax Section.

<u>Anticipated Completion Date:</u>	TBD based on the availability of DoIT personnel
Contact Person:	Dan Clemence Principal Revenue Agent Phone: 401.574.8732

Finding 2012-12 – *Corrective Action*

As part of the Fiscal Year 2013 budget request, the Division of Taxation received funding over the next five fiscal years 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.

2012-12a

Over the past year, the Division of Taxation has dedicated staff from the Processing and Accounting Sections to focus on reconciling and processing W-3s from tax year 2009 and 2010. The Division of Taxation has generated over 200 assessments for approximately $650,000.

The new integrated tax system will include a comprehensive tax reconciliation modular that will allow the Division of Taxation to process and audit W-3 returns received from employers in a more timely manner.

2012-12b

Taxation met with DoIT programming to discuss the process to accomplish this recommendation and will be submitting a Clear Quest Request. This request will be prioritized along with the other outstanding requests.

2012-12c

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 increased 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 have increased the total number of returns on error throughout the year. During the past ten months the Division of Taxation has reduced the number of errors from over 64,000 to under 13,300. The Division will continue to monitor the error rate and make appropriate modifications to the business rules that flag error returns.

2012-12d

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 ran a special automated program before issuing the withholding booklets for calendar year 2013 to update all withholding agents' filing methods.

Anticipated Completion Date: TBD

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2012-13 – Corrective Action

As part of the Fiscal Year 2013 budget request, the Division of Taxation received funding over the next five fiscal years for an integrated tax system. This system will, among other things, overhaul the front-end entry systems, accounting systems and interface with the data warehouse. These improvements will address many of the Auditor General's Findings and meet their recommendations.

2012-13a

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.

2012-13b

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.

2012-13c

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 to appeal the assessment. The Division of Taxation will examine the feasibility of eliminating or reducing the 60-day waiting period. After the implementation of the integrated tax system, the assessments created in the data warehouse will automatically be posted to the integrated tax system.

Anticipated Completion Date: TBD

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2012-14 – Corrective Action

The Division of Taxation follows a detailed process to identify delinquent accounts for write-offs. The main criteria for writing off a receivable is the number of days that receivable has been active; the Division of Taxation also checks to see if the case is currently receiving payments and/or is in a hearing status. The Division of Taxation will review and evaluate the write-off procedures during fiscal year 2013 and make the appropriate modifications.

Anticipated Completion Date: June 30, 2013

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2012-15 – Corrective Action

As part of the Fiscal Year 2013 budget request, the Division of Taxation received funding over the next five fiscal years 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.

The Division of Taxation balances cash receipts received to RIFANS on a daily basis. Due to the number of systems used to manage the 56 different taxes and fees administered by the Division of Taxation, it is impossible to balance these receipts to the appropriate tax system in a timely manner. The integrated tax system will allow the Division of Taxation the ability to reconcile receipts reported with RIFANS on a daily, monthly and annual basis.

Anticipated Completion Date: TBD

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2012-16 – 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 2012-17 – Corrective Action

A finding concerning the IT governance and security of the Division of Taxation's information systems was communicated confidentially due to the potential impact on taxpayer compliance.

Finding 2012-18 – ***Corrective Action***

The Department will be engaging a management consultant to conduct a high level review of the following key issues:

1. An evaluation of the benefits and risks associated with each potential operational option (i.e., maintaining the status quo; enhancing the design and configuration of the two systems for better efficiency; using FMS for financial reporting purposes; or modifying RIFANS to accommodate RIDOT's project accounting needs, including upgrading the RIFANS purchasing module, implementing an integrated timekeeping system, and activating Accounts Receivable and Grants modules.

2. An analysis of the costs, time frames, technical expertise, and RIDOT staff resources necessary to accomplish each of the options, other than status quo, outlined in #1 above.

It must be emphasized that implementing any of the options, other than status quo, will require an investment of significant State funds, which currently are not available because of budgetary constraints. Additionally, at such point in the future that monetary resources become available, the dedication of significant staff time (i.e., RIDOT Financial Management Office, State Controller's Office, and DOIT), as well as a commitment that this initiative will be a top priority, will be required for the duration of the project.

Anticipated Completion Date**:**	To be determined.
Contact Person:	Robert Farley, Chief Financial Officer Phone: 401.222.6590

Finding 2012-19 – ***Corrective Action***

2012-19a

Financial Management will continue to strengthen the control procedures over financial reporting to ensure accurate identification of accounts payable, amounts due from the federal government and classification of fund balance categories.

To better address this financial reporting finding, as well as the infrastructure accounting issues identified in findings 2012-20a through 2012-20e, the RIDOT Financial Management Unit hired a senior-level accountant position in October 2012, which was part of RIDOT's FY 2011 corrective action plan. However, this individual has been assigned to address critical financial issues at the Rhode Island

Public Transit Authority and, to date, has not been available to assist in implementing these corrective actions.

Anticipated Completion Date: December 31, 2013

2012-19b

Financial Management will continue to improve controls over the estimation of the liability at fiscal year-end for legal settlements. Where applicable, Financial Management will review its controls related to purchase order items that are part of a legal settlement and revise if warranted.

Anticipated Completion Date: December 31, 2013

2012-19c

Financial Management will analyze the components of fund balance more frequently during the fiscal year.

To better address this financial reporting finding, as well as the infrastructure accounting issues identified in findings 2012-20a through 2012-20e, the RIDOT Financial Management Unit hired a senior-level accountant position in October 2012, which was part of RIDOT's FY 2011 corrective action plan. However, this individual has been assigned to address critical financial issues at the Rhode Island Public Transit Authority and, to date, has not been available to assist in implementing these corrective actions.

Anticipated Completion Date: December 31, 2013

2012-19d

Financial Management has made great strides in improving controls over the GARVEE reconciliation process over the past few fiscal years, and will continue to improve the process.

Anticipated Completion Date: June 30, 2013

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2012-20 – *Corrective Action*

2012-20a

Financial Management will continue to improve controls over the recording of infrastructure investment in the State's financial statements.

Anticipated Completion Date: June 30, 2013

2012-20b

Financial Management will continue to improve controls for determining when infrastructure assets are placed in service.

For FY 2012, Financial Management utilized the date of substantial completion identified on RIDOT's "Substantial Completion and Request for Partial Acceptance / Final Inspection" form 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.

Anticipated Completion Date: June 30, 2013

2012-20c

Financial Management will continue to refine, wherever possible, its methodology of accumulating and linking actual design and construction costs related to a project. As noted by the Auditor General's Office, the current process is necessary primarily because of certain systems limitations.

Anticipated Completion Date: June 30, 2013

2012-20d

The Department does not dispute the auditors' observation that a properly aligned automated systems approach would be a more efficient way to account for infrastructure assets. RIDOT is currently in the process of implementing a comprehensive Asset Management initiative that includes assessing information technology needs.

An internal RIDOT Asset Management Council has recently been established to implement this initiative. One of the Council's standing subcommittees is charged with evaluating infrastructure accounting issues, including how to integrate an automated systems approach.

Anticipated Completion Date: To be determined

2012-20e

Financial Management is in the process of establishing an impairment policy that conforms with the criteria outlined in generally accepted accounting principles applicable to governmental entities.

Anticipated Completion Date: June 30, 2013

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2012-21 – *Corrective Action*

DoIT currently has a Disaster Recovery and Contingency plan in place. Schedule Disaster Recovery tests are performed in New Jersey for testing and improving recovery methods on critical systems. Both the FMS and PMP systems are scheduled for Disaster Recovery tests in April 2013.

Anticipated Completion Date: April 30, 2013

Contact Person: Keith Graham, DoIT
Phone: 401.222.6935

Finding 2012-22 – *Corrective Action*

2012-22a

Discussions and analysis will continue regarding the potential implementation of automated controls in lieu of the manual intervention currently required in certain situations. Manual intervention can occur for a variety of reasons, and budgetary constraints are a limiting factor for the Department's ability to automate the process.

Since September 2011, as a compensating control, the Financial Management Office's Accounts Payable Unit has kept a log, including (a) "before and after" screen shots showing the change that was made; (b) sign-offs from both the processer and supervisor; and (c) a notation on the log indicating why the file needed to be changed.

Anticipated Completion Date:	To be determined
Contact Person:	Loren Doyle, Administrator for Financial Management Phone: 401.222.6590

2012-22b

Approval Hierarchies will need to be reviewed during the FMS system upgrade to Oracle Release 12. Accounts Payable workflows will be implemented during the Release 12 upgrade. Also, existing reports have been modified to determine discrepancies in invoice payment amounts between FMS and RIFANS. 222-6935

Anticipated Completion Date:	June 30, 2014
Contact Person:	Thomas Lewandowski, Agency IT Manager Phone: 401.222.6935

Finding 2012-23 – *Corrective Action*

2012-23a

In many cases, projects authorized by the Federal Highway Administration (FHWA) are funded with multiple appropriation codes or program codes referred to as FSAN's within the Department of Transportation's Financial Management System (FMS). Typically the program codes available to States are changed by Federal Highway Administration each time the Congress passes a new Transportation Bill.

Over the last several years, funding to the states has been provided in the form of numerous continuing resolutions, which many times has resulted in changes to the program codes. Since the passage of MAP-21, new program codes have been created, making it difficult to fund a single project with a single program code.

When a federal project funded with a specific program code exceeds the available funds within that code, the project must be modified with a different program code that the project qualifies for.

It is inevitable that, when requesting reimbursement from FHWA, the billing may need to be split by multiple program codes. This occurs when a billing is uploaded to FHWA through its billing system and a specific project (or projects) exceeds the federal amount programmed for the respective project(s). This generates an error log within the billing system which requires action on RIDOT's part in order to successfully upload the billing into FHWA system.

The split must take place on the billing text file and performed manually. Currently, when such manual intervention takes place, RIDOT Grants Unit staff undertakes the process of performing the billing, printing the error log, and filing the error log with the individual billing file, along with any changes that have been made to the text file.

The text file is updated manually by changing the program code on the text file. If there is an amount of funds available in the older program code, RIDOT bills all available funds remaining in that code and the excess is billed to the new code. If the all of the lines in the modified text file do not equal the information in the project header record and if the dollar amount does not reconcile with that same header information, the FHWA billing will report a fatal error and the billing is not uploaded.

Financial Management, in order to further tighten control over such changes, will create a log that will be stored on the RIDOT "S" drive in the Grants folder that will indicate when a project charge is moved from one program code to another. It will delineate which program code the charge was moved to, along with the date and header information of the particular billing.

Anticipated Completion Date: June 30, 2013

2012-23b

It is currently not possible to modify FMS to accommodate 'no changes" to the text file. Federal Highway is aware that manual file modification is necessary to change the program codes on occasion in order to bill the proper code. To be able to effect such a change to FMS would require a major modification to the program. This issue has been discussed at length with Tom Lewandowski of RIDOT's IT section and he has cautioned that this type of customization would likely void the support received from ORACLE.

Anticipated Completion Date: To be determined

2012-23c

To be able to effect such a change to FMS would require a major modification to the program. We have discussed this at length with Tom Lewandowski of our IT section and he informs us that any such customization would void the support received from ORACLE.

Anticipated Completion Date: To be determined

Contact Person: John Megrdichian, Administrator for Financial Management
Phone: 401.222.2496

Finding 2012-24 – *Corrective Action*

The Department of Labor and Training's DoIT Staff with work with DoIT's Enterprise Staff to jointly address this finding by working to meet the requirements set forth in Finding 2012-24. 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 I5 computer systems.

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 identify new tools and implement these tools to meet the requirements.

Anticipated Completion Date: June 30, 2014

Contact Person: Robert M. Genest
Administrator, MIS
401.462.8012

Finding 2012-25 – *Corrective Action*

As of January 31, 2013, TDI direct deposit transmissions are being sent to the Bank of America using secure FTP with PGP. The files are sent directly from the TDI I5 using Linoma Software's GoAnywhere Director.

We are currently in the process of modifying the TDI pospay and Employer Tax Refund pospay transmissions, converting them from dial-up modem to Linoma Software's GoAnywhere Director. We have been in contact with the Bank of America and have exchanged file format requirements. We anticipate these transmissions to be tested before the end of March 2013

Anticipated Completion Date:	March 31, 2013
Contact Person:	Robert M. Genest Administrator, MIS 401.462.8012

Finding 2012-26 – *Corrective Action*

Effective 4/19/2012, the RI Commissioner of Education assumed control of the District's finances. Soon after, in conjunction with the Superintendent of Schools, a new Finance Director was hired beginning 9/1/2012.

The Finance Director will prepare and submit to the RI Department of Education, by the 15th of each month, a detailed budget to actual financial report for revenues and expenditures for all funds. In addition, weekly meetings will be held between the RI Department of Education and the Central Falls Administration to discuss the status of the current years' budget especially the financial impact on recent developments.

The Finance Director will provide the same monthly financial reports to the Central Falls Board of Trustees accompanied by a written narrative, summarizing the status of the fiscal year's budget. A budget update will be a regular agenda item each month at the Board of Trustees meeting.

Contact Person:	Michael Petrarca, Finance Director Phone: 401.727.7700

Finding 2012-27 – *Corrective Action*

The District will develop a Fixed Asset Management Policy that will establish fundamental guidelines and practices for properly accounting for and reporting of assets. The policy will include: 1) roles and responsibilities; 2) capitalization guidelines; 3) classification of capital assets; and 4) recordkeeping requirements.

The District will transfer all fixed asset data that it presently maintains in Microsoft Excel to the Unifund capital asset accounting system. The district will also perform annually, a physical inventory of each department's fixed assets.

Contact Person:	Michael Petrarca, Finance Director Phone: 401.727.7700

Finding 2012-28 – *Corrective Action*

The Authority will fund the Operating Reserve and Debt Service Reserve components noted above provided there is sufficient cash flow.

Contact Person: James McCarvill, Executive Director
Rhode Island Convention Center Authority
Phone: 401.351.4295

Finding 2012-29 – *Corrective Action*

The Authority has set up a fax notification process from the bank directly to the Executive Director for all wires affecting Authority accounts.

The Authority implemented a system of reporting bank and general ledger balances to the Executive Director and the Board on a monthly basis.

Contact Person: Buddy Croft, Executive Director
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2012-30 – *Corrective Action*

The Authority agrees with this recommendation. New procedures for the reconciliation process have been implemented.

Contact Person: Buddy Croft, Executive Director
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2012-31 – *Corrective Action*

The Authority agrees with the recommendation. We are currently researching financial systems to replace our current accounting package that will ensure that this issue is rectified.

Contact Person: Buddy Croft, Executive Director
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2012-32 – *Corrective Action*

The Authority agrees with the recommendation.

Contact Person: Buddy Croft, Executive Director
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2012-33 – *Corrective Action*

Management has augmented its year-end closing procedures to include a reconciliation of net assets between the Authority's internal financial records and the audited financial statements.

Contact Person: David Piccerelli, Executive Director
Rhode Island Public Telecommunications Authority
Phone: 401.222.3636

Finding 2012-34 – *Corrective Action*

Management has augmented its year-end closing procedures so that all revenues and expenses will be recognized and recorded appropriately. Management was not aware of the proper treatment of severance payments that span fiscal years. Going forward, if severance payments are to be made that cross fiscal years, a liability will be recorded to account for the portion due.

Contact Person: David Piccerelli, Executive Director
Rhode Island Public Telecommunications Authority
Phone: 401.222.3636

Finding 2012-35 – *Corrective Action*

Management has refined the Authority's physical inventory count and tracking procedures so that an accurate reflection of the membership premium inventory will be maintained at all times.

Contact Person: David Piccerelli, Executive Director
Rhode Island Public Telecommunications Authority
Phone: 401.222.3636

Finding 2012-36 – *Corrective Action*

2012-36a
RIHEAA has strengthened the oversight process to assure that all check payments have proper documentation prior to being presented to authorized signers. (Note that RIHEAA requires two signatures on each check issued.)

2012-36b
RIHEAA has been authorized by the State Department of Personnel to add an accountant position which will lessen the need for the Chief Financial Officer to perform some of those functions.

Contact Person: Mark M. Lacroix, Chief Financial Officer
Rhode Island Higher Education Assistance Authority
Phone: 401.736.1139

Finding 2012-37 – *Corrective Action*

Management intends to implement the following controls, effective immediately:

- Require dual signatures for entries made into the general ledger that exceed $250,000, and

- Perform a monthly reconciliation of bank statements by staff accountant and a quarterly review of general ledger accounts by the Chief Financial Officer, and make adjustments as needed.

In addition, management will present corporate financial statements to the Board of Directors on a quarterly basis beginning March 2013.

Contact Person: Adam N. Quinlan, Chief Financial Officer
RI Economic Development Corporation
Phone: 401.278.9100

Finding 2012-38 – *Corrective Action*

The recently formed Federal Grants Management Office (Office) within the Office of Management and Budget has been charged with the oversight of federal program administration. As a result, the Office will review the Federal Funding Accountability and Transparency Act Reporting requirements and evaluate in relation to federal grant awards. It should be noted that at the federal level, there have been significant issues with the Federal Funding Accountability and Transparency Sub-award Reporting System (FSRS).

Anticipated Completion Date: June 30, 2014

Contact Person: Laurie Petrone, Federal Grants Management Office
Phone: 401.574.8423

Finding 2012-39 – *Corrective Action*

The Central Falls finance staff will meet with staff responsible for the Nutrition programs to communicate the importance of compliance with USDA guidelines in addition to conducting semi-annual audits of all school lunch applications to insure compliance.

Anticipated Completion Date: TBD

Contact Person: Michael Petrarca, Finance Director
Phone: 401.727.7700

Finding 2012-40 – *Corrective Action*

The Central Falls School District will require that all school personnel responsible for the collection and verification of school lunch applications attend annual training provided by the Office of School Nutrition. The Central Falls finance staff will check verifications of free and reduced lunch applications on a semi-annual basis.

Anticipated Completion Date: TBD

Contact Person: Michael Petrarca, Finance Director
Phone: 401.727.7700

Finding 2012-41 – *Corrective Action*

The Department is currently working with the University of Rhode Island to assure that there is adequate documentation of in-kind support.

Anticipated Completion Date: May 2013

Contact Person: Nancy Pellegrino, SNAP Administrator
Phone: 401.462.0993

Finding 2012-42 – *Corrective Action*

2012-42a

The Department will work with FNS to amend the federal financial report to correct these errors.

Anticipated Completion Date: June 2013

2012-42b

The Department will reconcile any expenditure differences between the federal reports and the state's accounting system.

Anticipated Completion Date: June 2013

Contact Person: Janice Cataldo, CFO (Acting)
Phone: 401.462.0547

Finding 2012-43 – *Corrective Action*

The Department will continue to work with human resources and department staff to be sure that time cards are submitted correctly and in a timely manner.

Anticipated Completion Date: May 2013

Contact Person: Janice Cataldo, CFO (Acting)
Phone: 401.462.0547

Finding 2012-44 – *Corrective Action*

2012-44a

Trade Administration staff has been reviewing the raw TAPR report prior to submission to ensure the accuracy of the data elements since quarter end date of 6/30/2011. A new TAPR Review Certification form has been developed to document and certify that the data review process was performed on the report prior to submission. Trade Administration staff began to use the form for the TAPR quarter end date of 12/31/2012.

Anticipated Completion Date: December 2012

2012-44b

In order to coordinate reporting efforts across the Department's divisions, Trade Administration staff provides the Business Affairs unit with a copy of the raw data file to review and comment on prior to submission of the report. Business Affairs reviews the expenditure data for reasonableness. During State fiscal year 2013, the Advanced Individual Fund Tracking (AIFT) module was put in production in the EmployRI database system maintained by Geographic Solutions (GEOSOL). The module provides financial tracking of all TAA training expenditures by participant to facilitate accurate and complete reporting of the TAPR data elements. Quarterly reconciliations of the TAPR and ETA 9130 reports have commenced with the reports for quarter end 12/31/2012.

<u>Anticipated Completion Date:</u> December 2012

Contact Person: Kim Heng, Coordinator of Labor and Training Programs
Department of Labor and Training
Phone: 401.462.1407

Finding 2012-45 – *Corrective Action*

2012-45a

BAM personnel received comprehensive training in September 2011 conducted by the BAM unit manager on verification of registration with the Rhode Island Job Service as well as the established criteria in order to be considered exempt/non-exempt from reemployment registration. The training included a review of the documentation required for each case. A review of coding elements involving Job Service registration along with the requirements to complete the Case Summary was included in the training program.

In all future BAM audits a copy of the registration and activity with Job Service will be included in each case file. The BAM manager will review each case and will insure that future BAM audits contain all of the required information. In the event there is noncompliance with the registration requirement, the BAM case will be declared an improper case and will result in an overpayment for the key week claimed if the claimant fails to provide evidence of an active, independent search for work.

Programming changes were made to the Department's mainframe system in January 2013 to generate a registration file for all claimants except those with union affiliation or on "Work-Share" status. The file is uploaded into the "EmployRI" system to automatically register claimants for Job Services.

<u>Anticipated Completion Date:</u> January 2013

Contact Persons: Edward Salabert, Principal Employment and Training Manager
Department of Labor and Training
Phone: 401.462.8635

Joan DiSanto, Programming Supervisor
Division of Information Technology
Phone: 401.462.8058

2012-45b

The BAM unit established new policies and procedures in FY2013 to address this weakness. For new staff, training exercises are provided and evaluations are made of their work assignments and work habits to ensure that they comply with the federal timeliness requirement. The unit has streamlined the information gathering process by using fax venue to get information quicker. It is also obtaining employer information earlier in the investigation period by using the Unit's subpoena powers. In addition, the BAM unit is utilizing two available tools from the Sun System:

- The Case Completion & Time Lapse Report
- The User Defined Time Lapse Report

On a weekly basis each BAM investigator is made aware of the time lapse on each BAM case that is assigned to him or her. Both reports allow each investigator to track their cases to ensure completion within the federal requirement. The usage of these reports also enables the BAM manager to take action on cases that require follow up.

A review of the Department's BAM case audits conducted for FY2013 reflects a 71.46% rate of completion in the 60 day requirement and a 98.34 % completion rate in the 90 day requirement, well within the federal requirement.

Anticipated Completion Date: June 2012

Contact Person: Edward Salabert, Principal Employment and Training Manager
Department of Labor and Training
Phone: 401.462.8635

Finding 2012-46 – *Corrective Action*

The Workforce Investment Act program data that Rhode Island is required to report annually to ETA is managed by a robust MIS system called EmployRI, a product of Geographic Solutions (GEOSOL), Inc. State staff systematically works with GEOSOL technicians throughout the year to identify and quickly resolve data issues that may impact accurate reporting. Data quality is a high priority. At the close of Program Year 2011, DLT identified what appeared to be a potentially inaccurate count of the total number of participants by Local Workforce Investment Area (LWIA). Because this potential inaccuracy was discovered hard against the submission date of the Rhode Island's annual report, the state was unable to explain or resolve the matter prior to filing. The issue was however notated in the report.

The state has been working in consultation with GEOSOL to deduce the cause of the apparent inaccuracy. Several possible technical explanations are being explored (it is likely to be a combination of factors including coding linkages across related programs). The goal is to have the matter explained and a solution implemented prior to the filing of the Q4 reports.

The state will continue its efforts around ensuring that all source data, including wage record, that is used to file federal reports is properly archived to provide adequate audit documentation. This includes ongoing maintenance of a dedicated archive server with snapshot RI wage record and WRIS.

Anticipated Completion Date: September 2013

Contact Person: David Tremblay, Employment and Training Administrator
Department of Labor and Training
Phone: 401.462.8812

Finding 2012-47 – *Corrective Action*

The State Workforce Investment Office (SWIO) strived and successfully increased the quality and quantity of its monitoring efforts during Program Year 2011 as indicated in the audit report. Additionally, monitoring results and recommendations have been, and will continue to be, communicated to the sub-recipients on a timely basis so necessary improvements can be made.

As part of these efforts SWIO will reinforce the "earmarking" cost limitations, particularly around Older Youth, by highlighting it as part of its ongoing monitoring agenda. Tools and technical assistance will be provided by SWIO to the Local Workforce Areas as needed. Updated materials and subsequent reports will address this issue specifically.

DLT is taking action to identify the variance of expenditures between the SEFA and the general ledger of its subrecipient as reflected in the subrecipient's audit reports for State fiscal year's 2010 and 2011. SWIO will draft and implement new fiscal monitoring procedures around the review of Local Workforce Area audits, in particular around reconciliation between audits and the SEFA. These procedures will include amended fiscal monitoring checklists and the use of other review tools by fiscal monitoring staff. It is expected that this will take place by the quarter ending June 30, 2013.

Anticipated Completion Date: September 2013

Contact Persons:

David Tremblay, Employment and Training Administrator
Department of Labor and Training
Phone: 401.462.8812

Denise Paquet, Administrator – Financial Management
Department of Labor and Training
Phone: 401.462.8178

Finding 2012-48 – *Corrective Action*

2012-48a

Training was provided to staff during February of 2012. The training was entitled "Maintaining Client Contact and Follow-Up Service Strategies (case notes, recordkeeping, continuous communication and follow-up, updating the ISS) including the following topics:

- Maintain accurate customer record files with appropriate program paperwork
- Establish and maintain continuing communication with customers and employers
- Follow-up with customers and employer after placement
- Review and update of the Individual Service Strategy

The WIA file checklist that was developed and put in use during SFY 2012 led to the significant improvement in the completeness and consistency in the Department's case files as noted by the auditors. All netWORKri offices utilize the form and managers use the checklist to verify that appropriate documentation is in the participant file and that the information matches what is in the electronic database.

In another effort to improve data integrity, the Workforce Partnership of Greater Rhode Island implemented a new procedure to intensify its monitoring efforts in SFY 2013. Administrative staff members conduct file reviews called Interim Data Validation, modeled on the federally mandated annual data validation process. Files are randomly selected from each netWORKri office and data elements are checked against source documents to verify compliance with federal regulations.

To further strengthen supervisory review over the eligibility and documentation process, the Workforce Development Services Unit has assigned an Employment and Training Coordinator to spend approximately 2 days per week at the netWORKri offices to assist managers in their oversight responsibility in this area. The focal point will be on the appropriate documentation of follow-up services in participant files and mirror entries in the GEOSOL case management system.

Anticipated Completion Date: December 2013

2012-48b

The Department recognizes that the current forms in use that identify the WIA exit date are not consistent with the exit date indicated in the GEOSOL system. A new Exit Form will be developed and put in use that will ensure consistency between the case files and the database system.

Anticipated Completion Date: September 2013

Contact Person: Mavis McGetrick, Acting Chief of Labor and Training Programs
Department of Labor and Training
Phone: 401.462.879.1812

Finding 2012-49 – *Corrective Action*

The State Workforce Investment Office (SWIO) strived to increase the quality and quantity of its monitoring efforts during Program Year 2011. Additionally monitoring results and recommendations have been, and will continue to be, communicated to the sub-recipients on a timely basis so necessary improvements can be made.

SWIO will reinforce the "earmarking" cost limitations, particularly around Older Youth, by highlighting it as part of its ongoing monitoring agenda. Tools and technical assistance will be provided by SWIO to the Local Workforce Areas as needed. Updated materials and subsequent reports will address this issue specifically.

Anticipated Completion Date: September 2013

Contact Person: David Tremblay, Employment and Training Administrator
Department of Labor and Training
Phone: 401.462.8812

Finding 2012-50 – *Corrective Action*

2012-50a

RIDOT has issued a series of Materials Information Memos during FY 2013 to address this finding.

2012-50b

During FY 2013, RIDOT rescinded access to the Materials Test Application for all but two employees.

2012-50c

RIDOT has issued a series of Materials Information Memos during FY 2012 to address this finding. Regarding the $11,639 in questioned costs, the Department will be conducting further research to determine whether adequate back-up documentation exists.

2012-50d

RIDOT has issued a series of Materials Information Memos during FY 2012 to address this finding.

Anticipated Completion Date: June 30, 2013

Contact Person: Frank Corrao, Construction Management
Phone: 401.222.2468

Finding 2012-51 – *Corrective Action*

2012-51a

The Department would like to clarify that RIDOT's Office of Quality Compliance and Review also provides technical assistance in subrecipient monitoring efforts before projects reach the construction stage. As far as when RIDOT's Office of Quality Compliance and Review began monitoring subrecipients, agreements with subrecipients were strengthened during FY 2011, but subrecipient monitoring activities were conducted prior to FY 2011.

Additionally, RIDOT's Office of Compliance and Review has established written policies and procedures for subrecipient monitoring. Regarding the establishment of a schedule, RIDOT's Office of Compliance and Review monitors all current construction projects based upon a tracking spreadsheet that is periodically updated. Lastly, RIDOT's Office of Compliance and Review maintains adequate back-up documentation of the monitoring reviews performed, but will add a log to provide additional documentation of its efforts.

<u>Anticipated Completion Date</u>: December 31, 2013

Contact Person: Richard Fondi, Administrator,
Highway and Bridge Construction Operations
Phone: 401.222.6940

2012-51b

The RIDOT Office of Financial Management continues to refine its process for identifying all federal awards passed-through to subrecipients by project.

At every fiscal year end (i.e., June 30th), the RIDOT Office of Financial Management will reconcile subrecipient expenditures per FMS with corresponding subrecipient expenditures per RIFANS and resolve any variances.

Furthermore, the RIDOT Office of Financial Management has implemented a policy that requires all subrecipient expenditures to be 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 the respective RIDOT offices that have subrecipient monitoring responsibilities. This list will also be provided to the Auditor General's Office for its tests of subrecipient monitoring.

<u>Anticipated Completion Date:</u> June 30, 2013

Contact Person: John Megrdichian, Administrator for Financial Management
Phone: 401.222.2496

2012-51c

Before FY 2011, the Department did not have a formal system for obtaining Single Audit reports. During FY 2011 and FY 2012, the Department has continuously improved controls to ensure that Single Audit reports are obtained and reviewed, including the refinement of its Single Audit checklist.

During FY 2012, RIDOT obtained, reviewed, and completed Single Audit checklists for 33 of the 36 subrecipients that received $500,000 or more in federal funding. Of the three subrecipients for whom RIDOT did not complete a Single Audit checklist, one subrecipient received only $7,714 from RIDOT, all of which was NHTSA funding), another recipient did not submit its Single Audit until July 23, 2012, and the third subrecipient did not have a Single Audit performed according to the Federal Audit Clearinghouse.

The RIDOT Office of Financial Management will dedicate additional staff resources that will perform reconciliations in instances where amounts in the subrecipient's SEFA do not agree to the amounts passed through as per RIFANS. We will also follow up with the subrecipient and/or its audit firm whenever internal control findings and/or compliance issues are identified that could have an effect on the funding provided by RIDOT by obtaining and reviewing the subrecipient's corrective action plan..

Lastly, where applicable, the Department will issue management decisions within required timeframes, and evaluate any issues identified (e.g., questioned costs, non-compliance, internal control weaknesses, etc.) to determine the impact on RIDOT's ability to comply with applicable federal regulations.

Anticipated Completion Date: June 30, 2013

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

2012-51d

The RIDOT Office of Financial Management currently includes a "Subrecipient Fact Sheet" with all subrecipient agreements that it reviews.

In order to implement a more global corrective action, the Department has recently established a committee that is charged with revising the standard templates for all contracts, including subrecipient agreements. In particular, subrecipient agreement templates will 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).

In addition to the template revisions, the aforementioned committee will also develop certain process reforms, such as placing all templates on the RIDOT intranet and including a revision date on every template so that all managers are using the most current version. Lastly, as time and staff resources permit, the Department will revise prior agreements that are still in effect.

Anticipated Completion Date: December 31, 2013

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2012-52 – *Corrective Action*

2012-52a

RIDOT has entered into memorandums of understanding containing 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. As an additional control, the RIDOT Office of Financial Management has adopted a policy that no police detail billings will be paid unless and until a memorandum of understanding has been executed.

2012-52b

RIDOT will require the prime contractor to prepare monthly bank reconciliations and forward them, along with copies of the respective monthly bank statements, to the RIDOT Financial Management Office for review.

2012-52c

RIDOT has regained custody of all funds in the aforementioned bank account and has deposited them in the State's Fund 12 bank account. All loan program activity is now being accounted for in a RIFANS escrow liability account.

Additionally, all loan program participants have been directed to send their payments to the prime contractor, who in turn forwards the payments to the RIDOT Financial Management Office for deposit in the State's Fund 12 bank account.

Anticipated Completion Date: June 30, 2013

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2012-53 – *Corrective Action*

The Department will further enhance its existing policies, procedures, and controls to ensure compliance with the Value Engineering analysis requirements contained in 23 CFR 627. Overall, the Department believes it is in compliance with Value Engineering requirements and can document its efforts in this area.

Anticipated Completion Date: June 30, 2012

Contact Person: Norman Marzano, Managing Engineer
Phone: 401.222.2468

Finding 2012-54 – *Corrective Action*

The three (3) invoices in question pertained to police details. RIDOT will ensure that the PURK manual is updated to include a formal policy of who is able to verify and authorize a police detail invoice for payment.

Anticipated Completion Date: June 30, 2013

Contact Person: Loren Doyle, Administrator for Financial Management
Phone: 401.222.6590

Finding 2012-55 – *Corrective Action*

2012-55a

The Memorandum of Agreement (MOA) between FHWA and RIDOT executed on November 6, 2003 enables RIDOT to bill the GARVEE debt service cost due to the Bond Trustee three business days prior to the date such payment is due to the Trustee. These funds are due to the Trustee on June 15th, so the standard procedure is to bill FHWA three business days earlier.

In this case, RIDOT was facing the specter of an expiring federal continuing resolution at the end of March 2012 without any assurance that a new continuing resolution (or some other funding mechanism) was going to be passed. There was a legitimate concern that when the continuing resolution expired, RIDOT would be unable to bill the federal government for a considerable period of time. In an effort to be proactive, RIDOT drew down the money on March 26, 2012 and paid the Trustee so that there would be no danger of defaulting on the GARVEE debt service payment.

Subsequently, RIDOT has conferred with the State Controller's Office and received a commitment that should this scenario ever be repeated, the State would step in to pay the GARVEE debt service and then be reimbursed at such point in time that RIDOT was able to resume billing the federal government.

2012-55b

RIDOT will ensure that the Treasury State Agreement is amended to reflect the specific draw provision for GARVEE debt service as outlined in the MOA between FHWA and RIDOT.

Anticipated Completion Date: June 30, 2013

Contact Person: John Megrdichian, Administrator for Financial Management
Phone: 401.222.2496

Finding 2012-56 – *Corrective Action*

Procedures for monitoring compliance are presently in place and are being adhered to. However, to strengthen the process, the Finance Director and the Grants Coordinator will review monthly, all time and effort reports and certifications to actual payroll charges, insuring that the district is receiving the required documentation from all personnel being paid from federal programs.

Anticipated Completion Date: TBD

Contact Person: Michael Petrarca, Finance Director
Phone: 401.727.7700

Finding 2012-57 – *Corrective Action*

The Community College notified the auditors that it had, during the 2011-2012 academic year, discovered that some students with bachelor's degrees improperly applied for and were awarded Pell grants. Actions have been taken to correct the situation and to prevent its recurrence.

The Community College reviewed all 2011-2012 Pell Grant recipients' applications. A number of improper awards, totaling $119,688 were discovered. Most involved foreign students who were required to provide documentation on whether or not they had the equivalent of a BA degree. Upon interviewing students, the Community College determined that many of them, particularly the foreign students, were confused by the question on the FAFSA concerning the bachelor's degree. In some countries, a bachelor degree may actually be the equivalent of a high school diploma. The Community College repaid the Department of Education (DOE) for all potentially ineligible Pell Grant recipients prior to the official closeout of the 2011-2012 award year (September 30, 2012). There were no outstanding overpayments for these students as of the closeout date; therefore, the Community College believes that there are no questionable costs to the DOE associated with these students.

The Community College has also implemented a revised process on student self-reported data to ensure resolution of any issues prior to disbursement of Pell Grants. As part of the revision, in conjunction with the Office of Enrollment Services and IT, each student is required to answer questions concerning their receipt of a BA degree or equivalent during every registration period. This information is downloaded to the student file and reports are generated to identify and resolve potential issues regarding prior degrees.

The Community College believes that the actions taken should fully resolve the internal control issue.

Anticipated Completion Date: June 30, 2012

Contact Person: Joel Friedman, Director of Financial Aid
Community College of Rhode Island
Phone: 401.825.2117

Finding 2012-58 – *Corrective Action*

The Community College will ensure at least one staff member will manually review a percentage of students identified on the report relating to the effective dates of status changes and will confirm the information produced in the report is accurate prior to transmitting the report to the National Student Clearinghouse (NSC). The Community College believes that the actions taken should fully resolve the internal control issue.

Anticipated Completion Date: September 30, 2012

Contact Person: Joel Friedman, Director of Financial Aid
Community College of Rhode Island
Phone: 401.825.2117

Finding 2012-59 – *Corrective Action*

The Central Falls finance staff will meet with staff responsible for the Nutrition programs to communicate the importance of compliance with USDA guidelines in addition to conducting semi-annual audits of all school lunch applications to insure compliance.

Anticipated Completion Date: TBD

Contact Person: Michael Petrarca, Finance Director
Phone: 401.727.7700

Finding 2012-60 – *Corrective Action*

Management agrees that the items reviewed by the auditors were lacking in verification of time and other documentation. However, management would like to point out the deliverables required for payment were received by RIDE, and further, that RIDE has standards for payment which have been shared with the staff.

RIDE's corrective action in this matter will be for the finance staff to review current payment standards and procedures; update them where necessary; and hold an in-service with all RIDE staff to explain both the process and the importance of obtaining supporting documentation to ensure reasonableness and accuracy of invoices before approving payments.

Anticipated Completion Date: June 2013

Contact Person: Mark Dunham, Director of Finance
Phone: 401.222.4647
E-mail: Mark.Dunham@ride.ri.gov

Finding 2012-61 – *Corrective Action*

The Department will improve case record filing, using scanning technology where feasible, and use case management tools and reports to take more timely actions that affect either/both eligibility and service.

Anticipated Completion Date: June 2013

Contact Person: Corinne Russo, Deputy Director
Phone: 401.462.0547

Finding 2012-62 – *Corrective Action*

The Department does not believe that any child over the age of 18 was included in the EA costs but will continue to monitor and enhance control procedures for Maintenance of Effort. We are working with potential vendors to assist DHS review existing MOE, identify new sources and complete the claiming methodology to secure the MOE.

Anticipated Completion Date: September 2013

Contact Persons: Janice Cataldo, CFO (Acting)
Phone: 401.462.0547
Diane Cook, Administrator
Phone: 401.462.6842

Finding 2012-63 – *Corrective Action*

The Department continues to strive toward prompt resolution of interface matches. It is in the process of obtaining employment verification services to enable speedier processing of employment-related matches.

Anticipated Completion Date: May 2013

Contact Persons: Corrine Russo, Deputy Director
Phone: 401.462.0547
Diane Cook, Administrator
Phone: 401.462.6842

Finding 2012-64 – *Corrective Action*

2012-64a

The Department will establish a new process to collect and monitor subrecipients and assure that audit reports are submitted in a timely manner.

2012-64b

The Office of Financial Management will notify all subrecipients of the requirements to comply with OMB A133 and assure that all recipients of these federal funds are complying

2012-64c

The Office of Financial Management will work with BHDDH to require subrecipients to submit appropriate documentation of federal funds expended and monitor that sub recipients submit audit findings within 9 months after the end of the sub recipients' fiscal year.

Anticipated Completion Date: June 2013(all)

Contact Persons: Janice Cataldo, CFO (Acting)
Phone: 401.462.0547

Finding 2012-65 – *Corrective Action*

2012-65a

The department will strengthen controls by reviewing cost allocation and monitor compliance with earmarking.

2012-65b

The department will seek direction from our federal officers to determine whether to re-open prior year reports to correct funds that were reported in the incorrect federal fiscal year.

2012-65c

The department will improve monitoring practices to spend up to the amount awarded in the appropriate quarter of the federal fiscal year.

<u>Anticipated Completion Date</u>: September 2013

Contact Person: Jennifer Pate, Financial Management Administrator
Phone: 401.462.1586

Finding 2012-66 – *Corrective Action*

2012-66a

Accepted. The LIHEAP and Weatherization Programs were officially transferred to the Department of Human Services effective February 3, 2013 and a plan has been developed to coordinate monitoring visits with other closely related programs.

2012-66b

Accepted. A procedure will be developed to adequately follow-up with subrecipients relating to any deficiencies noted during on-site monitoring reviews.

2012-66c

Accepted. An additional appendix to the agreement with one subrecipient with significant audit findings and continues to closely monitor the progress of the agency.

<u>Anticipated Completion Date</u>: February 2013

Contact Person: Deborah Anthes, Program Services Officer - DHS
Phone: 401.462.6835

Finding 2012-67 – *Corrective Action*

2012-67a

Accepted. Beginning with the 2013 heating season, the funding that is released to the Community Action Agencies is based on their prior two week performance.

2012-67b

Accepted. Sub-recipients are required to submit a weekly funds status summary to allow for closer monitoring of cash needs.

<u>Anticipated Completion Date</u>: October 2013

Contact Person: Terri Brooks, Administrator – Financial Management, OER
Phone: 401.574.9107

Finding 2012-68 – *Corrective Action*

Accepted. The Office of Energy Resources maintains a spreadsheet with data from the state's accounting system that is updated monthly. A summary sheet will be added summarizing expenses and obligations against total authorized allotment.

Contact Person: Terri Brooks, Administrator – Financial Management, OER
Phone: 401.574.9107

Finding 2012-69 – *Corrective Action*

The re-validation process of all active providers was completed on October 31, 2012. All new enrollments are in compliance with ACA disclosure requirements. EOHHS believes that we are now in compliance with the federal requirements for Provider Eligibility and Suspension and Debarment.

Anticipated Completion Date*:* Complete

Contact Person*:* Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2012-70 – *Corrective Action*

Quarterly Statements of Expenditures- Program Expenditures: EOHHS recognizes the need to streamline the process from an operational standpoint and has been begun working with our fiscal agent on enhancements to the MMIS system to allow for an interface with RIFANS.

Anticipated Completion Date: December 2013

Contact Person: Alda Rego, Chief Financial Officer
Phone: 401.462.1834

Quarterly Statements of Expenditures- Administrative Expenditures: It was previously agreed at a meeting between Medicaid Staff and Accounts and Control that EOHHS would develop a reconciliation process for Medicaid administrative costs for future quarters to ensure that what is reported to CMS for the quarter reconciles to what is recorded in the General Ledger. The amount reported to CMS each quarter is based on the actual results of the quarterly cost allocation plan and a "true-up" journal entry is booked in the next quarter to adjust the General Ledger to the CAP results. Therefore, there will always be reconciling items when the balance on the CMS reports is compared to the General Ledger at the end of a quarter. The reconciliation should identify these variances and cross reference them to the journal entries that are posted in the subsequent quarter to bring the General Ledger into agreement with the CAP results. Accounts and Control would work with DCYF to develop a process to reconcile their Medicaid administrative accounts to the General Ledger quarterly. They process their administrative costs in a similar fashion to DHS and a reconciliation can be developed. For other agencies that charge administrative costs, what is recorded on the CMS forms are amounts from the General Ledger, so there should be no variances for these administrative costs. There should be a step added to this process to tie the amounts submitted by these agencies to the General Ledger.

As noted above, reconciliation is difficult to achieve with administrative expenditures because of the volume of adjustments that continuously occur in RIFANS. EOHHS agrees that reported federal expenditures should be reconciled to the amounts recorded in the State's accounting for administrative expenditures as is done with program expenditures. EOHHS has submitted a FGIS report for administrative expenditures this quarter following the process agreed to above and is working on continuously improving processes for the future and will work to address the issues surrounding the SF-425 report. Some improvements have already by made in FY 13. The State of Rhode Island accounting system, RIFANS, provides an optional cost center field in addition to the required fields utilized for the account strings of fund, agency, line sequence, source, natural account and project. EOHHS has created a cost center for each 90/10 funded IAPD; 75/25 funded IAPD and other distinct projects; and 100% MEPDs where no distinct account string exists. The cost centers with estimated expenses are included in distinct lines of the Fiscal Agent purchase order as set up in RIFANS. The Fiscal Agent is submitting invoices to EOHHS clearly outlining by cost center each expense being billed. RIFANS reports will then include the cost center so each expense will be distinguishable so may be reported on the CMS-64 with accuracy.

Anticipated Completion Date: December 2013

Contact Person: Alda Rego, Chief Financial Officer
Phone: 401.462.1834

Finding 2012-71 – *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
Phone: 401.462.0140

Finding 2012-72 – *Corrective Action*

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, the State is in the process of replacing InRhodes, its eligibility system, and the possibility of maintaining eligibility for CNOM claims in the new system is being evaluated.

All agencies are required to conduct a self-audit of CNOM expenditures claimed based on written audit guidelines outlining the standards and practices that need to be met. The results of these self-audits must be reviewed and approved by OHHS. The federal government is credited for any over-claimed amounts.

Of the $10.9 million in CNOM expenditures not processed through the MMIS $7.5 million related to the DCYF Resident Diversion CNOMS. This amount claimed for Federal match by DCYF is already discounted based on the results of its most recent self-audit. It should be noted that DCYF claims are not currently processed through MMIS due to the Agency's complex claiming hierarchy. An additional $1.2

million in CNOM expenses are lump sum payments to the Federally Qualified Health Centers for their uninsured populations. These payments are permitted under the Global Waiver, (Budget Services 5).

OHHS recognizes the importance of accurate eligibility determinations and federal claiming. Notwithstanding existing resource limitations, OHHS will increase its efforts to ensure CNOM claiming is accurate. OHHS will also work to ensure that claims associated with new CNOM initiatives be process through the MMIS.

Anticipated Completion Date: Ongoing

Contact Person: Lawrence A. Ross, Assistant Director
Phone: 401.462.6025

Finding 2012-73 – *Corrective Action*

2012-73a:

The Department of Human Services is evaluating the feasibility of hiring staff to address this finding.

2012-73b:

If staff is hired, this finding would become part of the job responsibilities. Also, with the development of the new HIX/IES scheduled to be implemented in two phases October 2013 and May 2015, this review will occur within the next several months.

Anticipated Completion Date: Ongoing

Contact Person: George Bowen, Administrator - Operations Management
Department of Human Services
Phone: 401.462.6468

Finding 2012-74 – *Corrective Action*

Hospital Settlements: It is the position of EOHHS that the one-year time frame for crediting the Federal Government for its share of overpayments begins only after a settlement amount has been finalized. Additionally, we believe the establishment of an agreed upon repayment schedule, with CMS being credited as payments are received, is acceptable. A review of all outstanding hospital settlements is actively underway with the objective of finalizing all settlement amounts by the end of fiscal year 2013. The review process is comprehensive and will ensure that the proper amounts were paid to and/or received from each hospital. Overpayments will be recouped, and CMS credited for its share, as quickly as possible.

Nursing Home Cost Report Audits: The lack of adequate personnel resources in the Rate Setting Unit is the key reason for the significant backlog of uncompleted nursing home cost report desk audits. Desk audits for 2008 will be completed by the end fiscal year 2013 and the 2009 desk audits will be completed by the end of calendar year 2013. The 2010 desk audits should be completed during calendar year 2014. An evaluation will be made in regard to conducting field audits.

Anticipated Completion Date: Hospital Settlements: 4th Quarter SFY 2013
Nursing Home Cost Report Audits: Ongoing

Contact Person: Lawrence Ross, Assistant Administrator
Phone: 401.462.6025

Finding 2012-75 – *Corrective Action*

The State has worked with the contracted DSH auditor and the Hospital Association of Rhode Island to develop uniform reporting practices by all Rhode Island hospitals. The established controls will be tested in CY 2013 during the audit of the PY 2010 DSH payments.

Anticipated Completion Date:	Ongoing
Contact Person:	Ralph Racca, Administrator Phone: 401.462.1879

Finding 2012-76 – *Corrective Action*

EOHHS agrees with the finding and will make the necessary adjustment to credit the federal grantor for the $20,797 in overcharges. The State of Rhode Island accounting system, RIFANS, provides an optional cost center field in addition to the required fields utilized for the account strings of fund, agency, line sequence, source, natural account and project. EOHHS has created a cost center for each 90/10 funded IAPD; 75/25 funded IAPD and other distinct projects; and 100% MEPDs where no distinct account string exists. The cost centers with estimated expenses are included in distinct lines of the Fiscal Agent purchase order as set up in RIFANS. The Fiscal Agent is submitting invoices to EOHHS clearly outlining by cost center each expense being billed. RIFANS reports will then include the cost center so each expense will be distinguishable so may be reported on the CMS-64 with accuracy.

Anticipated Completion Date:	March 2013
Contact Person:	Alda Rego, Chief Financial Officer Phone: 401.462.1834

Finding 2012-77 – *Corrective Action*

EOHHS recognizes the need review the manual payment process by the Medicaid fiscal agent.

EOHHS has already implemented an authorization hierarchy for the finance-related manual payments within the MMIS in February 2013 by requiring the approval of the EOHHS Chief Financial Officer (or designee) before payment.

EOHHS has approached the Office of Accounts and Control concerning the movement of certain manual payments from the MMIS manual payment process to the RIFANS system. EOHHS is currently reviewing which payments would be appropriate to move and expects to fully implement a new RIFANS payment process by July 1, 2013.

EOHHS has eliminated the practice of advances to state-operating providers at fiscal year end. Any such advances must now be approved by the EOHHS Chief Financial Officer through the new EOHHS manual payment hierarchy in place.

Anticipated Completion Date:	July 2013
Contact Person:	Alda Rego, Chief Financial Officer Phone: 401.462.1834

Finding 2012-78 – *Corrective Action*

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.

This process went into place in April 2010.

Anticipated Completion Date: October 1, 2013

Contact Person: Deborah Florio, Administrator
Phone: 401.462.0140

LEA: SPECIAL EDUCATION PROGRAM - EOHHS, with support from Xerox, conducts oversight and monitoring reviews of each school district every other year in order to ensure that the districts have developed and implemented systems of internal controls sufficient to provide reasonable assurance of compliance with applicable Federal and State regulations. These are not financial audits, but oversight and monitoring of internal procedures for ensuring appropriate documentation is in place to support claims. Each visit results in a summary report identifying any recommendations for improving their internal procedures or findings on non-compliance. All findings require a corrective action plan from the district and if significant or errors in billing are identified would result in recoupment of funds. Districts with significant findings will be reviewed again the following year until the district can demonstrate compliance. If a recoupment of funds is warranted the federal grantor would be credited.

Anticipated Completion Date: Complete

Contact Person: Deborah Florio, Administrator
Phone: 401.462.0140

Hospital Settlements: It is the position of EOHHS that the one-year time frame for crediting the Federal Government for its share of overpayments begins only after a settlement amount has been finalized. Additionally, we believe the establishment of an agreed upon repayment schedule, with CMS being credited as payments are received, is acceptable.

A review of all outstanding hospital settlements is actively underway with the objective of finalizing all settlement amounts by the end of fiscal year 2013. The review process is comprehensive and will ensure that the proper amounts were paid to and/or received from each hospital. Overpayments will be recouped, and CMS credited for its share, as quickly as possible.

Anticipated Completion Date:	4th Quarter SFY 2013
Contact Person:	Lawrence Ross, Assistant Director Phone: 401.462.6025

Outstanding Checks: EOHHS agrees that there had been a delay in the processing of cancelled checks, but believes that the credit to the federal grantor is now up to date and has provided the necessary source documents demonstrating the adjustments.

EOHHS has credited the federal grantor for periods dating back to from 2009 through the following journals:

J13028RTP0086	Posted Date: January 11, 2013	$55,718.18
J13028RTP0018	Posted Date: January 23, 2013	$16,146.08
J13028RTP0111	Posted Date: February 18, 2013	$ 1,478.39
	Total	$73,342.65

Anticipated Completion Date:	Complete
Contact Person:	Alda Rego, Chief Financial Officer Phone: 401.462.1834

Finding 2012-79 – *Corrective Action*

2012-79a:

The Department does not currently have staff resources available to conduct its own audit of the MCOs' general ledger accounts. However, the Department notes that section 2.16.04 of its contract with the MCOs requires that: "…Contractor must submit an acceptable audited financial statement prepared by an independent auditor within nine (9) months of the end of the Contractor's fiscal year. The audit must provide full and frank disclosure of all assets, liabilities, changes in fund balances, and all revenues and expenditures." Review of these independently audited financial statements, along with the attested risk share and stop loss reporting schedules submitted regularly by the MCOs (particularly when compared with encounter data also available to the Department), provides the Department with considerable assurance as to the accuracy, allowability, and completeness of the MCOs' financial reporting.

2012-79b:

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:	July 2013
Contact Person:	Deborah Florio, Administrator Phone: 401.462.0140

Finding 2012-80 – *Corrective Action*

While the Department considers it important to improve the current procedures and controls for determining the appropriate enrollment category for MA recipients eligible for Rhody Health Partners, it does not concur that the MEQC process would be appropriate to that task. First, MEQC does not currently include SSI recipients within its sample, as eligibility for these recipients is determined by the Social Security Administration. (Medical Assistance eligibility for the majority of recipients in Rhody Health Partners results from their SSI participation.) Second, certain data elements necessary to the enrollment and categorization of Rhody Health Partners enrollees is not resident on the InRhodes system, and is therefore not available for MEQC staff.

The Department has already initiated improvements in the enrollment procedures and controls for Rhody Health Partner enrollment, specifically in requesting a modification to the MMIS to include a specific program indicator for recipients identified as SPMI. This modification is currently in the MMIS development queue.

Anticipated Completion Date:	October 2013
Contact Person:	Deborah Florio, Administrator Phone: 401.462.0140

Finding 2012-81 – *Corrective Action*

A new Licensing administrator began in January 2011. At that time, every license had a separate expiration date and staff were auditing them as they expired, meaning some agencies would have multiple audits because their service licenses expired at different times. It made more sense that an agency and all of its service licenses be audited at the same time (1) BHDDH would have a clearer understanding of the strengths and weaknesses of a service provider when looking at the whole in one snapshot in time versus pieces at different times, (2) more efficient for BHDDH and for the providers (i.e.- providers only have to pull personnel records once versus multiple times), and (3) licensing had been holding licenses open sometimes auditing them several times over the course of several years because the provider did not have a compliant State Fire Marshal Inspection Report. By auditing the agency and services together, providers have been notified and educated that none of the provider licenses will be renewed until all of the provider programs have compliant SFM Reports.

A letter to all providers in February 2011 advising them of the need to send their renewal applications in prior to the expiration of the licenses to remain in good standing under state law. Updates have been made to the database and filing system implement a standardized license assignment and facilitate queries. In addition, the Department has weekly meetings with the State Fire Marshal's Office to ensure that BHDDH license holders are prioritized for their biannual inspections and that the SFM help resolve issues of noncompliance to assist BHDDH in the timely licensing of providers. The SFM has been very supportive of this effort.

BHDDH licenses reflect a two year licensure period, but do not necessarily expire on their stated expiration dates:

"RIGL § 40.1-24-6 Expiration and renewal of license. - A license, other than a provisional license, unless sooner suspended or revoked, shall remain in full force and effect until renewed by approval of the department in accordance with procedures for renewal set forth in rules and regulations to be adopted by the department pursuant to § 40.1-24-9; such procedures must include a process by which a license shall be renewed on the basis of deemed status as defined in § 40.1-24-1."

"RIGL § 42-35-14 Licenses. - (a) Whenever the grant, denial, or renewal of a license is required to be preceded by notice and opportunity for a hearing, the provisions of this chapter concerning contested cases apply.

(b) Whenever a licensee has made timely and sufficient application for the renewal of a license or a new license with reference to any activity of a continuing nature, the existing license does not expire until the application has been finally determined by the agency, and, in case the application is denied or the terms of the new license limited, until the last day for seeking review of the agency order or a later date fixed by order of the reviewing court.

(c) No revocation, suspension, annulment, or withdrawal of any license is lawful unless, prior to the institution of agency proceedings, the agency sent notice by mail to the licensee of facts or conduct which warrant the intended action, and the licensee was given an opportunity to show compliance with all lawful requirements for the retention of the license. If the agency finds that public health, safety, or welfare imperatively requires emergency action, and incorporates a finding to that effect in its order, summary suspension of license may be ordered pending proceedings for revocation or other action. These proceedings shall be promptly instituted and determined."

The reason why there were approximately 35 providers with "expired" licenses (although they could have had renewal applications in prior to the expiration dates and been in good standing), licensing did audit some DD agencies in 2011 and those licenses were renewed and issued, but in August 2011 new regulations were promulgated/adopted and per state law all of the existing DD agencies had one year to come into compliance:

"RIGL § 40.1-24-10 Time allowed for compliance with new rules or standards. - Any facility which is in operation at the time of promulgation of any applicable rules or regulations or minimum standards under this chapter shall be given a reasonable time, not to exceed one year from the date of promulgation of any applicable rules or regulations or minimum standards, within which to comply with the rules and regulations and minimum standards."

BHDDH resumed licensing audits in August 2012 upon the completion of the one year allowance for time to come into compliance and continues to audit DD agencies at this time.

BHDDH has maintained the number of FTE assigned to the licensing function even though there are many areas of BHDDH that continue to be understaffed. The number of FTE that the Department is able to hire is capped by the legislative process. BHDDH will work with EOHHS, the Budget Office and Legislature to request addition FTE for this function.

<u>Anticipated Completion Date</u>: Ongoing

Contact Person: Maureen Wu, Chief Financial Officer
Phone: 401.462.3100

Finding 2012-82 – *Corrective Action*

2012-82a

BHDDH will review its billing processes and implement improved processes for more timely and accurate billing to Medicaid for Eleanor Slater Hospital.

2012-82b

BHDDH does not agree with this finding as it would require the readjudication of all claims in the MMIS to match the final rate determination and does not take into consideration the Medicaid rules which allow for billing 12 months from the date of service. Currently over 90% of claims are processed through the MMIS at the rate that is best available at the time of billing. The 10% of the claims in question are often individuals awaiting Medicaid determination and/or correction of errors in the MMIS. BHDDH agrees that there needs to be a better process and will review the final settlement process and identify the most effective and efficient procedures to assure that at least 90% of the claims are processed through the MMIS.

Anticipated Completion Date: December 31, 2013

Contact Person: Maureen Wu, Chief Financial Officer
Phone: 401.462.3100

Finding 2012-83 – *Corrective Action*

2012-83a

The DCYF disagrees with the questioned costs. The Department does agree that controls over the costs of medical services provided to children placed in the State's custody would be enhanced by making payments for Medicaid eligible services through the MMIS; however, the Department believes such plan is not feasible at this time due to the current architecture of the two systems, MMIS and RICHIST at DCYF.

DCYF's claiming mechanism is the Department RICHIST System which uses a claiming hierarchy to allocate costs to various federal programs. RICHIST is designed to maximize federal reimbursement to the State for the children in the Department's care. A time study is performed each year to allocate costs to room and board, treatment and assessment and education. Only treatment and assessment costs are allocated to Medicaid as the last reimbursement source based on the child's eligibility in the claiming hierarchy.

DCYF claims Medicaid reimbursement through the Medicaid Rehabilitative Option. Under the Rehab Option, the state is able to claim the full daily cost of care for services on a per day cost based on the treatment costs supporting the facility and not based on individual clinicians services performed. The Rehabilitative Option allows for both scheduled and unscheduled time for treatment which is why a time study is required.

2012-83b

This finding assumes DCYF is claiming Medicaid for services performed on a fee for service basis as is done at the Local Education Agencies. In reality, the residential treatment component under the Medicaid Rehabilitative Option dictates that the program is a 24-hour program with various supports provided. The Rehabilitative Option allows for both scheduled and unscheduled time for treatment which is provided in accordance with a treatment plan under the direction of a licensed clinician. The treatment environment is why a time-study is required. Under the Rehabilitative Option, the state is able to claim the full daily cost of care. The State does not need to bill on a fee-for-service basis under the Medicaid Rehabilitative Option.

2012-83c

Again, this finding assumes DCYF is claiming Medicaid for services performed on a fee for services basis. Under Rhode Island's State Plan Amendment for Rehabilitative Option, see section 13.d.3.F, the treatment program is designed around a twenty-four hour supervised program with the "necessary supports to address the special needs of a child or adolescent to either prevent or minimize the need for long-term residential or hospital psychiatric care". Services include but are not limited to items such as family therapy, medical treatment, recreational activities, individual counseling, etc. Programs must be licensed by RI DCYF to qualify. The services are recommended by a Licensed Practitioner of the Healing Arts with a team to complete and deliver the services. All residential providers must be licensed by DCYF and as part of the licensure, all residential providers must be affiliated with a Licensed Practitioner of the Healing Arts.

Anticipated Completion Date: Undeterminable at this time

Contact Persons: Margaret Farrish, CPA, Associate Director,
Management and Budget
C. Lee Baker, Federal Benefits and Contracts Administrator
Phone: 401.528.3663

Finding 2012-84 – *Corrective Action*

Improve controls over required eligibility documentation obtained during the Medical Assistance application process.

With the development of the new HIX/IES scheduled to be implemented in two phases October 2013 and May 2015, this review/documentation will occur within the next several months.

Anticipated Completion Date: Ongoing

Contact Person: George Bowen, Administrator - Operations Management
Department of Human Services
Phone: 401.462.6468

Finding 2012-85 – *Corrective Action*

It is the position of EOHHS that adequate controls exist to prevent payment for home and community based services when individuals are receiving care in a hospital of nursing facility. On a routine basis, the Surveillance Utilization Review (SUR) Unit retrospectively identifies outpatient claims in which there is a date overlap with an institutional claim. Provider records are then requested and reviewed. In most instances it is determined that no overlap exists between a community based claim and an institutional claim. When a billing overlap is discovered the payment is recouped from the community based provider. The effectiveness of the current process is demonstrated by the fact that there are no questioned costs associated with the finding.

Building prospective edits into MMIS to flag claims with overlapping dates would be complex, costly and require community based providers to bill for individual dates of service rather than a date span. This latter requirement would likely impose an administratively burdensome on many small providers. EOHHS will review whether or not more modest changes in provider billing requirements could be implemented.

Anticipated Completion Date: 4th Qtr. SFY 2013

Contact Persons: Ellen Mauro, Administrator
Phone: 401.462.6311
Lawrence Ross, Asst. Director
Phone: 401.462.6025

Finding 2012-86 – *Corrective Action*

The University concurs. Not all awards require cost share. For those awards that require cost share, such requirements are to be reviewed and monitored during the award period. In these cases, although cost share had been incurred, it had not been monitored sufficiently so that deficiencies could be acted upon in a timely manner.

In fiscal year 2013, the University is currently implementing a procedure to regularly review cost share expenditures as compared to cost share award requirements over the life of the award. The procedure includes identifying in PeopleSoft the awards that have cost share requirements and obtaining periodic reports to compare activity. When activity is not in line with the budget, the departments will be contacted to take the appropriate corrective action.

In the cases mentioned above, the University is currently working with these agencies to resolve the cost sharing requirements.

Anticipated Completion Date:	June 30, 2013
Contact Person:	Sharon Bell, Controller University of Rhode Island Phone: 401.874.2378

Finding 2012-87 – *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 2012, corrective action was taken for each ARRA subrecipient payment, URI was to enter the required information in a description field in PeopleSoft which would print on the check stub. In this case, although the subrecipient purchase order was issued after the corrective action was taken, the special terms and conditions were not noted on the P.O. and therefore accounts payable did not include the ARRA required language on the remittance. In fiscal year 2013, the University will review all ARRA subrecipient awards to make sure the required information is reported as special terms and conditions on the P.O. and in the description field in PeopleSoft which will print on the check stub.

Anticipated Completion Date:	June 30, 2013
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	11-42
State Administrative Matching Grants for SNAP	10.561	10-42, 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
Unemployment Insurance	17.225	10-44, 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
Federal Transit Cluster:		
Federal Transit –Capital Investment Grant	20.500	11-41, 11-50, 11-55, 11-56
Federal Transit – Formula Grants	20.507	11-41, 11-50, 11-55, 11-56
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	10-60, 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	10-60, 11-39, 11-40, 11-42, 11-44, 11-57, 11-58, 11-59, 11-60, 11-61
Child Support Enforcement	93.563	08-74
Low-Income Home Energy Assistance Program	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	10-68, 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

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Children's Health Insurance Program	93.767	10-60, 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	10-60, 10-87, 10-89, 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
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	08-107
Research and Development Cluster	93.701	11-88
From Central Falls School District 2011 Report:		
ARRA – Special Education – Grants to States (IDEA Part B)	84.391	11-3 (page F-20)
Education Technology State Grants Cluster:		
Education Technology State Grants	84.318	11-4 (page F-20)
ARRA – Education Technology State Grants, Enhancing Education Through Technology Program	84.386	11-4 (page F-20)

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
08-74		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				
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	
10-44		17.225	Errors were found on the ETA-2208A (UI-3) reports. These errors might have been detected with improved controls.						
	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				
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.						
	10-60d		Determine the nature of the wage record error and make necessary changes to prevent this type of error in the future.		X				
	10-60e		Enhance controls to ensure and document that interface data received is complete and includes all periods during the year.		X				
10-68		93.596	DHS does not have adequate controls to ensure that amounts claimed for maintenance of effort are supported.						
	10-68b		Properly document eligibility compliance for DCYF child care services claimed for FFY 2009.					X	
10-87		93.778	Certain administrative expenditures were not charged at the required 50% federal matching rate. Some were not adequately supported.						
	10-87		Ensure that documentation is maintained to support all administrative expenditures within the Medical Assistance Program.		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
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				
11-39		Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
	11-39a		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.	02-17c 03-20c 04-29c 05-29b 06-22b 07-44b+c 08-39b+c 09-33b+c 10-39a	X				
	11-39b		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 10-39b				X	
11-40		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.	07-45 08-40 09-34 10-40	X				
11-41		Various	The State did not have adequate controls to ensure compliance with regulations governing reporting under the Federal Funding Accountability and Transparency Act reporting requirements.						
	11-41a		Standardize agency documentation requirements for compliance with FFATA reporting.				X		See Corrective Action Plan for finding 2012-38
	11-41b		Ensure that FFATA-applicable subawards are reported to FSRS in a complete and timely manner.			X			See Corrective Action Plan for finding 2012-38

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
11-42		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.						
	11-42a		Finalize, document and implement standard monitoring and tracking security reports that will supply the DHS systems security administrator with required details pertaining to the activities of all INRHODES users.	05-32d 06-24d 07-46c 08-42 09-35a 10-41a	X				
	11-42b		Develop policies and procedures detailing appropriate investigation of issues identified by the department's monitoring procedures.	08-42b 09-35b 10-41b	X				
11-43		10.561	DHS did not have documentation supporting the actual amounts of in-kind match reported.						
	11-43		Develop control procedures to ensure that adequate supporting documentation is maintained for in-kind matching expenditures reported in the SNAP Federal Financial Status Report.	10-42a 10-42b			X		See Corrective Action Plan for finding 2012-41
11-44		10.561 93.558 93.714 93.575 93.596 93.713 93.778	Quarterly reconciliations between the cost allocation system and the State's accounting system were not performed timely. As a result, errors went undetected. Auditors also noted that payroll certifications for those employees who charge 100% of their time to one federal program were not completed timely.						
	11-44a		Require supervisory/management review of cost allocation supporting documents each quarter.			X			See Corrective Action Plan for finding 2012-43
	11-44b		Strengthen control procedures to ensure that quarterly reconciliations are performed in a timely manner to identify and resolve discrepancies as they occur.		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
	11-44c		Obtain semi-annual certifications from employees who charge all of their time to a single federal program within a reasonable period.		X				
11-45		17.225	Controls over federal reporting for the UI program should be improved to ensure accuracy and completeness. Problems were noted with the 9130, ETA 227 and TAPR reports.						
	11-45a		Resolve and document the difference for SFY 2011 and adjust the federal (ETA 9130) reports if required.		X				
	11-45b		Strengthen controls to ensure that federal reports are adequately reconciled to the state accounting system.		X				
	11-45c		Reconcile (ETA 227) report information to the state accounting system.	09-39b	X				
	11-45d		Perform and document a fiscal unit supervisory review of the financial related information in the ETA 227 report on a timely basis.		X				
	11-45e		Review (TAPR) reports prior to submission to ensure data agrees to supporting information systems and is reasonable.				X		See Corrective Action Plan for finding 2012-44
	11-45f		Coordinate reporting efforts across divisions to ensure consistent reporting and proper reconciliations of the TAPR to the 9130 reports.	10-45b			X		See Corrective Action Plan for finding 2012-44
	11-45g		Implement controls to ensure that detailed data utilized in preparing federal reports is saved and maintained by the department.			X			See Corrective Action Plan for finding 2012-44
	11-45h		Verify petition numbers reported on the TAPR report prior to submission to the federal government	10-45c	X				
11-46		17.225	Some 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. The BAM unit did not meet its completion targets for investigations of paid claims.						
	11-46a		Enhance controls to ensure that all eligible UI cases are registered with R.I. Job Services prior to first UI benefit payment.				X		See Corrective Action Plan for finding 2012-45

Finding and Recommendation Number		CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	11-46b		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.	10-43			X		See Corrective Action Plan for finding 2012-45
	11-46c		Strengthen controls to ensure that BAM investigations are completed within the required federal timeline targets.			X			See Corrective Action Plan for finding 2012-45
11-47		17.258 17.259 17.260 17.278	DLT should improve controls over federal financial reporting by completing the State's required federal grant information schedule and reconciling to RIFANS.						
	11-47a		Establish authorized balances within FARS ledgers consistent with grant award documentation.	07-55a 08-49a 09-41 10-46a	X				
	11-47b		Implement controls to ensure all data used to prepare federal reports is retained to adequately support such reports and provide an audit trail.			X			See Corrective Action Plan for finding 2012-46
11-48		17.258 17.259 17.260 17.278	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.						
	11-48a		Document the performance of subrecipient monitoring activities and communicate the results to the subrecipient in a timely manner.	10-49	X				
	11-48b		Determine if excess cash was drawn for SFY 2010 and take appropriate action if necessary.			X			The Department is currently working on determining the nature of the variance.
	11-48c		Strengthen fiscal monitoring procedures to ensure that cash drawn by a subrecipient is appropriate based on monitoring of subrecipient records.			X			See Corrective Action Plan for finding 2012-47
11-49		17.258 17.259 17.260 17.278	The forms used as guides to determine program eligibility were not always properly completed by staff.						

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
	11-49a		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.	07-56 08-50 09-42 10-47a		X			See Corrective Action Plan for finding 2012-48
	11-49b		Ensure that GEOSOL system data is consistent with case file documentation.	10-47b			X		See Corrective Action Plan for finding 2012-48
11-50		20.205 20.500 20.507	Required labor compliance checks were not always performed and proper documentation was not always maintained.						
	11-50a		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.	03-29 04-40 05-42 06-30 07-57 08-52 09-43 10-50	X				.
	11-50b		Develop a policy for documenting "No Activity" in the Daily Activities Book.		X				
11-51		20.205	RIDOT should improve its quality assurance program with respect to materials testing.						
	11-51a		Improve the RIDOT quality assurance program for materials testing consistent with federal regulations and guidelines.	07-58a 08-53a 09-44a 10-51a		X			See Corrective Action Plan for finding 2012-50
	11-51b		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 10-51b		X			See Corrective Action Plan for finding 2012-50

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
	11-51c		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 10-51c		X			See Corrective Action Plan for finding 2012-50
	11-51d		Require all test results be documented in the materials test book prior to vendor payment of the related materials.	08-53e 09-44d 10-51d		X			See Corrective Action Plan for finding 2012-50
	11-51e		Require staff to report any errors in the materials test book to the appropriate RIDOT personnel for correction.	09-44e 10-51e		X			See Corrective Action Plan for finding 2012-50
	11-51f		Improve controls over test results to allow cross referencing between test results and contractual items being tested.			X			See Corrective Action Plan for finding 2012-50
11-52		20.205	RIDOT did not have adequate policies or procedures in place to monitor its subrecipients.						
	11-52a		Establish written policies and procedures for subrecipient monitoring and establish a schedule of projects for review and document the monitoring performed.	08-54a 09-45a 10-52a			X		See Corrective Action Plan for finding 2012-51
	11-52b		Identify all federal awards passed-through to subrecipients by project.	08-54b 09-45b 10-52b		X			See Corrective Action Plan for finding 2012-51
	11-52c		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 09-45c 10-52c		X			See Corrective Action Plan for finding 2012-51
	11-52d		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).	08-54d 09-45d 10-52d			X		See Corrective Action Plan for finding 2012-51

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
	11-52e		Evaluate the impact of subrecipient activities on RIDOT's ability to comply with applicable federal regulations.	08-54e 09-45e 10-52e			X		See Corrective Action Plan for finding 2012-51
11-53		20.205	Timing differences exist between the DOT FMS system and RIFANS, making reporting of ARRA expenditures inconsistent.						
	11-53		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 10-53				X	
11-54		20-205	RIDOT did not have adequate policies or procedures in place to ensure police detail charges by municipality were reasonable. RIDOT's in-state mileage reimbursement policy differs from State policy.						
	11-54a		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.	10-54			X		See Corrective Action Plan for finding 2012-52
	11-54b		Renegotiate travel reimbursement policies that are consistent with the State's overall In-State travel reimbursement policies.		X				
	11-54c		Strengthen controls to ensure accurate in-state travel reimbursements to employees.		X				
11-55		20.500 20.507	RIDOT was unaware of the earmarking requirement for public transportation security projects and did not have any control procedures in place to ensure compliance.						
	11-55		Implement controls to ensure compliance with the Earmarking requirement (Title 49 Chapter 53 Section 5307(d)(1)(j)(i).)					X	
11-56		20.500 20.507	RIDOT does not have controls in place to ensure the Federal Financial Report (SF-425) is correct and amounts agree to the accounting records.						
	11-56		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.		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
11-57		93.558 93.714 93.575 93.596 93.713 93.767 93.778	DHS needs to improve its ADP Risk Analysis and System Security procedures for INRHODES. Current procedures do not fully comply with 45 CFR 95.621.						
	11-57		Ensure annual compliance with federal requirements for ADP Risk and System Security Reviews for INRHODES and the MMIS.	03-43 04-71 05-64 06-44 07-75 08-72 09-55 10-61	X				
11-58		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.						
	11-58a		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, 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 10-57a		X			See Corrective Action Plan for finding 2012-61
	11-58b		Formalize a sampling approach and review process for child care cases. Maintain documentation when reviews are performed.	06-43d 07-70c 08-67c 09-56b 10-57b	X				
	11-58c		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.	08-67d 09-56c 10-57c		X			See Corrective Action Plan for finding 2012-61

Finding and Recommendation Number		CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	11-58d		Develop control procedures to prevent ineligible child care costs from being charged to the program.	09-56d 10-57d	X				
11-59		93.558 93.714	TANF – Special Reporting – Deficiencies were noted in supporting documentation for MOE amounts reported. Supervisory review and approval of the ACF-204 should be improved						
	11-59		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 supported by appropriate data and calculations.	07-73 08-69 08-71 09-58 10-58		X			See Corrective Action Plan for finding 2012-62
11-60		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.						
	11-60a		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.	98-36 99-33a 00-32a 01-36a 02-41a 03-41a 04-56a 05-59a 06-40a 07-71a 08-66a 09-57a 10-60a			X		See Corrective Action Plan for finding 2012-63

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
	11-60b		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 10-60b			X		See Corrective Action Plan for finding 2012-63
	11-60c		Revisit the propriety and application of DHS policy (1022.10.20) and determine if it is supported by federal guidance or regulation.	10-60c				X	
11-61		93.558 93.714	Controls over monitoring of TANF subrecipients could be improved. Not all subrecipients submitted their audit reports timely.						
	11-61		Obtain and review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action.				X		See Corrective Action Plan for finding 2012-64
11-62		93.568	Controls over monitoring of LIHEAP subrecipients could be improved. No follow-up is performed after on-site reviews and some audit reports are received late.						
	11-62		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.				X		See Corrective Action Plan for finding 2012-66
11-63		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. Controls over payments to subrecipients should be improved.						
	11-63a		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.	10-62	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
	11-63b		Restrict subrecipient funding to their immediate cash needs.				X		See Corrective Action Plan for finding 2012-67
	11-63c		Require subrecipient CAP agencies to disburse program funds on behalf of eligible clients based upon vendor submission of invoices for energy services.	10-67	X				
11-64		93.568	The OER does not maintain adequate accounting records by grant award in order to support compliance with period of availability requirements.						
	11-64		Maintain documentation to support the calculations confirming compliance with period of availability requirements.	06-47a 07-78a 08-76a 09-62 10-63a		X			See Corrective Action Plan for finding 2012-68
11-65		93.568	The OER does not perform any review or analysis to ensure compliance with earmarking requirements.						
	11-65		Implement designed control procedures and improve documentation to ensure compliance with the LIHEAP earmarking requirements.	06-48 07-79 08-77 09-61 10-64	X				
11-66		93.568	Errors were noted in the preparation of SF-269 reports. Supporting documentation for the Carryover and Reallotment report was not maintained. OER needs to strengthen procedures over preparation of the Household report.						
	11-66a		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.		X				
	11-66b		Ensure that the Carryover and Reallotment report is consistent with supporting documentation.	05-65 06-50d 07-81c 08-79d 09-65 10-66c	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
	11-66c		Submit a revised Carryover and Reallotment Report for the 2010 grant awards as required.		X				
	11-66d		Strengthen controls over the preparation of the Carryover and Reallotment Report to ensure accurate detail is submitted.	10-66e	X				
	11-66e		Enhance the *CAPTAIN* system for the purpose of generating the data necessary to complete the LIHEAP Household Report accurately.	10-66f	X				
11-67		93.575 93.596	Costs were reported on the ACF-696 report in the wrong category and were not noticed or corrected in subsequent reports.						
	11-67		Strengthen controls to ensure that federal reports are prepared accurately and reviewed prior to submission.				X		See Corrective Action Plan for finding 2012-65
11-68		93.596	DHS drew federal funds in excess of its agreed upon levels of State contributions. One quarterly report overstated the state share of expenditures.						
	11-68a		Develop and implement control procedures to ensure that federal cash draws do not exceed the required federal matching percentage (FMAP).	10-69	X				
	11-68b		Ensure matching requirements are met each quarter, and that reports accurately reflect actual expenditures.		X				
11-69		93.596	DHS does not have adequate controls to ensure that amounts claimed for maintenance of effort are supported.						
	11-69		Develop control procedures to ensure that compliance with specific eligibility requirements is maintained relating to all child care services claimed as maintenance of effort.	10-68a	X				
11-70		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.						
	11-70		Reconstruct provider files to meet federal requirements for Provider Eligibility and Suspension and Debarment.	07-96 08-96 09-81 10-73		X			See Corrective Action Plan for finding 2012-69

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
11-71		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.						
	11-71		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.	02-54a 03-53a 04-72a 05-68a 06-56a 07-89 08-89 09-70 10-70			X		See Corrective Action Plan for finding 2012-71
11-72		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.						
	11-72a		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 10-72a			X		See Corrective Action Plan for finding 2012-70
	11-72b		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 10-72b		X			See Corrective Action Plan for finding 2012-70

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
	11-72c		Report cumulative disbursements accurately on the SF-425 report in accordance with report guidelines.	03-65f 04-82c 05-77c 06-59c 07-90c 08-90c 09-72c 10-72c		X			See Corrective Action Plan for finding 2012-70
	11-72d		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.	08-90d 09-72d 10-72d				X	
	11-72e		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 10-72e				X	
11-73		93.778	The State was unable to provide specific claims data to support CNOM (costs not otherwise matchable) expenditures.						
	11-73a		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 10-78a			X		See Corrective Action Plan for finding 2012-72
	11-73b		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.			X			See Corrective Action Plan for finding 2012-72
	11-73c		Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditure populations to the Medicaid program.	09-76c 10-78c		X			See Corrective Action Plan for finding 2012-72
11-74		93.778	Certain expenditures related to the State's Fiscal Agent Contract were found to not qualify for enhanced reimbursement based on federal regulations. DHS should obtain specific guidance from CMS regarding the allowability of services performed by the fiscal agent.						
	11-74		Credit the federal grantor for unallowable fiscal agent costs charged at the enhanced federal reimbursement rate.	07-97 08-97 09-82 10-81	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
11-75		93.778	Improved documentation of follow-up to providers identified through EOHHS's DUR Procedures is required to demonstrate adequate monitoring of the DUR Program. Provider response rates to alert letters sent to Medicaid pharmacies is not adequate to ensure proper monitoring.						
	11-75		Adopt policies and procedures that will allow for consistent documented resolution of the findings by the State's appointed DUR Board.	08-104 09-85 10-84	X				
11-76		93.778	EOHHS needs to address staffing deficiencies within the MEQC Program to ensure timely compliance with federal regulations. DHS should re-evaluate MEQC policies to ensure compliance and revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.						
	11-76		Address staffing deficiencies in the MEQC unit so that the agency can meet its federal monitoring and reporting responsibilities.	10-80a			X		See Corrective Action Plan for finding 2012-73
11-77		93.778	The Rate Setting unit did not complete any desk audits for 2009, on which 2011 rates would have been based. The state did not comply with requirements related to rate setting.						
	11-77		Address personnel resource deficiencies within the Medicaid program to ensure compliance with federal inpatient hospital and long-term care facility audit requirements.				X		See Corrective Action Plan for finding 2012-74
11-78		93.778	Payments were made to a facility whose Medical Director had been suspended from participation in federal programs. Another suspension and debarment certification could not be located.						
	11-78a		Improve procedures to allow for the identification of suspended or debarred providers employed within provider groups.					X	
	11-78b		Recover reimbursements to providers for services provided by the identified suspended provider and credit the federal government for its share of ineligible Medicaid expenditures.			X			Partial reimbursement made during fiscal 2012
11-79		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.						

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
11-79a		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 10-76a	X				
11-79b		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.	08-92b 09-74b 10-76b	X				
11-79c		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.	10-76c	X				
11-79d		Ensure that all providers meet licensing and federal health and safety requirements for providing services within the Medical Assistance Program.	10-76d		X			See Corrective Action Plan for finding 2012-81
11-80	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.						
11-80		Strengthen system processing controls over home and community based medical and support services to enhance overall program integrity for this claim group.	00-42 01-49 02-53 03-57 04-75 05-71 06-55 07-86 08-86 09-69 10-74		X			See Corrective Action Plan for finding 2012-85
11-81	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.						

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
	11-81a		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 10-77a			X		See Corrective Action Plan for finding 2012-83
	11-81b		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 10-77b			X		See Corrective Action Plan for finding 2012-83
	11-81c		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.	09-75c 10-77c			X		See Corrective Action Plan for finding 2012-83
11-82		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.						
	11-82		Reimburse the federal government for claims paid on behalf of ineligible individuals within timeframes mandated by federal regulations.	07-95b 08-95b 09-79 10-82			X		See Corrective Action Plan for finding 2012-78
11-83		93.778	DHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by hospitals.						
	11-83		Improve controls over Medicaid DSH payments by implementing the recommendations made within completed DSH audits.	08-102 09-84 10-83			X		See Corrective Action Plan for finding 2012-75
11-84		93.778	DHS needs to increase its oversight and monitoring procedures to improve controls over managed care contract expenditures.						
	11-84a		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.	09-86 10-85a			X		See Corrective Action Plan for finding 2012-79

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
	11-84b		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.	10-85b			X		See Corrective Action Plan for finding 2012-79
11-85		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.						
	11-85a		Address personnel resource deficiencies in critical personnel areas to ensure proper administration and control over the Medicaid program.	10-86				X	This issue is reported as a financial statement finding only in fiscal 2012. The individual compliance issues summarized in this finding are reported as federal compliance issues for 2012 when applicable.
	11-85b		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.					X	Same as above.
11-86		93.778	Controls over Rhody Health Partners capitation payments could be improved.						
	11-86		Expand MEQC procedures to validate the eligibility requirements of Rhody Health and the proper assignment of capitation payment levels to program participants.	10-88			X		See Corrective Action Plan for finding 2012-80
11-87		93.778	Certain expenditures are paid by the fiscal agent outside of the MMIS, i.e. manually.						
	11-87a		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.			X			See Corrective Action Plan for finding 2012-77
	11-87b		Eliminate the practice of processing advances to state-operated providers at fiscal year-end.				X		See Corrective Action Plan for finding 2012-77
11-88		R&D Cluster: 93.701	The University did not furnish required ARRA information to all of its subrecipients at the time of disbursement of ARRA funds.						

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*
	11-88		We recommend that management of the University implement policies and procedures to ensure that the proper information is supplied to the subrecipients.	10-91			X		See Corrective Action Plan for finding 2012-87
11-3 Note A		84.391	The Central Falls School District does not have formal policies and procedures or an accounting system in place to properly maintain and account for their capital assets.						
	11-3		The School District should implement policies and procedures and an accounting system for capital assets. The procedures should include the identification of the specific federal funds used to acquire equipment and be in compliance with the state laws and procedures regarding the use, management and disposition of capital assets.				X		See Corrective Action Plan for finding 2012-27
11-4 Note A		84.318 84.386	The Central fall School District did not have appropriate documentation to support that they conducted timely consultation with private school officials in making their determination to set aside the required amounts for private school children from the applicable programs listed above.						
	11-4		The school district should implement procedures that will provide the appropriate documentation to support that they engaged in timely consultation with private school officials.		X				

Note A: The preceding findings were not included in the State of Rhode Island's fiscal 2011 Single Audit Report because the Central Falls School District was reported as part of the City of Central Falls. For fiscal 2012, the District is part of the State reporting entity.