State of Rhode Island
and Providence Plantations

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2008

Office of the Auditor General
General Assembly

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

ERNEST A. ALMONTE, CPA, CFF
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- *INTEGRITY*
- *RELIABILITY*
- *INDEPENDENCE*
- *ACCOUNTABILITY*

June 2, 2009

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, 2008. This audit was required by both state law (sections 22-13-4 and 35-7-10 of the General Laws) and the federal Single Audit Act.

The *Single Audit Report* includes our reports on (1) the basic financial statements of the State of Rhode Island, (2) internal control over financial reporting and on compliance and other matters, and (3) compliance with requirements applicable to each major federal program and internal control over compliance. A detailed Schedule of Expenditures of Federal Awards is also included as outlined in the Table of Contents on the next page. Findings and related recommendations that are required to be reported in the *Single Audit Report* are included in the Schedule of Findings and Questioned Costs. A corrective action plan, which addresses each current year finding, has been prepared by the State and is included herein. Additionally, the status of prior year findings has also been prepared by the State and is included herein.

Respectfully submitted,

Ernest A. Almonte

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Auditor General

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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- certain component units which represent 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 9% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 55% of the assets and 1% of the revenues of the business-type activities; and

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

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

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

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2008, 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 notes 1, 13 and 14, the State adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* and GASB Statement No. 50 *Pension Disclosures* as of July 1, 2007.

As disclosed in note 18D, the General Fund ended fiscal 2008 with an operating deficit of $42.9 million resulting from a deficiency of general revenue compared to general revenue expenditures.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2009 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis, on pages A-4 through A-18, the Budgetary Comparison Schedules on pages A-107 through A-124, and the Schedules of Funding Progress on pages A-125 through A-127 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Ernest A. Almonte, CPA, CFF
Auditor General

April 9, 2009

Management's Discussion and Analysis

The following is a discussion and analysis of the financial activities of the State of Rhode Island and Providence Plantations (the State) for the fiscal year ended June 30, 2008. Readers are encouraged to consider the information presented here in conjunction with the letter of transmittal, which can be found at the front of this report, and with the State's financial statements, which follow this section.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Assets:** The total assets of the State exceeded total liabilities at June 30, 2008 by $952.1 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, ($1,433.6) million was reported as unrestricted net assets, $626.5 million was restricted net assets, and $1,759.2 million was invested in capital assets, net of related debt.
- **Changes in Net Assets:** In the Statement of Activities the State's total net assets decreased by $199.2 million in fiscal year 2008. Net assets of governmental activities decreased by $153.5 million, while net assets of the business-type activities decreased by $45.7 million.

Fund Financial Statements

- The State's governmental funds reported a combined ending fund balance of $685.2 million, a decrease of $236.3 million in comparison with the previous fiscal year.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of ($43.0) million, a decrease of $43.0 million. The State Legislature opted to not transfer funds from the budget reserve to the undesignated balance to offset a budget deficit caused primarily by general revenue expenditures exceeding appropriations (see note 18D for significant variances). This has no effect on total fund balance.
  - The Budget Reserve Account ended the fiscal year with a balance of $102.9 million, an increase of $24.2 million in comparison with the previous fiscal year.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of $7.6 million, which was an increase of $4.7 million from the previous year.
- The GARVEE Fund ended its fiscal year with a fund balance of $152.7 million a decrease of $67.3 million in comparison with the previous fiscal year, reflecting the use of bond proceeds for infrastructure capital assets. Of the fund balance, $13.6 million is reserved for debt.
- The Rhode Island State Lottery transferred $354.3 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $33.3 million in comparison with the previous fiscal year.

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

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

- The **Statement of Net Assets** presents all of the government's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in the government's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.
- The **Statement of Activities** presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods; for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

Both of the government-wide financial statements have separate sections for three different types of government activities:

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net assets and change in net assets of the internal service funds are also included in this column.
- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.
- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on the individual parts of the State government, and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

- **Governmental funds:** Most of the State's basic services are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on spendable resources available at the end of the fiscal year. Such information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the State's programs.

  Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financial decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities.

  Governmental funds include the general fund and special revenue, capital projects and permanent funds. The State has several governmental funds, of which GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* defines the general fund as a major fund. The criteria for determining if any of the other governmental funds are major funds are detailed in Note 1(D). The Intermodal Surface Transportation Fund and the GARVEE Fund are also major funds. Each of the major funds is presented in a separate column in the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances. The remaining governmental funds are combined in a single aggregated column on these financial statements. Individual fund data for each of these nonmajor governmental funds can be found in the supplementary information section of the State's Comprehensive Annual Financial Report (CAFR).

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds; enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Like the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center

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

- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension trust, private-purpose trust and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State's CAFR.

Major Features of the Basic Financial Statements

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

Notes to the Financial Statements

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

Required Supplementary Information

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

comparison schedule for each of the State's major governmental funds that have a legally mandated budget.

Other Supplementary Information

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

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled $952.1 million at the end of fiscal year 2008, compared to $1,151.3 million at the end of the prior fiscal year. The primary reason for the $199.2 million decrease was that prior year resources were used to fund some of the current year expenses. Governmental activities have unrestricted net assets of ($1,418.2) 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, 2008
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and other assets	$ 1,413,844	$ 1,618,791	$ 223,419	$ 320,999	$ 1,637,263	$ 1,939,790
Capital assets	2,726,232	2,604,474	208,595	168,763	2,934,827	2,773,237
Total assets	4,140,076	4,223,265	432,014	489,762	4,572,090	4,713,027
Long-term liabilities outstanding	2,476,054	2,459,742	268,980	279,650	2,745,034	2,739,392
Other liabilities	834,561	780,606	40,353	41,768	874,914	822,374
Total liabilities	3,310,615	3,240,348	309,333	321,418	3,619,948	3,561,766
Net assets:						
Invested in capital assets, net of related debt	1,820,078	1,691,793	(60,902)	(109,435)	1,759,176	1,582,358
Restricted	427,588	373,788	198,928	294,395	626,516	668,183
Unrestricted	(1,418,205)	(1,082,664)	(15,345)	(16,616)	(1,433,550)	(1,099,280)
Total net assets	$ 829,461	$ 982,917	$ 122,681	$ 168,344	$ 952,142	$ 1,151,261

As indicated above, the State reported a balance in unrestricted net assets of ($1,433.6) million at June 30, 2008 in the Statement of Net Assets. This deficit results primarily from the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for non-capital expenditures deemed to provide important benefits for the general public. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. Examples of these uses of general obligation bond proceeds include but are not limited to the following:

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

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

Changes in Net Assets

The State's net assets decreased by $199.2 million during the current fiscal year. Total revenues of $8,029.2 million were less than expenses of $8,228.4 million. Approximately 35.1% of the State's total revenue came from taxes, while 24.2% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 38.0% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 33.3% and education, 16.5%. In fiscal year 2008, governmental activity expenses exceeded program revenues, which resulted in the use of $3,016.8 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2008 exceeded expenses by $261.4 million.

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

State of Rhode Island's Changes in Net Assets
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	$ 449,812	$ 351,861	$ 2,601,083	$ 2,028,470	$ 3,050,895	$ 2,380,331
Operating grants and contributions	1,827,704	1,716,318	3,285	4,607	1,830,989	1,720,925
Capital grants and contributions	112,712	151,528			112,712	151,528
General revenues:						
Taxes	2,820,709	2,842,828			2,820,709	2,842,828
Interest and investment earnings	32,466	37,539	9,531	12,137	41,997	49,676
Miscellaneous	121,273	106,543	8,341	8,137	129,614	114,680
Gain on sale of capital assets	3,026				3,026	
Payments from component units	39,284	10,108			39,284	10,108
Total revenues	5,406,986	5,216,725	2,622,240	2,053,351	8,029,226	7,270,076
Program expenses:						
General government	894,766	858,729			894,766	858,729
Human services	2,736,956	2,519,745			2,736,956	2,519,745
Education	1,361,310	1,320,384			1,361,310	1,320,384
Public safety	428,351	391,354			428,351	391,354
Natural resources	90,087	91,758			90,087	91,758
Transportation	240,644	281,518			240,644	281,518
Interest	133,298	107,211			133,298	107,211
Lottery			2,042,722	1,487,239	2,042,722	1,487,239
Convention Center			41,007	42,859	41,007	42,859
Employment insurance			259,246	210,060	259,246	210,060
Total expenses	5,885,412	5,570,699	2,342,975	1,740,158	8,228,387	7,310,857
Change in net assets before transfers	(478,426)	(353,974)	279,265	313,193	(199,161)	(40,781)
Transfers	324,928	304,906	(324,928)	(304,906)		
Change in net assets	(153,498)	(49,068)	(45,663)	8,287	(199,161)	(40,781)
Net assets - Beginning	982,917	1,031,985	168,344	160,057	1,151,261	1,192,042
Cumulative effect of prior period adjustments	42				42	
Net assets - Beginning, as restated	982,959	1,031,985	168,344	160,057	1,151,303	1,192,042
Net assets - Ending	$ 829,461	$ 982,917	$ 122,681	$ 168,344	$ 952,142	$ 1,151,261

Financial Analysis of the State's Funds

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the State's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of $685.2 million, a decrease of $236.3 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) $102.9 million for a "rainy day" account, (2) $46.7 million for continuing appropriations, (3) $87.8 million principally for liquidating debt, (4) $136.1 million for employment insurance programs

and (5) $40.8 million for other restricted purposes. Approximately 45.8% or $313.8 million of the ending fund balance is designated by the State's management, consistent with the limitations of each fund.

The major governmental funds of the primary government are:

General Fund. The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance (deficit) of the General Fund was ($43.0) million, while total fund balance was $106.7 million.

Revenues and other sources of the General Fund totaled $5,354.0 million in fiscal year 2008, an increase of $297.6 million from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (amounts in thousands):

			Increase (decrease) from 2007	
	2008	2007	Amount	Percent
Taxes:				
Personal income	$ 1,073,617	$ 1,065,367	$ 8,250	0.77%
Sales and use	1,019,614	1,052,582	(32,968)	-3.13%
General business	374,800	360,949	13,851	3.84%
Other	48,370	50,343	(1,973)	-3.92%
Subtotal	2,516,401	2,529,241	(12,840)	-0.51%
Federal grants	1,740,283	1,629,715	110,568	6.78%
Restricted revenues	126,090	109,184	16,906	15.48%
Licenses, fines, sales, and services	322,864	242,560	80,304	33.11%
Other general revenues	41,200	35,337	5,863	16.59%
Subtotal	2,230,437	2,016,796	213,641	10.59%
Total revenues	4,746,838	4,546,037	200,801	4.42%
Other sources	607,153	490,969	116,184	23.66%
Transfer from budget reserve		19,423	(19,423)	-100.00%
Total revenue and other sources	$ 5,353,991	$ 5,056,429	$ 297,562	5.88%

Expenditures and other uses totaled $5,391.5 million in fiscal year 2008, an increase of $276.0 million (5.40%) from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (amounts in thousands):

	2008	2007	Increase (decrease) from 2007 Amount	Percent
General government	$ 626,052	$ 633,893	$ (7,841)	-1.24%
Human services	2,727,534	2,512,286	215,248	8.57%
Education	1,289,124	1,267,255	21,869	1.73%
Public safety	410,605	396,029	14,576	3.68%
Natural resources	72,982	81,518	(8,536)	-10.47%
Debt Service:				
Principal	92,077	79,954	12,123	15.16%
Interest	68,478	61,396	7,082	11.53%
Total expenditures	5,286,852	5,032,331	254,521	5.06%
Other uses	104,650	83,129	21,521	25.89%
Total expenditures and other uses	$ 5,391,502	$ 5,115,460	$ 276,042	5.40%

Intermodal Surface Transportation Fund. The Intermodal Surface Transportation Fund (ISTEA) is a special revenue fund that accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. At the end of the fiscal year, unreserved fund balance of the ISTEA fund was $7.6 million, while the total fund balance was $48.4 million. Total fund balance of the ISTEA fund increased by $15.6 million during the current fiscal year. The primary reasons for the increase was the collection of approximately $7.9 million of the federal receivable that had not been previously recognized in the fund financial statements because it was a long-term receivable and approximately $4.7 million of unspent gas tax revenue.

GARVEE Fund. The GARVEE Fund is a capital projects fund that accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents per gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds. The GARVEE Fund ended the fiscal year with a fund balance of $152.7 million, a decrease of $67.3 million. The reason for this change was that it is a capital projects fund and current year expenditures were funded out of the prior year balance.

General Fund Budgetary Highlights

According to the State's Constitution, in FY2008 general revenue appropriations in the general fund cannot exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Beginning in FY2009, this will decrease by .2% a year until FY2013 when the spending cap will be 97%. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established. Adjustments to general revenue receipt estimates resulted in a decrease of $36.9 million, -1.1%, between the original budget and the final budget. General revenue appropriations decreased from the original budget by $39.5 million, -1.2%.

Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations are listed below.

General revenues	Original Budget vs. Final Budget Change (In thousands)	Percent
Taxes		
Personal Income	$ (13,757)	-1.3%
Business Corporations	(10,707)	-6.4%
Public Utilities Gross Earnings	(12,000)	-11.0%
Insurance Companies	(5,334)	-7.7%
Sales and Use	(55,324)	-6.1%
Motor Vehicle	(5,035)	-10.0%
Cigarettes	5,600	5.0%
Inheritance and Gift	7,900	26.2%
Departmental Revenue	(5,370)	-1.5%
Other Miscellaneous	40,691	29.0%
Transfer from Lottery	17,100	5.0%
Other General Revenue	(663)	
Total Change in Estimated Revenue	$ (36,899)	-1.1%
General revenue appropriations		
Department		
Administration	$ 19,359	3.8%
Revenue	(3,410)	-8.8%
Children, Youth and Families	2,727	1.8%
Health	(3,318)	-9.6%
Human Services	(18,176)	-2.2%
Mental Health, Retardation and Hospitals	(9,262)	-3.8%
Elementary and Secondary Education	(2,960)	-0.3%
Board of Governors for Higher Education	(6,085)	-3.1%
Corrections	(3,403)	-1.8%
Judicial	(3,273)	-3.8%
Environmental Management	(2,200)	-6.0%
Other	(9,463)	
Total Change in Appropriations	$ (39,464)	-1.2%

The General Fund ended fiscal 2008 with an operating deficit of $42.9 million resulting from a deficiency of general revenue compared to general revenue expenditures. Actual general revenues were $7.1 million less than estimated revenues and actual general revenue expenditures were $35.8 million more than budgeted amounts. Expenditures in three departments exceeded appropriations from general revenues by a significant amount: the Department of Human Services by $22.8 million; the Department of Mental Health Retardation and Hospitals by $7.8 million; and the Department of Corrections by $8.6 million.

Capital Assets and Debt Administration

Capital Assets

The State's investment in capital assets for its governmental and business-type activities as of June 30, 2008, amounts to $2,934.8 million, net of accumulated depreciation of $1,641.4 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was about 5.8% in terms of net book value, primarily caused by construction in progress for construction and repair of roads and other infrastructure.

Actual expenditures to purchase or construct capital assets were $277.2 million for the year. Of this amount, $147.0 million was used to construct or reconstruct roads. Depreciation charges for the year totaled $115.9 million.

State of Rhode Island's Capital Assets as of June 30, 2008
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Capital assets not being depreciated						
Land	$ 341,907	$ 338,987	$ 45,558	$ 45,558	$ 387,465	$ 384,545
Works of Art	239	135			239	135
Intangibles	136,510	111,537			136,510	111,537
Construction in progress	777,066	597,005	1,568	25,142	778,634	622,147
Total capital assets not being depreciated	1,255,722	1,047,664	47,126	70,700	1,302,848	1,118,364
Capital assets being depreciated						
Land improvements	3,700	3,700			3,700	3,700
Buildings	517,249	520,733	163,303	161,266	680,552	681,999
Building improvements	208,342	208,342			208,342	208,342
Equipment	224,926	220,661	83,395	13,060	308,321	233,721
Intangibles	8,428	8,428			8,428	8,428
Infrastructure	2,064,005	2,052,745			2,064,005	2,052,745
	3,026,650	3,014,609	246,698	174,326	3,273,348	3,188,935
Less: Accumulated depreciation	1,556,140	1,457,799	85,228	76,263	1,641,368	1,534,062
Total capital assets being depreciated	1,470,510	1,556,810	161,470	98,063	1,631,980	1,654,873
Total capital assets (net)	$ 2,726,232	$ 2,604,474	$ 208,596	$ 168,763	$ 2,934,828	$ 2,773,237

Significant capital projects include relocation of a major segment of interstate highway as well as construction of new youth correctional facilities and a State Police headquarters.

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

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of $2,222.9 million of which $997.1 million is general obligation debt,

$358.1 million is special obligation debt and $867.7 million is debt of the blended component units. Additionally, accreted interest of $11.2 million has been recognized for debt of one blended component unit, which will not be paid until 2052. The State's total bonded debt increased by $16.4 million during the current fiscal year. This increase is the net of a $83.6 million increase in general obligation debt, a decrease of $32.0 million in special obligation debt and a decrease of $35.2 million in blended component unit debt. Additionally, the State has extended its credit through contractual agreements of a long-term nature, which are subject to annual appropriations.

During the current fiscal year, the State issued $178.3 million of general obligation bonds of which $46.6 million were refunding bonds used to refund $47.3 million of outstanding bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's).

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 $275.0 million. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Other Post-Employment Benefits

In accordance with GASB Statement No. 45 the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. An actuarial study completed as of June 30, 2005 has determined the State's unfunded actuarial accrued liability to be approximately $643.6 million. Based on a discount rate of 3.566%, the State and other participating employers' annual required contribution was determined to be $46.1 million and the net OPEB obligation as of June 30, 2008 was $17.7 million.

In order to address this unfunded liability and reduce the ongoing cost to the taxpayer, as part of his FY 2009 financial plan, the Governor recommended modifying eligibility requirements and co-share percentages for retiree health. The General Assembly adopted his proposal with minor modifications including changing the effective date to October 1, 2008. Employees retiring after October 1, 2008 would be eligible for retiree health coverage through the State if they are age 59 or over with a minimum of 20 years of service. For employees retiring before October 1, 2008, an employee with over 10 years of service as of July 1, 2005 was eligible for retirement with at least 28 years of service at any age, or at least 10 years of service and at least age 60, and was therefore eligible for retiree health. For those employees with less than 10 years of service prior to July 1, 2005, the employee had to be age 59 with at least 29 years of service, age 65 with ten years of service, or age 55 with 20 years of service. The enacted reform modified the co-share percentage to require a 20 percent co-share on the full cost of the early retiree or post-65 plan in which the retiree is enrolled. For those retiring prior to October 1, 2008, the early retirees pay a co-share based on years of service on the active employee rate. For these employees retiring prior to October 1, 2008, who are over age 60 with at least 28 years of service, the state pays 100 percent of the cost of the plan.

Conditions Expected to Affect Future Operations

At the November 2008 Revenue Estimating Conference (REC) the enacted FY 2009 estimate of general revenues was revised downward by $233.6 million. Of the 21 general revenue sources that are estimated at the REC, 12 were revised downward from enacted estimates including the three largest tax sources of general revenue; Personal Income Tax, Sales and Use Tax, and Business Corporation Tax. In addition, the estimated Lottery Transfer to the general fund was revised downward as were Departmental Receipts. The revised FY 2009 estimate of total general revenues is $3.113 billion, a 7.0 percent decrease from the enacted FY 2009 estimate.

In addition, the first quarter report for FY 2009 prepared by the Budget Office and issued on November 17, 2008 projects that expenditures will exceed appropriations for a number of programs by $127.6 million. In total the general revenue deficit for FY 2009 is projected to be $357.4 million according to the first quarter report for FY 2009 prepared by the Budget Office.

On January 7, 2009 the Governor submitted a supplemental budget proposal for FY 2009 to the General Assembly. This proposal, which was subsequently revised by the Governor to incorporate the impact of the American Recovery and Reinvestment Act, included a number of measures designed to eliminate the FY 2009 budget deficit discussed above. On April 8, 2009 the General Assembly enacted a revised supplemental budget for FY 2009.

In hopes of combating the worst economic crisis confronting the nation since the Great Depression, the United States Congress passed in February 2009 the American Recovery and Reinvestment Act, a $787 billion stimulus package consisting of various spending and tax cut measures. Current estimates place Rhode Island's spending share of the Federal stimulus package in a range from $825 million to over $1 billion, which is believed to include approximately $451.5 million over 27 months for Rhode Island's Medicaid programs, approximately $137 million for highway and bridge construction and repairs, approximately $75.4 million for other infrastructure work, approximately $91 million for aid to schools serving low-income students and special education programs for children with learning disabilities, and approximately $165 million of fiscal stabilization funds to be used primarily as education aid. The full impact of such stimulus funds have not been reflected in the State's FY 2009 and FY 2010 deficit projections previously noted. The State has prepared necessary certifications by the Governor to receive funds under the American Recovery and Reinvestment Act. This process, which is ongoing, includes review of the federal act to determine if any state legislative action will be required, and requesting the General Assembly to take such legislative action, in order to qualify for the funds.

The Blue Ribbon Panel for Transportation Funding formed by the Governor in March 2008 released its report dated as of December 23, 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 currently provides approximately $354 million per year. 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.

The owner and operator of Twin River, one of the two licensed video lottery facilities in the State, had entered into a forbearance agreement with its lenders (who had provided a $565 million loan package) as a result of its default on loan payments. The forbearance agreement expired January 31, 2009 and no resolution to restructuring the loan package has been reached yet on the matter. In addition, the possible opening of new gaming sites in Massachusetts may significantly reduce revenues of Twin River since such sites are likely to reduce the number of out-of-state patrons visiting Twin River. The State continues to closely monitor the situation.

Subsequent to June 30, 2008, the fair value of the investments held within the pension trust funds have declined significantly, consistent with overall declines in the domestic and international financial markets. At March 31, 2009 declines were approximately 25% compared to the fair value of investments at June 30, 2008. The State Investment Commission has adopted a long-term investment policy for the System's investments, which includes diversification of holdings pursuant to an asset allocation model. Additionally, the impact on the funded status of the plans and required contributions due to any near term decline in value of the pension trust fund investments will be tempered by the five-year smoothing method employed in the actuarial value of assets.

Economic Factors

The unemployment rate for the State of Rhode Island was 9.1 percent in the fourth quarter of 2008, which is an increase from the rate of 5.8 percent during the fourth quarter of 2007. As of February 2009, the State's rate has risen to 10.5 percent. This compares unfavorably with the U.S. rate of 8.1 percent and reflects the fact that Rhode Island's economy felt the effects of the downturn in the housing market sooner than the country as a whole and has been hit again with the widening national recession.

One of the "main threats" to the State's economy is the high tax burden imposed on Rhode Island businesses and households. Rhode Island's heavy tax burden is attributable to high property taxes at the local level and high personal income tax rates at the state level. The former discourages businesses that are making relocation decisions from choosing Rhode Island. The latter discourage entrepreneurs and venture capitalists from enhancing new business development in the State giving Rhode Island a less dynamic economy than Connecticut and Massachusetts. To address this problem, Governor Carcieri formed a Tax Policy Strategy Workgroup to come up with proposals to make Rhode Island's tax system a competitive advantage in recruiting firms and increasing jobs in the state. The Workgroup reported its proposals to the Governor in March 2009.

Requests for Information

This financial report is designed to provide a general overview of Rhode Island's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional information should be sent to

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

State of Rhode Island and Providence Plantations
Statement of Net Assets
June 30, 2008
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	**Business - Type Activities**	**Totals**	**Component Units**
Assets				
Current assets:				
Cash and cash equivalents	$ 438,381	$ 16,990	$ 455,371	$ 252,825
Funds on deposit with fiscal agent	185,601	127,528	313,129	
Investments	241		241	96,793
Receivables (net)	409,757	55,276	465,033	238,721
Restricted assets:				
Cash and cash equivalents		20,939	20,939	311,851
Investments	72,280		72,280	403,103
Other assets				10,066
Due from primary government				4,181
Due from component units	12,690		12,690	757
Internal balances	3,700	(3,700)		
Due from other governments and agencies	184,795	1,426	186,221	5,282
Inventories	2,626	684	3,310	2,747
Other assets	55,104	749	55,853	16,167
Total current assets	1,365,175	219,892	1,585,067	1,342,493
Noncurrent assets:				
Investments				141,957
Receivables (net)	6,873		6,873	3,121,577
Restricted assets:				
Cash and cash equivalents				152,904
Investments				121,395
Other assets				136,270
Due from component units	30,315		30,315	
Capital assets - nondepreciable	1,255,722	47,125	1,302,847	629,486
Capital assets - depreciable (net)	1,470,510	161,470	1,631,980	1,303,552
Other assets	11,481	3,527	15,008	64,262
Total noncurrent assets	2,774,901	212,122	2,987,023	5,671,403
Total assets	4,140,076	432,014	4,572,090	7,013,896
Liabilities				
Current Liabilities:				
Cash overdraft	3,735		3,735	455
Accounts payable	511,253	16,483	527,736	86,932
Due to primary government				12,690
Due to component units	4,181		4,181	68
Due to other governments and agencies		1,888	1,888	1,454
Deferred revenue	13,449	2,582	16,031	25,817
Other current liabilities	109,362	4,295	113,657	264,164
Notes payable	1,860		1,860	
Current portion of long-term debt	190,721	9,473	200,194	203,309
Obligation for unpaid prize awards		5,632	5,632	
Total current liabilities	834,561	40,353	874,914	594,889
Noncurrent Liabilities:				
Due to primary government				30,315
Due to other governments and agencies				3,963
Net OPEB obligation	16,112	62	16,174	4,237
Deferred revenue		8,895	8,895	679
Due to component units				689
Notes payable	416		416	10,780
Loans payable				254,868
Obligations under capital leases	220,831		220,831	14,928
Compensated absences	12,210		12,210	29,595
Bonds payable	2,153,132	260,023	2,413,155	3,809,942
Other liabilities	73,353		73,353	142,366
Total noncurrent liabilities	2,476,054	268,980	2,745,034	4,302,362
Total liabilities	3,310,615	309,333	3,619,948	4,897,251
Net Assets				
Invested in capital assets, net of related debt	1,820,078	(60,902)	1,759,176	993,498
Restricted for:				
Budget reserve	102,869		102,869	
Transportation	1,388		1,388	
Assistance to Other Entities	52,495		52,495	
Debt	87,520	20,939	108,459	620,573
Employment insurance program	136,145	177,989	314,134	
Other	44,998		44,998	139,080
Nonexpendable-education	2,173		2,173	92,210
Unrestricted	(1,418,205)	(15,345)	(1,433,550)	271,284
Total net assets	$ 829,461	$ 122,681	$ 952,142	$ 2,116,645

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

State of Rhode Island and Providence Plantations
Statement of Activities
For the Year Ended June 30, 2008
(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	$ 894,766	$ 178,590	$ 71,303	$ 512	$ (644,361)	$	$ (644,361)	$
Human services	2,736,956	167,241	1,433,431	1,522	(1,134,762)		(1,134,762)	
Education	1,361,310	36,241	182,036	71	(1,142,962)		(1,142,962)	
Public safety	428,351	36,194	30,873	731	(360,553)		(360,553)	
Natural resources	90,087	31,753	17,816	9,741	(30,777)		(30,777)	
Transportation	240,644	(207)	92,245	100,135	(48,471)		(48,471)	
Interest and other charges	133,298				(133,298)		(133,298)	
Total governmental activities	5,885,412	449,812	1,827,704	112,712	(3,495,184)		(3,495,184)	
Business-type activities:								
State lottery	2,042,722	2,396,401				353,679	353,679	
Convention center	41,007	19,137				(21,870)	(21,870)	
Employment security	259,246	185,545	3,285			(70,416)	(70,416)	
Total business-type activities	2,342,975	2,601,083	3,285			261,393	261,393	
Total primary government	$ 8,228,387	$ 3,050,895	$ 1,830,989	$ 112,712	(3,495,184)	261,393	(3,233,791)	
Component units:	$ 1,270,657	$ 897,571	$ 46,196	$ 103,402				(223,488)
General Revenues:								
Taxes					2,820,709		2,820,709	
Interest and investment earnings					32,466	9,531	41,997	60,345
Miscellaneous					121,273	8,341	129,614	28,188
Gain on sale of capital assets					3,026		3,026	
Transfers					324,928	(324,928)		
Payments from component units					39,284		39,284	
Payments from primary government								248,245
Total general revenues and transfers					3,341,686	(307,056)	3,034,630	336,778
Change in net assets					(153,498)	(45,663)	(199,161)	113,290
Net assets - beginning as restated					982,959	168,344	1,151,303	2,003,355
Net assets - ending					$ 829,461	$ 122,681	$ 952,142	$ 2,116,645

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, 2008
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 154,513	$ 32,874	$	$ 218,268	$ 405,655
Funds on deposit with fiscal agent			157,206	28,395	185,601
Investments				241	241
Restricted investments				72,280	72,280
Receivables (net)	349,985	13,126		42,662	405,773
Due from other funds	2,676	5,585		8,084	16,345
Due from component units	12,000				12,000
Due from other governments and agencies	142,591	42,206		9	184,806
Loans to other funds	15,108			63,721	78,829
Other assets	45,636			2	45,638
Total assets	$ 722,509	$ 93,791	$ 157,206	$ 433,662	$ 1,407,168
Liabilities and Fund Balances					
Liabilities					
Cash overdraft				52	52
Accounts payable	435,131	19,161	3,558	30,885	488,735
Due to other funds			931	13,364	14,295
Due to component units		3,547		634	4,181
Loans from other funds	63,721			7,408	71,129
Notes payable		1,860			1,860
Deferred revenue	41,780	20,174			61,954
Other liabilities	75,222	618		3,931	79,771
Total liabilities	615,854	45,360	4,489	56,274	721,977
Fund Balances					
Reserved for:					
Budget reserve	102,869				102,869
Appropriations carried forward	46,736				46,736
Debt			13,630	74,125	87,755
Transportation capital projects		40,827			40,827
Employment insurance programs				136,145	136,145
Unreserved, reported in:					
General fund	(42,950)				(42,950)
Special revenue funds		7,604		67	7,671
Capital projects funds			139,087	164,878	303,965
Permanent fund				2,173	2,173
Total fund balances	106,655	48,431	152,717	377,388	685,191
Total liabilities and fund balances	$ 722,509	$ 93,791	$ 157,206	$ 433,662	$ 1,407,168

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

State of Rhode Island and Providence Plantations
Reconciliation of the Balance Sheet of the Governmental Funds
to Statement of Net Assets for Governmental Activities
June 30, 2008
(Expressed in Thousands)

Fund balance - total governmental funds		$	685,191
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.			
Capital assets	4,275,879		
Accumulated depreciation	(1,552,736)		
			2,723,143
Bond, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.			
Compensated absences	(66,568)		
Bonds payable	(2,234,392)		
Net premium/discount and deferred amount on refunding	(23,119)		
Cost of issuance	9,390		
Obligations under capital leases	(236,060)		
Premium	(6,101)		
Cost of issuance	2,090		
Interest payable	(22,978)		
Other Liabilities	(99,560)		
			(2,677,298)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Receivables	8,172		
Due from component units	31,005		
Deferred revenue	48,505		
			87,682
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.			10,743
Net assets - total governmental activities		$	829,461

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

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	$ 2,516,401	$ 135,412	$	$ 166,272	$ 2,818,085
Licenses, fines, sales, and services	322,864			465	323,329
Departmental restricted revenue	126,090	(207)			125,883
Federal grants	1,740,283	196,327			1,936,610
Income from investments	2,779	830	9,228	18,685	31,522
Other revenues	38,421	4,555		53,425	96,401
Total revenues	4,746,838	336,917	9,228	238,847	5,331,830
Expenditures:					
Current:					
General government	626,052			177,509	803,561
Human services	2,727,534				2,727,534
Education	1,289,124			563	1,289,687
Public safety	410,605				410,605
Natural resources	72,982			2	72,984
Transportation		244,638			244,638
Capital outlays			78,454	186,259	264,713
Debt service:					
Principal	92,077	2,626	32,045	16,620	143,368
Interest and other charges	68,478	479	19,146	43,472	131,575
Total expenditures	5,286,852	247,743	129,645	424,425	6,088,665
Excess (deficiency) of revenues over (under) expenditures	(540,014)	89,174	(120,417)	(185,578)	(756,835)
Other financing sources (uses):					
Bonds and notes issued				131,755	131,755
Refunding bonds issued				46,570	46,570
Proceeds from the sale of Certificates of Participation				59,185	59,185
Premium and accrued interest				7,241	7,241
Operating transfers in	541,610	28,198	53,175	101,445	724,428
Payments from component units	39,231	53			39,284
Other	26,312			10	26,322
Payment to refunded bonds escrow agent				(111,253)	(111,253)
Discount on issuance of debt				(4)	(4)
Operating transfers out	(104,650)	(101,813)		(196,549)	(403,012)
Total other financing sources (uses)	502,503	(73,562)	53,175	38,400	520,516
Net change in fund balances	(37,511)	15,612	(67,242)	(147,178)	(236,319)
Fund balances - beginning	144,166	32,819	219,959	524,566	921,510
Fund balances - ending	$ 106,655	$ 48,431	$ 152,717	$ 377,388	$ 685,191

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

State of Rhode Island and Providence Plantations
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ (236,319)
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	227,169	
Depreciation expense	(106,520)	
Net gain (loss) on sale of capital assets	(6,826)	
		113,823
Bond, notes, and certificates of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Debt service		
Principal	143,368	
Payment to escrow agent	107,740	
Interest and other charges	(9,392)	
Proceeds from sale of debt	(237,510)	
Deferral of premium/discount	(3,743)	
Amortization of premium/discount	6,817	
Deferral of issuance costs	2,166	
Amortization of issuance costs	(1,295)	
		8,151
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	10,607	
Program expenses	(46,487)	
Program revenue	875	
Capital grant revenue	3,807	
General revenue - taxes	2,624	
General revenue-misc	2,138	
		(26,436)
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.		(12,717)
Change in net assets - total governmental activities		$ (153,498)

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, 2008
(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	$ 12,744	$ 2,651	$ 1,595	$ 16,990	$ 32,726
Restricted cash and cash equivalents		20,939		20,939	
Funds on deposit with fiscal agent			127,528	127,528	
Receivables (net)	4,506	916	49,854	55,276	2,686
Loans to other funds					2,100
Due from other funds					3,943
Due from other governments and agencies			1,426	1,426	
Inventories	684			684	2,626
Other assets	395	354		749	9,398
Total current assets	18,329	24,860	180,403	223,592	53,479
Noncurrent assets:					
Capital assets - nondepreciable		47,125		47,125	
Capital assets - depreciable (net)	908	160,562		161,470	3,148
Other assets		3,527		3,527	
Total noncurrent assets	908	211,214		212,122	3,148
Total assets	19,237	236,074	180,403	435,714	56,627
Liabilities					
Current Liabilities:					
Cash overdraft					3,683
Accounts payable	10,091	6,392		16,483	22,522
Due to other funds	1,674	1,500	526	3,700	2,293
Due to other governments and agencies			1,888	1,888	
Loans from other funds					9,800
Deferred revenue	295	2,287		2,582	
Other current liabilities	2,108	2,187		4,295	
Bonds payable		9,473		9,473	
Obligations under capital leases					7,481
Obligation for unpaid prize awards	5,632			5,632	
Total current liabilities	19,800	21,839	2,414	44,053	45,779
Noncurrent Liabilities:					
Deferred revenue	8,750	145		8,895	
Bonds payable		260,023		260,023	
Net OPEB obligations	62			62	107
Total noncurrent liabilities	8,812	260,168		268,980	107
Total liabilities	28,612	282,007	2,414	313,033	45,886
Net Assets					
Invested in capital assets, net of related debt	908	(61,810)		(60,902)	3,148
Restricted for:					
Debt		20,939		20,939	
Employment insurance programs			177,989	177,989	
Unrestricted	(10,283)	(5,062)		(15,345)	7,593
Total net assets	$ (9,375)	$ (45,933)	$ 177,989	$ 122,681	$ 10,741

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

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2008
(Expressed in Thousands)

	Business-type Activities--Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Operating revenues:					
Charges for services	$ 2,396,401	$ 18,605	$ 185,501	$ 2,600,507	$ 310,057
Grants			3,285	3,285	
Miscellaneous		532	44	576	
Total operating revenues	2,396,401	19,137	188,830	2,604,368	310,057
Operating expenses:					
Personal services	4,754	11,874		16,628	9,614
Supplies, materials, and services	216,039	8,080		224,119	317,258
Prize awards	1,821,683			1,821,683	
Depreciation and amortization	246	9,063		9,309	386
Benefits paid			251,273	251,273	
Total operating expenses	2,042,722	29,017	251,273	2,323,012	327,258
Operating income (loss)	353,679	(9,880)	(62,443)	281,356	(17,201)
Nonoperating revenues (expenses):					
Interest revenue		2,022	7,509	9,531	942
Other nonoperating revenue	2,514		5,827	8,341	
Interest expense		(11,990)		(11,990)	
Other nonoperating expenses			(7,973)	(7,973)	28
Total nonoperating revenue (expenses)	2,514	(9,968)	5,363	(2,091)	970
Income (loss) before transfers	356,193	(19,848)	(57,080)	279,265	(16,231)
Transfers in		31,661	1,622	33,283	7,778
Transfers out	(355,568)		(2,643)	(358,211)	(4,266)
Change in net assets	625	11,813	(58,101)	(45,663)	(12,719)
Total net assets - beginning	(10,000)	(57,746)	236,090	168,344	23,460
Total net assets - ending	$ (9,375)	$ (45,933)	$ 177,989	$ 122,681	$ 10,741

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

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2008
(Expressed in Thousands)

	Business-type Activities--Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	$ 2,409,271	$ 19,854	$ 185,904	$ 2,615,029	$ 311,341
Cash received from grants			3,285	3,285	
Cash payments to suppliers for goods and services	(4,630)	(8,107)		(12,737)	(317,086)
Cash payments to employees for services	(4,790)	(11,757)		(16,547)	(3,070)
Cash payments to prize winners	(1,830,030)			(1,830,030)	
Cash payments for commissions	(213,686)			(213,686)	
Cash payments for benefits			(251,273)	(251,273)	
Other operating revenue (expense)			829	829	28
Net cash provided by (used for) operating activities	356,135	(10)	(61,255)	294,870	(8,787)
Cash flows from noncapital financing activities:					
Loans from other funds					5,050
Loans to other funds					(5,368)
Repayment of loans to other funds					(1,250)
Operating transfers in		31,661	1,622	33,283	7,778
Operating transfers out	(356,884)		(3,905)	(360,789)	(2,927)
Net transfers from (to) fiscal agent			59,629	59,629	
Negative cash balance implicitly financed					3,683
Repayment of prior year negative cash balance implicitly financed					(2,692)
Net cash provided by (used for) noncapital financing activities	(356,884)	31,661	57,346	(267,877)	4,274
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(9,163)		(9,163)	
Interest paid on capital obligations		(11,589)		(11,589)	
Acquisition of capital assets	1	(49,929)		(49,928)	(125)
Proceeds from bonds					
Net cash provided by (used for) capital and related financing activities	1	(70,681)		(70,680)	(125)
Cash flows from investing activities:					
Proceeds from sale and maturity of investments		43,791		43,791	
Interest on investments	1,404	2,052		3,456	942
Net cash provided by (used for) investing activities	1,404	45,843		47,247	942
Net increase (decrease) in cash and cash equivalents	656	6,813	(3,909)	3,560	(3,696)
Cash and cash equivalents, July 1	12,088	16,777	5,504	34,369	36,422
Cash and cash equivalents, June 30	$ 12,744	$ 23,590	$ 1,595	$ 37,929	$ 32,726
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	353,679	(9,880)	(62,443)	281,356	(17,201)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	246	9,063		9,309	386
Other revenue (expense) and operating transfer in (out)	468		785	1,253	28
Net changes in assets and liabilities:					
Receivables, net	4,072	1	403	4,476	2,270
Inventory	286			286	(384)
Prepaid items		(63)		(63)	
Other assets	87	8		95	
Accounts and other payables	(2,551)	145		(2,406)	(430)
Accrued expenses	12			12	6,544
Deferred revenue	113	716		829	
Prize awards payable	(277)			(277)	
Total adjustments	2,456	9,870	1,188	13,514	8,414
Net cash provided by (used for) operating activities	$ 356,135	$ (10)	$ (61,255)	$ 294,870	$ (8,787)

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, 2008
(Expressed in Thousands)

	Pension Trust	Private Purpose: Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	$ 3,337	$	$ 25,650
Deposits held as security for entities doing business in the State			77,016
Receivables			
Contributions	33,533		
Due from state for teachers	18,769		
Miscellaneous	2,146		2,175
Total receivables	54,448		2,175
Investments, at fair value			
Equity in Short-Term Investment Fund	3,530		
Equity in Pooled Trust	7,815,849		
Other investments		2,175	
Total investments before lending activities	7,819,379	2,175	
Invested securities lending collateral	1,116,709		
Property and equipment, at cost, net of accumulated depreciation	7,724		
Total assets	9,001,597	2,175	104,841
Liabilities			
Securities lending liability	1,116,709		
Accounts payable	8,210		3,818
Net OPEB liability	52		
Deposits held for others			101,023
Total liabilities	1,124,971		104,841
Net assets held in trust for pension and other benefits	$ 7,876,626	$ 2,175	$

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

State of Rhode Island and Providence Plantations
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2008
(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	$ 175,894	$
Employer contributions	295,494	
State contributions for teachers	82,456	
Interest on service credits purchased	2,444	
Total contributions	556,288	
Investment income		
Net appreciation in fair value of investments	(684,418)	(333)
Interest	128,146	
Dividends	88,977	50
Other investment income	6,592	138
	(460,703)	(145)
Less investment expense	28,619	
Net income (loss) from investing activities	(489,322)	(145)
Securities Lending		
Securities lending income	53,865	
Less securities lending expense	46,037	
Net securities lending income	7,828	
Total net investment income (loss)	(481,494)	(145)
Total additions	74,794	(145)
Deductions		
Benefits		
Retirement benefits	518,188	
Cost of living adjustment	136,801	
SRA Plus Option	28,821	
Supplemental benefits	1,090	
Death benefits	2,804	
Total benefits	687,704	
Refund of contributions	10,840	
Administrative expense	8,422	
Distribution		156
Total deductions	706,966	156
Change in net assets	(632,172)	(301)
Net assets held in trust for pension benefits		
Net assets - beginning	8,508,798	2,476
Net assets - ending	**$** 7,876,626	**$** 2,175

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

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Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

Blended Component Units

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

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence. RICCA is also responsible for the management and operations of the Dunkin' Donuts Center located within the City of Providence. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Dome Building, 3rd Floor, Providence, RI 02903.

Rhode Island Refunding Bond Authority (RIRBA) - This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the State abolished the R.I. Public Buildings

Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it were part of the primary government because it provides services entirely to the primary government. For more detailed information, a copy of the financial statements can be obtained by writing to the Deputy General Treasurer, Office of General Treasurer, 40 Fountain Street, Providence, RI 02903.

Tobacco Settlement Financing Corporation (TSFC) - This corporation was organized in June 2002 as a public corporation by the State. TSFC is legally separate but provides services exclusively to the State and therefore is reported as part of the primary government as a blended component unit. The purpose of the corporation is to purchase tobacco settlement revenues from the State. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02908.

Discretely Presented Component Units

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

University and Colleges - The Board of Governors for Higher Education has oversight responsibility for the University of Rhode Island, Rhode Island College and the Community College of Rhode Island. The Board is appointed by the Governor with approval of the Senate. The university and colleges are funded through State appropriations, tuition, federal grants, private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Office of the Controller, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of the Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, RI 02908; and Office of the Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805.

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

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

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

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

Rhode Island Economic Development Corporation (RIEDC) - This Corporation was created in 1995 and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, which will promote economic development. It has the power to issue tax-exempt industrial development bonds to accomplish its corporate purpose. The RIEDC has four subsidiary corporations. The R. I. Airport Corporation manages the State's six airports. The Quonset Development Corporation oversees the Quonset Point/Davisville Industrial Park. In addition, the RIEDC operates the Small Business Loan Fund Corporation and the R.I. Economic Policy Council. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

Narragansett Bay Commission (NBC) - This Commission was created for the purposes of acquiring, planning, constructing, extending, improving, operating and maintaining publicly owned wastewater treatment facilities. NBC receives contributed capital from the State to upgrade its facilities. For more detailed information, a copy of the financial statements can be obtained by writing to the Narragansett Bay Commission, 1 Service Road, Providence, RI 02905.

Rhode Island Health and Educational Building Corporation (RIHEBC) - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the State; (2) to assist hospitals in the State in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers.

RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903.

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

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

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

Rhode Island Industrial Facilities Corporation (RIIFC) - The purpose of this corporation is to issue revenue bonds, construction loan notes and equipment acquisition notes for the financing of projects which further industrial development in the State. All bonds and notes issued by RIIFC are payable solely from the revenues derived from leasing or sale by RIIFC of its projects. The bonds and notes do not constitute a debt or pledge of the faith and credit of RIIFC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial Facilities Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

Rhode Island Clean Water Finance Agency (RICWFA) - This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the State for the construction or upgrading of water pollution abatement projects. RICWFA receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. For more

detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, RI 02908.

Rhode Island Industrial-Recreational Building Authority (RIIRBA) - This Authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. Any losses realized in excess of the fund balance would be funded by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

Rhode Island Water Resources Board Corporate (RIWRBC) - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, One Capitol Hill, Providence, RI 02908.

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

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

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Assets presents the reporting entity's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

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

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

Unrestricted net assets. This category represents net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but those constraints can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The State does not allocate indirect costs to the functions. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues and related receivables are recognized as soon as they are both measurable and available, i.e., earned and collected within the next 12 months. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual

accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due.

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

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

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

The State reports the following major funds:

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

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

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

The State reports the following major proprietary funds:

State Lottery Fund. The State Lottery Fund operates games of chance for the purpose of generating resources for the State's General Fund. For more detailed information, a copy of the financial statements can be obtained by writing to the Office of The Financial Administrator, State Lottery, 1425 Pontiac Avenue, Cranston, RI 02920.

Rhode Island Convention Center Authority (RICCA) - This Authority was created in 1987 to facilitate the construction and development of a convention center, parking garages and related facilities within the City of Providence on behalf of the State. RICCA is also responsible for the management and operations of the Dunkin' Donuts Center located within the City of Providence. For more detailed information, a copy

of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One West Exchange Street, Dome Building, 3rd Floor, Providence, RI 02903.

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

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

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

Permanent Fund. The Permanent School Fund accounts for certain appropriations and the earnings thereon, which are used for the promotion and support of public education.

Proprietary Fund Types:

Internal Service Funds. These funds account for, among other things, employee and retiree medical benefits, State fleet management, unemployment and workers' compensation for State employees, industrial prison operations, surplus property, telecommunications and other utilities, and records maintenance.

Fiduciary Fund Types:

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

Private Purpose Trust Fund. The Touro Jewish Synagogue Fund accounts for the earnings on monies bequeathed to the State for the purpose of maintaining the Touro Jewish Synagogue.

Agency Funds. These funds account for assets held by the State pending distribution to others or pledged to the State as required by statute and health insurance for certain retirees.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise and internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

E. Cash and Cash Equivalents

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

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net Assets.

F. Funds on Deposit with Fiscal Agent

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

G. Investments

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

H. Receivables

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

I. Due From Other Governments and Agencies

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

J. Interfund Activity

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity on the government-wide financial statements. However, interfund services, provided and used between different functional categories, have not been eliminated in order to avoid distorting the direct costs and program revenues of the applicable functions. The Due From/(To) Other Funds are reported at the net amount on the fund financial statements. Transfers between governmental and business-type activities are reported at the net amount on the government-wide financial statements.

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

K. Inventories

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

L. Capital Assets

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

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

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

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

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

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

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

M. Bonds Payable

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

For Proprietary fund types and component units, bond discounts, premiums, discounts, and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for premiums and discounts. Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred bond issuance costs are included in other assets.

N. Obligations under Capital Leases

The construction and acquisition of certain State office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds

and notes issued by the R.I. Refunding Bond Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the State (See Note 6(D)).

O. Compensated Absences

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. For governmental fund types, such obligations are recognized when paid and for proprietary fund types, they are recorded as fund liabilities when earned.

P. Other Liabilities

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

Q. Fund Balances

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

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

R. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2008, the State adopted several new accounting standards issued by GASB:

GASBS No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, establishes standards for the measurement, recognition and display of OPEB expense/expenditures, and, if applicable, required supplementary information (RSI) in the financial statements of governmental employers.

GASBS No. 50, Pension Disclosures, amends existing Statements 25 and 27 and more closely aligns the financial reporting for pensions with those for other postemployment benefits (OPEB) and requires defined benefit pension plans to disclose additional information in the Notes to the Basic Financial Statements and Required Supplementary Information.

The State will adopt the following new pronouncements in future years:

GASBS No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations* effective for the State's fiscal year ending June 30, 2009.

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

GASBS No. 52 – *Land and Other Real Estate Held as Investments by Endowments*, effective for the State's fiscal year ending June 30, 2009.

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

The impact of these pronouncements on the State's financial statements has not been determined.

Note 2. Cash, Cash Equivalents, Investments and Funds on Deposit with Fiscal Agent

Cash

Primary Government

At June 30, 2008, the carrying amount of the State's cash deposits was $90,682,000 and the bank balance was $126,066,000. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: a. Uncollateralized b. Collateralized with securities held by the pledging financial institution, or c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. Of the bank balance, $984,000 was covered by federal depository insurance and $50,675,000 was collateralized with securities held by the pledging financial institution, or its agent but not in the State's name. The remaining amount, $74,406,000 was uninsured and uncollateralized. The carrying amount and bank balance includes $11,132,000 of certificates of deposit.

During the year, the State issued $220,000,000 in General Obligation Tax Anticipation Notes for working capital. The notes were repaid in full as of June 30, 2008. Additionally, during fiscal year 2008, the General Fund borrowed $85.0 million from the Rhode Island Temporary Disability Insurance Fund and approximately $63.7 million from the Rhode Island Capital Plan Fund for working capital. The loan from the Rhode Island Temporary Disability Insurance Fund was repaid in full at June 30, 2008, while the Rhode Island Capital Plan Fund loan remained outstanding at June 30, 2008.

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, 2008.

Investments

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

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust funds are made by investment managers in accordance with the Commission's stated investment objectives and policies. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

Of the State's investments equaling $72,521,000 the Tobacco Settlement Financing Corporation, a non-major governmental fund, has restricted investments totaling $72,280,000.

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 and maximum participation by any one issuer is limited to 35% of the total portfolio. As of June 30, 2008, the State's investments in Morgan Stanley and GE Capital Corporation commercial paper were rated A1+ by Standard & Poor's and P1 by Moody's. The State's investments in Hanover FDG Co, LLC and JP Morgan Chase commercial paper were rated A1 by Standard & Poor's and P1 by Moody's. The State's investments in US Government Agency Securities were rated AAA by Moody's. The State's investment in money market mutual funds included the following: UBS Select Treasury Money Market Fund which was rated AAAm by Standard & Poor's with an average maturity of 20 days; Fidelity Institutional Money Market Funds Class I Government Portfolio which was rated AAAm by Standard & Poor's with an average maturity of 56 days; The Reserve - US Government Fund which was rated AAAm by Standard & Poor's with an average maturity of 48 days; Fidelity Institutional Prime Money Markets which was rated AAAm by Standard & Poor's with an average maturity of 44 days; First American Treasury Obligation Fund which was rated AAAm by Standard & Poor's with an average maturity of 19 days; and Wells Fargo Advantage Treasury Plus which was rated AAAm by Standard & Poor's with an average maturity of 6 days.

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.

The portfolio concentrations (expressed in thousands) are as follows.

Type	Issuer	Amount	Percentage
Repurchase Agreements	Citizens Bank	$38,044	5.9%
Commercial Paper	Hanover FDG	52,019	8.1%
Investment Agreements	AIG Matched Funding Corp	100,796	15.7%

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

The State's investments (expressed in thousands) at June 30, 2008 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	$ 29,796	$ 29,796	$ 0	$ 0	$ 0
Money Market Mutual Funds	296,079	296,079	0	0	0
Commercial Paper	87,950	87,950	0	0	0
Repurchase Agreements	44,324	44,324	0	0	0
	$ 458,149	$ 458,149	$ 0	$ 0	$ 0

Funds on Deposit with Fiscal Agent

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2008 are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money Market	$ 56,969	56,969	0	0	0
Investment Agreements	128,633	100,750	23,577	0	4,306
Funds on deposit with fiscal agent	$ 185,601	$ 157,719	$ 23,577	$ 0	$ 4,306

The State's investments in money market mutual funds as part of funds on deposit with fiscal agent included the following: Federated Government Obligation Tax Managed Fund which was rated AAAm by Standard & Poor's with an average maturity of 49 days; First American Treasury Obligation Fund which was rated AAAm by Standard & Poor's with an average maturity of 19 days; Wells Fargo Prime Investment Money Market which was rated AAAm by Standard & Poor's with an average maturity of 28 days; and JP Morgan US Government Money Market Fund which was rated AAAm by Standard & Poor's with an average maturity of 38 days.

Investment agreements are not rated investments. Purchase of investment agreements is generally governed by a trust agreement in connection with a debt issuance where debt

proceeds are held in trust until used for their intended purpose. The trust agreement specifies a minimum credit quality rating of the corporate issuer of the investment agreement.

During fiscal year 2008, approximately $6.9 million of income from investments, reported in the Bond Capital Fund and the Rhode Island Clean Water Act Environmental Trust Fund, was assigned to the General Fund for debt service payments.

Fiduciary Funds

Pension Trusts

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

Cash Deposits and Cash Equivalents

At June 30, 2008, the carrying amount of the ERS cash deposits was $2,640,000 and the bank balance was $2,994,000. The bank and book balances represent the ERS deposits in short-term trust accounts which include demand deposit accounts and collateralized bank money market accounts. Of the bank balance, the entire amount is covered by federal depository insurance and is fully collateralized. Cash equivalent type investments include overnight repurchase agreements totaling $696,000 which were fully collateralized.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the ERS's deposits were required to be collateralized at June 30, 2008.

Investments

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

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on

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

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

The following table presents the fair value of investments by type at June 30, 2008 (in thousands):

Investment Type	Fair Value
U.S. Government Securities	$ 601,359
U.S. Government Agency Securities	643,207
Collateralized Mortgage Obligations	31,140
Corporate Bonds	522,078
Domestic Equity Securities	1,139,478
International Equity Securities	1,239,592
Foreign Currencies	12,482
Private Equity	661,784
Real Estate	380,787
Money Market Mutual Fund	423,572
Commingled Funds - Domestic Equity	1,973,594
Commingled Funds - International Equity	190,306
Investments at Fair Value	7,819,379
Securities Lending Collateral Pool	1,116,709
Total	$ 8,936,088

Interest Rate Risk

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

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

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

At June 30, 2008, 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, 2008 (in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 601,359	5.71
U.S. Government Agency Securities	643,207	3.87
Collateralized Mortgage Obligations	31,140	2.04
Corporate Bonds	522,078	5.61
Total Fixed Income	$ 1,797,784	4.96

The ERS also invested in a short-term money market mutual fund that held investments with an average maturity of 40 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 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.

Each manager's portfolio composition is aligned with a benchmark and is constructed based on specific guidelines that are reflective of the manager's mandate. An example of a high yield fixed income manager's guidelines is as follows:

- No single industry is expected to represent more than 20% of the portfolio's market value.
- No single issue is expected to represent more than 5% of the portfolio's market value.

- The portfolio, once fully invested, is expected to include a minimum of 70 individual holdings.
- The portfolio quality is expected to be invested in high yield below investment grade fixed income securities.
- The weighted average credit quality is expected to maintain a minimum rating of "B" using either Moody's or Standard and Poor's credit ratings.

The ERS's exposure to credit risk as of June 30, 2008 is as follows (in thousands):

Quality Rating *	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds
Aaa	$ 22,956	$ 643,207	$ 35,093
Aa	66		56,688
A	1,662		144,812
Baa	5,749		152,548
Ba	407		36,019
B			63,041
Caa			10,799
D			529
Not rated	300		22,549
Fair Value	$ 31,140	$ 643,207	$ 522,078

* Moody's bond rating

The ERS's investment in a short-term money market mutual fund was rated AAAm by Standard & Poors Investors Service.

Concentration of Credit Risk

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

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, 2008 all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk and the ERS's investment asset allocation policy targets non-US equity investments at 20%. The ERS may enter into foreign currency exchange contracts to

minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2008, was as follows (in thousands):

Currency	Currency	Equities	Private Equity	Total
Australian Dollar	$ 560	$ 84,595	$	$ 85,155
Canadian Dollar	728	63,088	8,706	72,522
Danish Krone	188	3,404		3,592
Euro Currency	3,524	430,431	91,405	525,360
Hong Kong Dollar	549	42,729		43,278
Hungarian Forint	21	69		90
Indonesian Rupiah	356	2,361		2,717
Japanese Yen	2,290	256,072		258,362
Malaysian Ringitt	231	6,138		6,369
Mexican Peso	16			16
New Zealand Dollar	201	3,987		4,188
Norwegian Krone	185	3,967		4,152
Pound Sterling	996	212,210		213,206
Singapore Dollar	452	17,643		18,095
South African Rand	279	4,794		5,073
South Korean Won	291	17,142		17,433
Swedish Krona	509	14,968	1,358	16,835
Swiss Franc	963	70,262		71,225
Thailand Baht	143	5,732		5,875
Total	$ 12,482	$ 1,239,592	$ 101,469	$ 1,353,543

The ERS also had exposure to foreign currency risk though its investment in international equity commingled funds which totaled $190,306,000.

Derivatives and Other Similar Investments

Some of the ERS's investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions, futures contracts, and options. Derivatives and other similar investments are financial contracts whose value depends on the values of one or more underlying assets, reference rates, or financial indexes. The ERS enters into these transactions to enhance performance, gain exposure to a specific market, or mitigate specific risks. According to investment policy guidelines, derivative type instruments may be used for hedging purposes and not for leveraging plan assets.

Forward foreign currency contracts – The ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. By policy, no more than 25% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation

service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The ERS uses futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. Buying futures tends to increase the 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, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

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

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

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

Securities Lending

Policies of the State Investment Commission permit the ERS to enter into securities lending transactions. The ERS has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the ERS's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at not less than 100% of the market value of the domestic securities on loan and at not less than 100% of the market value of the international securities on loan. In practice, securities on loan are collateralized at 102%. There are no restrictions on the amount of loans that can be made. The contract with the lending agent requires them to indemnify the ERS if the borrowers fail to return the securities. Either the ERS or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool. At June 30, 2008 the investment pool had a weighted average maturity of 33.36 days and an average final maturity of 77.53 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The ERS is not permitted to pledge

or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrowers or lending agent.

At June 30, 2008, management believes the ERS has no credit risk exposure to borrowers because the amounts the ERS owes the borrowers do not exceed the amounts the borrowers owe the ERS. The securities on loan at year-end were $1,141,668,086 (fair value), and the collateral received for those securities on loan was $1,173,504,899 (fair value).

Private Purpose Trust

The private purpose trust had investments of $2,175,000 in the Fidelity Balanced Fund.

Note 3. Receivables

Receivables at June 30, 2008 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	$ 289,720	$ 216,521	$	$	$ (148,084)	$ 358,157
Intermodal Surface Transportation	15,775	9		1,000	(3,658)	13,126
Other governmental	43,371	868			(1,577)	42,662
Internal Service		2,685				2,685
Total - governmental activities	$ 348,866	$ 220,083	$	$ 1,000	$ (153,319)	$ 416,630
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	$ 9,979	$ 12,923				
Business-type activities:						
State Lottery	$	$ 4,745	$	$	$ (239)	$ 4,506
Convention Center		1,311			(394)	917
Employment Security	49,449	10,885			(10,481)	49,853
Total - business-type activities	$ 49,449	$ 16,941	$	$	$ (11,114)	$ 55,276
Component Units	$	$ 98,956	$ 33,335	$ 3,312,392	$ (84,385)	$ 3,360,298

Component Units

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

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2008, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
Governmental Funds		
Major Funds		
General Fund	$ 2,676	$
Intermodal Surface Transportation Fund	5,585	
GARVEE		931
Other		
Bond Capital		11,706
RI Temporary Disability Insurance		1,658
COPS	71	
RI Capital Plan	6,860	
Permanent School	1,153	
Total Other	8,084	13,364
Total Governmental	16,345	14,295
Proprietary Funds		
Enterprise		
RI Lottery		1,674
RI Convention Center Authority		1,500
Employment Security Trust Fund		526
Total Enterprise		3,700
Internal Service		
Assessed Fringe Benefits		561
Central Utilities	313	
Energy Revolving		1,339
Central Mail	90	
State Telecommunications		16
Central Pharmacy	1,338	
Central Laundry	175	
Automotive Maintenance		124
Central Warehouse		38
Correctional Industries	237	
Health Insurance Active	39	
Records Center		8
Health Insurance Retiree	1,751	
Vehicle Replacement Revolving Loan		207
Total Internal Service	3,943	2,293
Totals	$ 20,288	$ 20,288

Note 5. Capital Assets

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

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 338,987	$ 2,949	$ (29)	$ 341,907
Works of Art	135	104		239
Intangibles	111,537	25,099	(126)	136,510
Construction in progress	597,005	193,367	(13,306)	777,066
Total capital assets not being depreciated	1,047,664	221,519	(13,461)	1,255,722
Capital assets being depreciated:				
Land improvements	3,700			3,700
Buildings	520,733	1,936	(5,420)	517,249
Building Improvements	208,342			208,342
Furniture and equipment	220,661	9,980	(5,715)	224,926
Intangibles	8,428			8,428
Infrastructure	2,052,745	11,260		2,064,005
Total capital assets being depreciated	3,014,609	23,176	(11,135)	3,026,650
Less accumulated depreciation for:				
Land improvements	2,707	185		2,892
Buildings	170,983	18,349	(3,406)	185,926
Building Improvements	126,361			126,361
Furniture and equipment	158,485	18,692	(5,159)	172,018
Intangibles	1,603	1,628		3,231
Infrastructure	997,660	68,052		1,065,712
Total accumulated depreciation	1,457,799	106,906	(8,565)	1,556,140
Total capital assets being depreciated, net	1,556,810	(83,730)	(2,570)	1,470,510
Governmental activities capital assets, net	$ 2,604,474	$ 137,789	$ (16,031)	$ 2,726,232

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

General government	$ 8,526
Human services	7,109
Education	2,907
Public safety	12,112
Natural resources	3,801
Transportation	72,451
Total depreciation expense - governmental activities	$ 106,906

Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	25,142	48,862	(72,436)	1,568
Total capital assets not being depreciated	70,700	48,862	(72,436)	47,126
Capital assets being depreciated:				
Buildings	161,266	2,037		163,303
Machinery and equipment	13,059	70,406	(70)	83,395
Total capital assets being depreciated	174,325	72,443	(70)	246,698
Less accumulated depreciation	76,263	9,027	(62)	85,228
Total capital assets being depreciated, net	98,062	63,416	(8)	161,470
Business-type activities capital assets, net	$ 168,762	$ 112,278	$ (72,444)	$ 208,596

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land *	$ 95,016	$ 8,299	$ (954)	$ 102,361
Construction in progress	579,567	221,706	(274,148)	527,125
Total capital assets not being depreciated	674,583	230,005	(275,102)	629,486
Capital assets being depreciated:				
Buildings	1,138,754	205,503	(249)	1,344,008
Land improvements *	154,168	12,419		166,587
Machinery and equipment *	279,212	21,919	(5,961)	295,170
Intangibles		4,100		4,100
Infrastructure	339,906	27,337		367,243
Total capital assets being depreciated	1,912,040	271,278	(6,210)	2,177,108
Less accumulated depreciation for:				
Buildings	437,205	46,242	(760)	482,687
Land improvements *	86,675	8,465		95,140
Machinery and equipment *	170,364	19,624	(5,347)	184,641
Intangibles		615		615
Infrastructure	103,737	6,736		110,473
Total accumulated depreciation	797,981	81,682	(6,107)	873,556
Total capital assets being depreciated, net	1,114,059	189,596	(103)	1,303,552
Total capital assets, net	$ 1,788,642	$ 419,601	$ (275,205)	$ 1,933,038

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

Note 6. Long-Term Obligations

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

A. Bonds Payable

At June 30, 2008, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities			
	Principal	Interest	Principal	Interest	Principal	Interest
2009	$ 104,069	$ 104,672	$ 9,285	$ 13,853	$ 142,153	$ 170,542
2010	93,349	100,064	9,740	13,408	99,132	164,856
2011	88,075	95,691	10,205	12,938	99,555	160,656
2012	101,920	91,243	10,720	12,431	102,399	153,828
2013	111,335	85,838	11,260	11,895	122,316	148,920
2014 - 2018	504,750	352,209	64,255	50,507	592,639	680,816
2019 - 2023	371,255	252,365	81,355	33,183	640,557	529,398
2024 - 2028	111,210	178,337	35,670	16,918	587,847	381,135
2029 - 2033	168,260	152,227	25,820	8,711	597,490	243,937
2034 - 2038		116,156	12,650	1,161	615,245	123,426
2039 - 2043	371,700	92,925			286,645	31,570
2044 - 2048					52,355	7,422
2049 - 2053	197,006	2,637,174			3,705	148
	$ 2,222,929	$ 4,258,901	$ 270,960	$ 175,005	$ 3,942,038	$ 2,796,654

Primary Government

Governmental Activities

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

In July 2007, the State issued $46,570,000 Consolidated Capital Development Loan of 2008, Refunding Series A, with interest rates ranging from 4.00% to 5.00%, maturing from 2009 through 2014. The proceeds were used to advance refund $47,305,000 1998A Refunding Series. The net proceeds from the sale of the refunding bonds were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded bonds. The advance refunding met the requirements of an in-substance debt defeasance and the refunded bonds were removed from the Statement of Net Assets. The refunding decreases total debt service payments over the next 7 years by $1,719,994 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $1,703,927.

Included in the current interest bonds is $14,165,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2020. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through December 15, 2015. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank. These bonds were refunded subsequent to June 30, 2008.

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

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

The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent decree and final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any

payment of the bonds. The TSFC has not taxing power. The TSFC 2007 bonds are capital appreciation bonds on which no periodic interest payments are made, but which are issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the corporation is required to apply 100% of all collections that are in excess of the then current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2008, TSFC utilized $16,620,000 of excess collections to early redeem an equal amount of outstanding bonds

At June 30, 2008 general obligation bonds authorized by the voters and unissued amounted to $275,016,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved unless extended by the General Assembly.

Business Type Activities

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, 2008, outstanding bond and note indebtedness totaled $272,100,000.

Revenue bonds of RICCA were issued to (a) refund bonds and notes, (b) pay construction costs, (c) pay operating expenses, (d) pay interest on revenue bonds prior to completion of construction, (e) fund a debt service reserve, (f) pay costs of issuance and (g) acquire and renovate the Civic Center. The revenue bonds are secured by all rents receivable, if any, under a lease and agreement between the RICCA and the State covering all property purchased by the RICCA. It also covers a mortgage on facilities and land financed by the proceeds of the revenue bonds and amounts held in various accounts into which bond proceeds were deposited. Minimum annual lease payments by the State are equal to the gross debt service of RICCA. In the event of an operating deficit (excluding depreciation), annual lease payments may be increased by the amount of the deficit. The obligation of the State to pay such rentals is subject to and dependent upon annual appropriations of such payments being made by the Rhode Island General Assembly for such purpose. Those appropriations are made in connection with the State's annual budgetary process and are therefore dependent upon the State's general financial resources and factors affecting such resources.

During November 2001, the RICCA issued Refunding Revenue Bonds, 2001 Series A (the bonds), in the aggregate principal amount of $101,315,000. The bonds may bear interest at Daily Rates, Weekly Rates, or Term Rates, as defined in the Bond Resolution adopted by the RICCA on October 18, 2001, for periods selected from time to time by the RICCA and determined by UBS Painewebber, Inc. (UBS), as Remarketing Agent under the Remarketing Agreement (the Agreement) dated November 6, 2001. In addition, the RICCA may convert the bonds to fixed rate bonds. The bonds initially bear interest at the weekly rate as determined by UBS and are payable in monthly installments. Total interest paid to the bondholders for the years ended June 30, 2008 was $2,088,000. The bonds mature in varying installments through May 15, 2027; $59,210,000 of these bonds remain outstanding at June 30, 2008.

Concurrent with the issuance of the 2001 Series A Refunding Revenue Bonds, the RICCA entered into an interest rate swap agreement (the Swap Agreement) with UBSAG, Stamford Branch (UBSAG). Under the terms of the Swap Agreement, the RICCA agrees to pay to UBSAG a fixed interest rate of 3.924% on the outstanding principal amount of the Bonds each May 15th and November 15th through May 15, 2027. In exchange, UBSAG agrees to pay to the RICCA interest at the Weekly Rate on a monthly basis through May 15, 2027. The Swap Agreement contains a barrier option early termination date of November 15, 2006 and every fixed rate payment due date thereafter. In addition, UBSAG has the right, but not the obligation, on providing 30 calendar days notice prior to the early termination date, to terminate the Swap Agreement if the averaged Weekly Rate has exceeded 5.25% per annum within the preceding 180 days. Such termination shall not require the consent of the RICCA and no fees, payments or other amounts shall be payable by either party in respect of this termination. Total interest paid by the RICCA to UBSAG for the years ended June 30, 2008 under the Swap Agreement was $2,403,000. Total interest received by the RICCA from UBSAG for the years ended June 30, 2008 under the Swap Agreement was $1,834,000. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk. At June 30, 2008, the fair value of RICCA's liability for the interest rate swap was approximately $3,771,000.

Concurrently, the RICCA entered into a standby bond purchase agreement with Dexia Credit Local (Dexia). Under the terms of the standby bond purchase agreement, Dexia agrees from time to time during the commitment period, as defined by the standby bond purchase agreement, to purchase bonds from the RICCA that bear interest at variable rates. The purchase price shall not exceed the aggregate amount of principal and interest outstanding on said bonds at the time of purchase. Under the terms of the standby bond purchase agreement, Dexia agrees to purchase the bonds when notified by U.S. Bank (the Bonds' paying agent).

The termination date of the standby bond purchase agreement is the later of November 1, 2011 or when all principal and interest on any bonds purchased by Dexia have been paid in full. Under the terms of the standby bond purchase agreement, the RICCA is obligated to pay a fee equal to .165% per annum of the outstanding bond principal and interest. Fees paid by the RICCA for the years ended June 30, 2008 totaled $104,000. Subsequent to June 30, 2008, $58,410,000 of the $59,210,000 2001 Series A Refunding Revenue Bonds outstanding as of June 30, 2008 was tendered to Dexia pursuant to the standby purchase agreement.

Outstanding indebtedness on the 2001 Series A Refunding Revenue bonds is insured under a financial guaranty insurance policy with Municipal bond Insurance Association, Inc. (MBIA) In June 2008, MBIA's rating was downgraded by Standard & Poor's and Moody's Investors Service to AA and A2 respectively. In addition, UBS, the Authority's Remarketing Agent, has exited the municipal bond market. The combination of these factors and the current condition of the financial markets caused management to investigate alternative financing options with respect to the 2001 Series A Refunding Revenue Bonds.

In July 2008, the authorized the issuance of refunding revenue bonds to refund the 2001 Series A Refunding Revenue bonds and terminate the Swap Agreement. In March 2009, the Convention Center Authority issued $71,220,000 of Refunding Revenue bonds for the purpose of refunding the Authority's outstanding Variable Rate Refunding Revenue Bonds 2001 Series A, and to finance an associated swap termination payment, debt service reserve fund and the costs of issuance.

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

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. The RICCA was unable to fund the Renewal and Replacement component to the restrictive covenants pursuant to certain indentures. During the annual budget process, the RICCA requests Renewal and Replacement funding from the State. Such appropriations were not made during FY08.

See Note 12 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

Component Units

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

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

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans, the monies in restricted funds established by the trust

indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

The R.I. Economic Development Corporation (RIEDC) has bonds outstanding referred to as Airport Revenue Bonds. They were issued to finance the construction and related costs of certain capital improvements at T.F. Green State Airport. The proceeds of the bonds were loaned to the R.I. Airport Corporation, a subsidiary and component unit of RIEDC. The remainder of bonds outstanding comprise the financing to purchase land and make land improvements at Island Woods Industrial Park in Smithfield, R.I. and to acquire land, make improvements and renovations of a building and parking lot (The Fleet National Bank Project).

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to $42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the Intermodal Facility Project. RIAC is permitted under the agreement to make requisitions of funds for eligible project costs and it is anticipated that such requisitions will occur through fiscal year 2011. Upon completion of the project, RIAC will begin making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments will be made on behalf of RIEDC (the borrower per the Agreement) and it is anticipated that repayments will commence in fiscal year 2010 with a final maturity of January 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2008, RIAC had $83,000 in borrowings under this agreement.

During the year ended June 30, 2008, the Airport Corporation issued $18,030,000 of revenue bonds with an average interest rate of 4.492% to advance refund $18,060,000 of revenue bonds with an average interest rate of 5.081%. The Airport Corporation advance refunded these bonds to reduce its total debt service payments over the next 10 years by approximately $717,000 and obtain an economic gain (difference between the present values of the debt service payments of the old and new bonds) of approximately $597,000. The reacquisition price exceeded the carrying amount of the old debt by $539,126. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. The proceeds of the refunding were used to purchase U.S. Government securities which were deposited into an irrevocable trust with an escrow agent to provide for all future payments on the refunded bonds. As of June 30, 2008, $60,225,000 of outstanding refunding bonds, including prior year refundings, are considered defeased.

In April 2004, the Narragansett Bay Commission (NBC) issued Multi-Modal Revenue Bonds, 2004 Series A in the principal amount of $70,000,000 maturing September 2034. These bonds have been issued in weekly rate mode but can be changed by NBC to a daily, commercial paper or term rate mode. The interest rate is determined weekly or daily based on the mode and interest is paid monthly. The interest rate for the bonds outstanding

during fiscal year 2007 ranged from 3.2% to 4.0%. The owners of the bonds in weekly mode can require NBC (acting through its remarketing and lender agents) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds.

NBC has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a European bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 183 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. NBC is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus ½ of 1 percent, whichever is higher. The standby bond purchase agreement remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank. The standby bond purchase agreement terminates on April 29, 2009 and carries a fee of 0.18% per annum on the amount available.

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

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

The $80,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, $4,000,000 at June 30, 2008 (See Note 18B). The insured mortgages are guaranteed by the State. Subsequent to June 30, 2008 the authorization was reduced to $20,000,000 by the General Assembly.

URI entered into an interest rate swap for its currently outstanding Auxiliary Enterprise Revenue Issue, Series 2004B. The purpose of the swap was to lower the cost of funds. URI pays the bondholders a variable rate set weekly. Based on the swap agreement, URI pays interest at a variable rate based on the bonds and a) a fixed rate on the swap equal to 3.691% and b) in return URI receives the sum of (i) 67.0% of the one month USD-LIBOR-BBA plus (ii) 0.12%. The one month USD-LIBOR-BBA plus 0.12% is a variable rate designed to offset the variable rate paid to the bondholders, thereby establishing a synthetic fixed rate for the bonds. All payments under the swap agreement are netted and paid on a monthly basis each month on the fifteenth (15th), commencing on January 15, 2005. As further defined in the Confirmation to the swap agreement, the Board of Governors of Higher Education is acting for URI. Subject to cash settlement, URI has the right to terminate the agreement, in whole or in part, on the effective date and on any business day thereafter. The swap is scheduled to terminate on September 15, 2034.

Because interest rates have declined and tax-exempt and taxable ratios have remained high since execution of the swap, the swap, if it were to be terminated, had a negative fair market value ($1,397,697) at June 30, 2008. Swaps are not normally valued through exchange-type markets with easily accessible quotation systems and procedures. The fair market value was calculated using the zero coupon method. Information was obtained from generally recognized sources with respect to quotations, reporting specific transactions and market conditions and based on accepted industry standards and methodology.

As the variable rate that URI pays on its bonds, which approximates the Bond Market Association Municipal Swap Index, differs from the variable percent of LIBOR rate received from Merrill Lynch Capital Services (MLCS), the swap exposes URI to basis risk. As of June 30, 2008, the Bond Market Municipal Swap Index was 1.55% whereas 67.0% of the 1 month LIBOR plus 0.12% was 1.65%.

As of June 30, 2008, URI was exposed to credit risk because the swap had a negative fair value. MLCS is unconditionally guaranteed by Merrill Lynch & Co. and has maintained its ratings since inception of AA3, A+ and AA- by Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively. Additionally URI has obtained swap insurance on this transaction from Ambac Assurance Corporation. To mitigate credit risk, if the counterparty's credit quality falls below a threshold level, the counterparty is obligated, on demand of URI, to provide and maintain collateral (cash or U.S. Government and Agency Securities) having certain values required by the swap in order to provide security for payment of the positive value of the swap, if any, to URI.

In November 2008, URI refunded the Series 2004B bonds and financed the termination of the swap agreement with the proceeds of the Series 2008 A and B bonds (see Note 19 Subsequent Events).

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2008 are as follows:

Primary Government	
Agricultural Land Preservation Commission 2 installments on or before July 2009	$ 2,276
Less: current payable	(1,860)
	$ 416
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.	$ 1,849
R.I. Housing and Mortgage Finance Corporation bank notes, 2.46% to 5.275% interest, payable through 2027.	37,081
R.I. Economic Development Corporation (Masonic Temple Hotel) semi-annual installments of principal and interest through FY 2010 bearing interest at 6.10%.	9,775
R.I. Student Loan Authority note to National Education Loan Network (Nelnet) annual payments of $683,333 plus interest of 8.25% with option to pay off the balance at any time, matures September 27, 2011	3,415
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	702
R.I. Resource Recovery Corporation notes due in installments through 2010, 5 % interest.	1,250
	54,072
Less: current payable	(43,292)
	$ 10,780

C. Loans Payable

Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of $269,027,000.

D. Obligations Under Capital Leases

Primary Government

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

The State's obligation under capital leases at June 30, 2008 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 December 2007, the State issued $59,183,000 of refunding Certificates of Participation to advance refund $60,435,000 of outstanding capital leases. Interest rates on the new capital leases range from 3.30% to 5.00% with maturities through fiscal year 2021. This in-

substance defeasance resulted in an economic gain of approximately $2,429,000 and total debt service requirements were reduced by approximately $2,963,000.

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, 2008.

Fiscal Year Ending June 30	COPS
2009	$ 32,048
2010	31,291
2011	26,128
2012	24,835
2013	23,743
2014 - 2018	98,043
2019 - 2023	64,196
2024 - 2028	16,400
Total future minimum lease payments	316,684
Amount representing interest	(80,624)
Present value of future minimum lease payments	$ 236,060

E. Compensated Absences

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

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

F. Other Long-Term Liabilities

Items in this category include, but are not limited to, income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the bond issuance date. Retainage payable is also included since the related construction projects are not expected to be completed in the subsequent fiscal period. Other long-term liabilities include a tax carry-over credit for a large corporation determined to be a long-term liability and the State's estimated liability for the Station Fire litigation (see Note 12 – Contingencies).

In July 2007, the State entered into a payment agreement with the Rhode Island Economic Development Corporation (EDC) relating to $14,280,000 of financing obtained by EDC to provide funds to extinguish historic structure tax credits for the Masonic Temple hotel project through a long term loan to the developer. With the transaction the State retired approximately $21 million of unused historic tax credit obligations resulting in a net benefit to the State of approximately $7 million. The term of EDC's borrowing is 3 years. The rate on the loan is a function of the 6 month LIBOR. To obtain a fixed rate on the obligation, the EDC entered into a floating to fixed interest rate swap, whereby the counterparty agrees to pay EDC the 6 month LIBOR and EDC agrees to pay the counterparty 6.10%. EDC's note payable is secured by an assignment of a payment agreement between the State and EDC reflecting legislative approval of EDC executing this debt and the State's obligation to appropriate to EDC funds sufficient to repay the debt. The State will provide semi-annual appropriations and payments to EDC through FY 2010 to pay the debt service on the loan.

The State entered into a loan agreement with the Rhode Island Housing and Mortgage Finance Corporation to provide financing for various affordable housing initiatives. At June 30, 2008 there was $18,152,000 outstanding under the loan agreement.

G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2008, the following changes (expressed in thousands) occurred in long-term debt:

Primary Government

	Balance July 1	Additions	Reductions	Balance June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities						
General obligation bonds payable:						
Current interest bonds	$ 913,367	$ 178,325	$ (94,613)	$ 997,079	$ 54,545	$ 942,534
Capital appreciation bonds	118		(109)	9	9	
Accreted interest on capital appreciation bonds	3,046	667	(3,403)	310	310	
Premium and deferred amount on refunding	31,800	3,040	(3,719)	31,121		31,121
	948,331	182,032	(101,844)	1,028,519	54,864	973,655
RIEDC Grant Anticipation Bonds	313,820		(28,315)	285,505	27,475	258,030
Premium	20,799		(3,563)	17,236		17,236
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	76,290		(3,730)	72,560	3,845	68,715
Premium	1,502		(125)	1,377		1,377
Revenue bonds - RIRBA	42,710		(18,475)	24,235	18,195	6,040
Net premium/discount and deferred amount on refunding	(251)		(35)	(286)		(286)
Tobacco Settlement Asset-Backed Bonds	860,161		(16,620)	843,541		843,541
Accreted interest on TSFC bonds		11,153		11,153		11,153
Net premium/discount	(27,723)		1,394	(26,329)		(26,329)
Bonds payable	2,235,639	193,185	(171,313)	2,257,511	104,379	2,153,132
Certificates of Participation (COP)	256,865	59,185	(79,990)	236,060	21,330	214,730
Premium	6,167	703	(769)	6,101		6,101
Obligations under capital leases	263,032	59,888	(80,759)	242,161	21,330	220,831
Compensated absences	78,108	62,333	(73,005)	67,436	55,226	12,210
Net OPEB Obligation		16,112		16,112		16,112
Notes Payable		2,276		2,276	1,860	416
Other long-term liabilities	56,867	39,478	(13,206)	83,139	9,786	73,353
	$ 2,633,646	$ 373,272	$ (338,283)	$ 2,668,635	$ 192,581	$ 2,476,054
Business type activities						
Revenue bonds	$ 279,935	$	$ (8,975)	$ 270,960	$ 9,285	$ 261,675
Add: bond premium	4,224		(319)	3,905		3,905
Less: issuance discounts	(734)		101	(633)		(633)
Deferred amounts on refunding	(6,586)		679	(5,907)		(5,907)
Bonds payable	276,839		(8,514)	268,325	9,285	259,040
Other long-term liabilities	1,359		(188)	1,171	188	983
	$ 278,198	$	$ (8,702)	$ 269,496	$ 9,473	$ 260,023

H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. On June 30, 2008, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 288,083
Certificates of Participation	21,230
R.I. Convention Center Authority	35,660
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	280,780
R.I. Economic Development Corporation	81,205
R.I. Turnpike and Bridge Authority	32,300

I. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2008 was $97,000,000, $2,420,465,710 and $868,000,000 respectively. Certain issues of conduit debt are moral obligations of the State and the current amounts outstanding are disclosed in Note 12.

Note 7. Net Assets/Fund Balances

Governmental Activities

Restricted Net Assets

The Statement of Net Assets reflects $427,588,000 of restricted net assets, of which $181,143,000 is restricted by enabling legislation. The restricted net assets that are restricted by enabling legislation are included in the Employment Insurance Program and Other categories on the Statement of Net Assets.

Unrestricted Net Assets

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

	Governmental Activities	
Deficit	$ (1,427,537)	
General Revenue		
Appropriations carried forward	1,739	General revenues carried forward for original purpose
Internal Service Funds	7,593	Unrestricted balance of all Internal Service Funds
Unrestricted Net Assets	$ (1,418,205)	

The State issues debt for various purposes that does not result in the acquisition of capital assets. Included in the liabilities of the governmental activities on the Statement of Net Assets is $1,376,087,000 of such debt, which causes the above deficit.

Changes in General Fund Reserved Fund Balances

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

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	$ 78,659	$ 68,579	$ (44,369)	$ 102,869
Appropriations carried forward				
General revenue	3,640	1,739	(3,640)	1,739
Departmental restricted revenue	51,777	42,413	(51,777)	42,413
Other	10,090	2,584	(10,090)	2,584
Total	$ 144,166	$ 115,315	$ (109,876)	$ 149,605

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

Note 8. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts. Tax revenue on the Statement of Revenues, Expenditures and Fund Balances – Governmental Funds is reported net of 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	$ 1,073,617	$ 1,073,057
General Business Taxes:		
Business Corporations	150,469	150,892
Public Utilities Gross Earnings	99,437	99,902
Financial Institutions	1,830	1,839
Insurance Companies	67,997	68,243
Bank Deposits	1,710	1,712
Health Care Provider Assessment	53,357	54,888
Sub-total - General Business Taxes	374,800	377,476
Sales and Use Taxes:		
Sales and Use	844,197	844,544
Motor Vehicle	48,610	48,611
Motor Fuel	991	1,008
Cigarettes	114,675	114,679
Alcoholic	11,141	11,141
Sub-total - Sales and Use Taxes	1,019,614	1,019,983
Other Taxes:		
Inheritance and Gift	35,334	35,473
Racing and Athletics	2,813	2,813
Realty Transfer	10,223	10,223
Sub-total - Other Taxes	48,370	48,509
Total - General Fund	2,516,401	2,519,025
Intermodal Surface Transportation Fund		
Gasoline	135,412	135,412
Other Governmental Funds	166,272	166,272
Total Taxes	$ 2,818,085	$ 2,820,709

Note 9. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2008 are presented below (expressed in thousands):

Fund Financial Statements

	Transfers	Description
Governmental activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 48,637	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,966	Operating assistance
Tobacco Settlement Trust	124,000	Allocation of last year ending balance
Bond Capital	6,950	Debt service and capital projects
RI Refunding Bond Authority	331	Prior year undesignated balance
Certificate of Participation	25	Support of the arts
Business-Type Activities		
Lottery	94	Support of the arts
Lottery	354,321	Net income
Employment Security	2,643	Operating assistance
Internal Service		
Assessed Fringe Benefits	55	Charges for Information Technology Services
Energy Revolving	1,339	Prior year ending balance of dissolved fund
Correctional Industries	1,250	Excess revenue
ISTEA		
Bond Capital	28,198	Infrastructure
GARVEE		
Intermodal Surface Transportation	53,175	Debt Service
Nonmajor Fund		
RI Capital Plan		
General	63,792	Statutory excess in budget reserve
General	7,770	Transfer of remaining appropriations
Bond Capital	4,928	RICAP residual balance
Tobacco Settlement Trust	23,801	Allocation of prior year ending balance
Permanent School		
Lottery	1,153	Support of education
Total Governmental Activities	724,428	
Business-Type Activities		
Convention Center		
General	31,661	Debt service
Employment Security		
Assessed Fringe Benefits	1,622	Reimbursement for State employee's unemployment compensation
Internal Service Funds		
Health Insurance Retirees		
General	1,428	
Vehicle Replacement Revolving Loan		
Tobacco Settlement Trust	6,350	Allocation of prior year ending balance
Total operating transfers	$ 765,489	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $13,044,000 for the fiscal year ended June 30, 2008.

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, 2008:

Fiscal Year Ending June 30	
2009	$ 11,387
2010	10,367
2011	9,149
2012	7,507
2013	6,702
2014 - 2018	22,487
2019 - 2023	2,006
Total	$ 69,605

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

Note 11. Commitments

Primary Government

Commitments arising from encumbrances outstanding as of June 30, 2008 are listed below (expressed in thousands).

Major funds	
General	$ 11,439
ISTEA	209,822
GARVEE	115,635
Total major funds	336,896
Other governmental funds	20,434
Total encumbrances outstanding	$ 357,330

The primary government is committed at June 30, 2008 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with bond proceeds and federal grants. Encumbrances within the general fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2008 under contractual obligations with various service providers, which will be funded through appropriations of general revenue, and federal and restricted revenues in succeeding fiscal years.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with Providence Place Group Limited Partnership (PPG). The

agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly andsigned by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3,680,000 in the first five years and $3,560,000 in years 6 through 20. In the year ended June 30, 2008 $3,560,000 was paid to PPG.

The R.I. Convention Center Authority (RICCA) completed the renovation of the Dunkin' Donuts Center (DDC) in November 2008. The new Guaranteed Maximum Price for the project through March 2009 totaled $65,368,402 and RICCA's remaining commitment is $886,937. Also, RICCA has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center and parking garages.

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

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

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

Component Units

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 $20,121,000 which is expected to be funded from current available resources and future operations. As of June 30, 2008, RIAC was also obligated for completion of the Intermodal Facility under commitments of approximately $7,824,000.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately $25,016,000 at June 30, 2008.

A portion of the R.I. Resource Recovery Corporation (RIRRC) landfill is a designated Superfund site. During 1996, the RIRRC entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by RIRRC for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of $27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, RIRRC has deposited approximately $33,300,000 into the trust fund and has disbursed approximately $5,348,000 for remediation expenses through June 30, 2008. Additionally, trust fund earnings, net of changes in market value have totaled approximately $13,828,000

The cost of future remedial actions may exceed the amount of funds reserved. However, the RIRRC projects that the amount reserved plus cash flow over the next five years will be adequate to fund the Superfund remedy. RIRRC would seek appropriations from the General Assembly to fund any shortfall. The State, virtually every municipality in the State, and numerous businesses within and outside the State are all potentially responsible parties ("PRPs") for the costs of remedial actions at the RIRRC Superfund site. Under federal law, PRPs are jointly and severally liable for all costs of remediation. EPA has agreed not to seek contributions from any other PRP as long as RIRRC is performing the remedy.

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. In 2004, RIRRC reviewed and revised its estimates relating to methane gas monitoring as required by the EPA and leachate pretreatment costs and flows. While Phase IV is still accepting waste, portions of Phase IV have been capped with final capping expected during 2012. In 2005, RIRRC began landfilling in Phase V. RIRRC has further revised its estimates relating to capping, maintenance, leachate flow costs and gas collecting system costs of Phase IV and V. The total estimate of future landfill closure and postclosure care costs was increased to approximately $140,000,000 at June 30, 2008.

The liability for closure and postclosure care costs at June 30, 2008 of $84,847,000 is recorded in the statements of net assets, as noted below, with $55,200,000 remaining to be

recognized at June 30, 2008. The detail of the recorded liability (expressed in thousands) is listed below.

Phase V	$	28,342
Phase IV		14,168
Phases II and III		6,572
Phase I		35,765
	$	84,847

Based on the estimates of RIRRC engineers, approximately 87% and 54% of capacity for Phase IV and Phase V, respectively, has been used to date, and it is expected that full capacity will be reached during fiscal 2012 for Phase V.

RIRRC has received site approval for Phase VI from the State Planning Council. RIRRC has submitted an application for licensure of Phase VI to RIDEM. RIRRC expects to record an approximate additional $80,000,000 of closure and post closure costs based upon current costs over the anticipated life of Phase VI., once it is permitted and begins to accept solid waste.

Amounts provided for closure and postclosure care are based on current costs. These costs may be adjusted each year due to changes in the closure and postclosure care plan, inflation or deflation, technology, or applicable laws 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 on the accompanying statement of net assets is $39,636,409 at June 30, 2008, consisting of amounts placed in trust to meet the financial requirements of closure and postclosure care costs related to Phases II, III, IV, and V. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these costs.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The present value of the estimated remaining total expenditures at June 30, 2008 relating to remediation that will be required as a result of the Consent Decree is approximately $12,000,000.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of $47,476,464 under various loan programs at June 30, 2008.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2008 remaining commitments on these contracts approximated $3,540,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of $4,646,591 at June 30, 2008

The College Crusade of R.I. has committed $1,069,851 toward scholarships for tuition during the 2008/2009 school year. This represents approximately 314 students for an

average award of approximately $3,407 per student. As of June 30, 2008, the estimated value of the potential future scholarship costs through the year 2021 is estimated to be between $1,800,000 and $7,400,000.

The Quonset Development Corporation was obligated for the completion of certain construction contracts under commitments totaling $3,931,621 at June 30, 2008 which are expected to be funded from the receipt of State bond proceeds and internal funding.

The R.I. Industrial Recreational Building Authority has an outstanding commitment as of June 30, 2008 in the amount of $4,000,000 to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and R.I. Industrial Facilities Corporation.

The R. I. Student Loan Authority (RISLA) and the National Education Loan Network, Inc. (Nelnet) agreed on September 27, 2007 to terminate the 2004 agreement between the parties which sold and assigned certain assets and rights from RISLA to Nelnet. In the original agreement RISLA assigned to Nelnet all rights associated with the Authority's student loan origination business, including the use of the Authority's name and federal identification number, issued by the U.S. Department of Education, to market and originate federal and alternative student loans for a term of 10 years and sold to Nelnet all fixed assets and the assumption of operating liabilities. Effective September 27, 2007 RISLA hired all the personnel that had previously been employed by Nelnet in the Warwick, RI location. RISLA's June 30, 2008 operating expenses include all salaries and wages, payroll taxes and benefits for the thirty seven new employees for the period September 27, 2007 through June 30, 2008. RISLA also assumed responsibility for all costs associated with the marketing and origination of student loans and all general and administrative costs that prior to the termination date had been paid by Nelnet and reimbursed by RISLA according to the service agreement in place between the two entities.

The September 2007 termination agreement required RISLA to return to Nelnet $4.1 million of $8 million that was paid to RISLA in 2004 for the assigned rights and fixed assets. RISLA received a valuation report from a national investment banking firm which confirmed that the amount paid to Nelnet was within the range of values for the remaining term of the original agreement. RISLA also received a confirmation from a second investment banking firm that the methodology used to calculate the repurchase price of the agreement was appropriate and reasonable. RISLA will amortize the capital asset of $4.1 million over a 5 year period ending in September 2012. The amortization expense for the year ended June 30, 2008 was $615,000.

R.I. Higher Education Assistance Authority

Under an agreement with Alliance Bernstein L.P., the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund's operating revenues, totaling $6,277,380, are derived from the Program Fund. In addition, the R.I. Higher Education Assistance Authority (RIHEAA) receives $250,000 annually (in quarterly installments) directly from Alliance. During 2002,

RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

Academic Promise Scholarship Program: up to $1,000,000 is invested annually through RIHEAA in the CollegeBoundfund for the benefit of 100 academic and income-qualified students to provide up to $10,000 to each student over a four-year scholarship period. During 2008, $325,000 was transferred to RIHEAA and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of unnamed beneficiaries. 5 and 10 Matching Grant Program: up to $500,000 may be made available annually by the Authority to invest through RIHEAA into the CollegeBoundfund as matching contribution accounts for individual accounts established for the benefit of income-qualifying individuals.

Student financial assistance transfers from the Operating Fund to the Scholarship and Grant Fund totaled nearly $6,600,000 in fiscal year 2008. These transfers consisted of $325,000 for the Academic Promise Scholarship Program, $600,000 for the Adult Education Grant Program and over $5,600,000 in supplemental funding for the State Scholarship/Grant Program.

Note 12. Contingencies

Primary Government

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

Litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 200 people. Numerous suits have been served upon the State and its Fire Marshal. The State has entered into a tentative settlement in the case for $10,000,000, subject to Court approval, plaintiff acceptance and legislative action. A liability has been accrued on the Statement of Net Assets for this estimated settlement.

The State has been sued by a contractor via a third party complaint relating to the construction of the I-Way Bridge spanning the Providence River (I-195). A subcontractor hired by the contractor to, among other things, drill and install twenty-one shafts to allow for the placement and erection of the I-Way Bridge. The subcontractor claims that it is entitled to compensation for extra work performed and alleged unforeseen conditions encountered during its work. The subcontractor alleges that it incurred approximately $14.5 million to complete its work on the project. The litigation is still in the discovery phase and management cannot estimate the likelihood of loss to the State, if any.

A claim has been made by the Cranston School Committee for reimbursement for sums paid for salaries of the director and guidance counselors and for the costs of building repairs to the

Cranston Area Vocational Technical Center. The School Committee contends that it is owed the amounts it paid for salaries from 1990-present and building repairs it made from 1999-present, a total of $7,166,656. The Department of Elementary and Secondary Education responded, setting forth several legal and equitable defenses on behalf of the State and the Department. The School Committee, joined by the City of Cranston, is proceeding before an administrative hearing officer to present evidence in support of this claim.

Also, a claim has been made by the Chariho Regional School Committee for reimbursement for sums paid by Chariho for salaries of the directors and guidance counselors at the Chariho Career and Technical Center from 1990-present totaling $4,142,893. The claim was received in February 2009 and assigned for an administrative hearing. A full assessment of the likelihood of an unfavorable outcome cannot be made until the matter proceeds further into the administrative hearing process.

The Department of Elementary and Secondary Education issued a final program review determination letter notifying the City of Providence of substantial overpayments in housing aid reimbursements as a result of incorrect or incomplete information provided by the City of Providence at the time that housing aid was being calculated. The alleged overpayment amount in dispute is approximately $9 million. The City of Providence requested a hearing and disputes the findings of the Department. The FY 2009 Supplemental Budget requires a seven year repayment schedule with the first payment in FY 2009.

Tobacco Settlement Financing Corporation

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

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

In addition to NPM adjustment litigation, litigation has been filed alleging, among other claims, that the Master Settlement Agreement (MSA) violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. Several class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the corporation may not have adequate financial resources to service its debt obligations. In April 2005, 2006, 2007, and 2008 many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due, or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to recognize a prescribed adjustment for nonparticipating manufacturers. The corporation's share of these disputed payments is approximately $12,100,000. Due to uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

Lottery

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

As a result of defaulting on loan payments, UTGR, Inc., the owner and operator of Twin River, entered into a forbearance agreement with its lenders. The forbearance agreement expired on January 31, 2009 and has not been formally extended. Neither the lenders nor any other party in interest has instituted any proceedings to take action as a result of the expiration of the agreement. At the present time, all parties in interest have been engaged in negotiations aimed at continuous operation of the facility. The Department of Revenue and the Division of Lotteries are monitoring the situation on a daily basis. The Lottery has been collecting all revenues due the State each day without interruption. Management of the Department of Revenue has contingency plans to ensure continued operation of the Twin River facility.

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, 2007 was issued in May 2008. That report identified approximately $19.0 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 2008 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered "moral obligations" of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2008 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had $321,812,545 and $41,661,677 respectively, in "moral obligation" bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately $3,355,000 of the debt on the related economic development revenue bonds in fiscal year 2009.

Component Units

R.I. Student Loan Authority

The R.I. Student Loan Authority (RISLA) maintains letters of credit in the original stated amount of $31,940,000 on its January 1995 weekly adjustable interest rate bonds and the originally stated amount of $69,203,000 on its April 1996 Series I, II and III variable rate bonds. The letters of credit obligate the letter of credit provider to pay to the trustee an amount equal to principal and interest on the bonds when the same becomes due and payable (whether by reason of redemption, acceleration, maturity or otherwise) and to pay the purchase price of the bonds tendered or deemed tendered for purchase but not remarketed. The letters of credit will expire on the earliest to occur: a) June 30, 2012, for the January 1995 and April 1996 issue; b) the date the letter of credit is surrendered to the letter of credit provider; c) when an alternative facility is substituted for the letter of credit; d) when the bonds commence bearing interest at a fixed rate; e) when an event of default has occurred or f) when no amount becomes available to the trustee under the letter of credit.

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R.I. Public Transit Authority

The R.I. Public Transit Authority has a $2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2008.

The College Crusade of R.I.

The College Crusade of R.I has a $1,200,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter percent, which was 4.75 % at June 30, 2008. There was an outstanding balance of $390,000 as of June 30, 2008. Total interest expense for the fiscal year ended June 30, 2008 was $15,391.

R.I. Housing and Mortgage Finance Corporation

On March 27, 2006, the Corporation executed a revolving loan agreement with Citizens Bank of Rhode Island, expiring in March 2009, whereby the Corporation may borrow up to a maximum outstanding principal sum of $20,000,000. On July 31, 2006, the Corporation executed a revolving loan agreement with Bank of America N.A., expiring in October, 2008, whereby the Corporation may borrow up to a maximum outstanding principal sum of $50,000,000. Borrowings outstanding under the revolving loans are unsecured. At June 30, 2008, $10,500,000 is outstanding under these revolving loans.

Community College of R.I.

On November 2, 2007, an arbitrator awarded two contractors involved in the construction of the Newport campus a total of $3,321,208 in damages and penalties. The Community College has appealed the arbitration award to the Rhode Island Superior Court and is awaiting a judgment on the case. In the interim, the Community College has recorded a liability and related additions to capital costs for $3,321,208.

Note 13. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The ERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The

level of benefits provided to State employees and teachers, which is subject to amendment by the general assembly, is established by the General Laws as listed below. As a result of an amendment to the General Laws effective July 1, 2005, the ERS implemented a two-tiered benefit structure for members of the ERS. Members with 10 years of service as of July 1, 2005 follow the Schedule A benefit structure and all other members follow the Schedule B benefit structure. In addition to the State, there are 48 local public school entities that are members of the ERS. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the Schedule A and Schedule B benefit structures. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

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

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income securities and domestic and international stocks is generally based on published market prices and quotations from national security exchanges and securities pricing services. 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 cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions). Commingled funds consist of institutional domestic and international equity index funds and a short duration fixed income fund. The fair value of the commingled funds is based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded. Short-term investments are stated at cost, which approximates fair value.

Funding Policy and Annual Pension Cost

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below.

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	20.77%	31.00%	32.07%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	8.52% and 8.97%		
Annual pension cost	$214,016	$3,720	$2,128
Contributions made - state employees	$131,560	$3,720	$2,128
Contributions made - teachers	$82,456		
Actuarial valuation date	June 30, 2005	June 30, 2005	June 30, 2005
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	24 years	24 years	24 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 8.25%	5% to 15.00%	5.25%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	Schd. A 3% compounded Schd. B 2.5% compounded	$1,500 per annum	3%
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	6/30/06	145,792	100%	$ 0
	6/30/07	188,832	100%	0
	6/30/08	214,016	100%	0
State Police Retirement Benefits Trust	6/30/06	3,175	100%	0
	6/30/07	4,039	100%	0
	6/30/08	3,720	100%	0
Judicial Retirement Benefits Trust	6/30/06	2,292	100%	0
	6/30/07	2,363	100%	0
	6/30/08	2,128	100%	0

The table below displays the funded status of each plan for the year ended June 30, 2007, 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*)	$ 2,493,428,522	$ 4,332,888,818	$ 1,839,460,296	57.5%	$ 660,044,273	278.7%
ERS (*Teachers*)	$ 3,737,981,686	$ 6,750,125,236	$ 3,012,143,550	55.4%	$ 959,372,837	314.0%
SPRBT	$ 45,996,910	$ 60,427,947	$ 14,431,037	76.1%	$ 15,836,354	91.1%
JRBT	$ 29,630,637	$ 35,355,326	$ 5,724,689	83.8%	$ 6,451,666	88.7%

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, 2007 actuarial valuation:

	ERS		SPRBT	JRBT
	State Employees	Teachers		
Valuation Date	6/30/07	6/30/07	6/30/07 *	6/30/07 *
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	22 years	22 years	22 years	22 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions				
Investment Rate of Return	8.25%	8.25%	8.25%	8.25%
Projected Salary Increases	4.50% to 9.00%	4.50% to 13.25%	4.50% to 12.50%	4.50%
Inflation	3.00%	3.00%	3.00%	3.00%
Cost of Living Adjustments	Schedule A members -3.0% compounded Schedule B members – 2.5%	Schedule A members -3.0% compounded Schedule B members – 2.5%	$1,500 per annum	3.0% (see Note1(b)(4)) to the financial statements

* restated June 30, 2007 actuarial valuation

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

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

Other

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan.

Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employee's gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to $14,389,235 during the year ended June 30, 2008.

The Rhode Island Public Transit Authority has a funded pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2008 totaled $5,699,331. At January 1, 2008, the most recent valuation date, the total actuarial accrued liability was $76,525,478 and the actuarial value of assets was $47,327,996. The Authority contributed 100.00% of its annual pension cost for fiscal year 2008 and had a net pension obligation of $1,799,084 at June 30, 2008.

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

Note 14. Other Post-Employment Benefits

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

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

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

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

On May 1, 2008 Public Law 2008-09 was enacted. The legislation changes the eligibility requirements for State contributions for health care coverage for those retiring on or after October 1, 2008. For anyone who retires on or after that date and has a minimum of 20 years of service and who is a minimum of 59 years of age, the State will pay 80% of the actual cost of such health care coverage. For members of the ERS who retired on or before September 30, 2008, the State provides two types of subsidies for health care benefits. The Tier I subsidy applies to non-Medicare eligible plans and provides that the State will pay the portion of the cost of post-retirement health care for the retiree and any dependents above the active group rate. The retiree pays the active monthly rate and the State pays the difference between the active group rate and the early retiree rate. This subsidy is not based on years of service and ends at age 65. In addition to the Tier I benefits, the State pays a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and service of the retiree, which is referred to as the Tier II benefit.

The RIRHCBP is reported in an internal service fund of the State using the accrual basis of accounting. The fund reports all employer and retiree member contributions to the Plans. Contributions are recognized when made. Benefits (health care claims) and refunds are recognized when due and payable in accordance with the terms of the Plans. A liability for incurred but not reported claims is determined based on past claims payment trends and is included in the financial statements. Working premium rates are determined by the State each fiscal year after consultation with an employee benefits consultant and are designed to fund current claims incurred during the fiscal year as well as the costs of administering the Plans. For the year ended June 30, 2008 the Plans operated on a pay as you go basis and no provision has been made to fund future benefits to be provided to RIRHCBP members.

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

As mentioned above, in fiscal year 2008 non-Medicare retiree members paid the active monthly premium rate and the State paid the difference between the active group rate and the more costly, early retiree rate (the "Tier I" benefit). Pursuant to RIGL Section 36-12-4 the State paid a portion of the cost of post-retirement health care above the Tier I costs for certain retirees meeting eligibility requirements based upon the age and years of service of the retiree, which is referred to as the Tier II benefit.

The retirees' fiscal 2008 contributions for Tier II benefits were as follows:

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

(1) The monthly premium rate is $708.94 for the individual plan. The retiree's cost is then calculated based on a maximum of $452.28 (the active plan rate).

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

(3) The monthly premium rate for the Medicare Supplemental plan is $179.77 for the individual plan, and the monthly premium for the Medicare HMO plan was $100.00 for the first six months of fiscal year 2008 and $107 thereafter. Retirees can choose between the two plans. The retiree's cost is then calculated based on the years-of-service subsidy above.

In fiscal year 2008 the State and other participating employers were not required to fund the Plans other than the pay-as-you-go amount necessary to provide current benefits to retirees and administrative costs and they contributed 3.91% of covered payroll. The contributions to the State Police Plan were equal to actual claims and administrative expenses. For the fiscal year ended June 30, 2008 the State and other participating employers paid $28,377,748 into the Plans.

Annual OPEB Cost and Net OPEB Obligation. Annual OPEB cost reflected in the government-wide financial statements is equal to the annual required contribution (ARC). The amount reflected in the governmental fund financial statements is equal to the actual contributions to the plan. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities of the Plans over a period of 30 years. Amounts "required" but not actually set aside to pay for these benefits are accumulated as part of the Net OPEB obligation. The annual OPEB cost for the year, the amount actually paid on behalf of the Plans the changes in the net OPEB obligation and the percentage of annual OPEB cost contributed to the Plans, are as follows (dollar amounts in thousands):

	State Employees	Teachers	Judges	State Police	Legislators
Date of Actuarial Valuation	06/30/05	06/30/05	06/30/07	06/30/05	06/30/05
Annual required contribution as a percent of payroll	6.01%	N/A	11.64%	30.27%	18.63%
Annual required contribution and annual OPEB cost	$ 38,203	$ 1,428	$ 1,382	$ 4,827	$ 285
Participating State and/or other employer contributions	$ 24,854	$ 1,428	$ 464	$ 1,572	$ 60
Increase in OPEB obligation	$ 13,349	$ 0	$ 918	$ 3,255	$ 225
Net OPEB obligation at beginning of year	$ 0	$ 0	$ 0	$ 0	$ 0
Net OPEB obligation at end of year	$ 13,349	$ 0	$ 918	$ 3,255	$ 225
Actuarial accrued liability (AAL) at valuation date	$ 580,041	$ 8,477	$ 14,024	$ 51,037	$ 3,919
Funded OPEB plan assets at valuation date	$ 0	$ 0	$ 0	$ 0	$ 0
Unfunded actuarial accrued liability (UAAL) at valuation date	$ 580,041	$ 8,477	$ 14,024	$ 51,037	$ 3,919
Funded ratio	0%	0%	0%	0%	0%
Covered payroll (in thousands)	$ 575,613	$ NA	$ 9,888	$ 13,821	1,509
UAAL as percentage of covered payroll	100.77%	NA	141.83%	369.27%	259.71%
Percentage of annual OPEB cost paid	65.06%	100.00%	33.57%	32.57%	21.05%

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

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
RIRHCBP - State Employees	$ -	$ 679,538	$ 679,538	0.0%	$ 626,145	108.5%
RIRHCBP - Teachers	$ -	$ 10,243	$ 10,243	0.0%	n/a	n/a
RIRHCBP - Judges	$ -	$ 14,024	$ 14,024	0.0%	$ 9,888	141.8%
RIRHCBP - State Police	$ -	$ 54,620	$ 54,620	0.0%	$ 15,977	341.9%
RIRHCBP - Legislators	$ -	$ 29,764	$ 29,764	0.0%	$ 1,592	1869.6%

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 Plans and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of assets of the Plans are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The actuarial valuation was performed as of June 30, 2005 with results projected to July 1, 2007 for the fiscal year ended June 30, 2008. The State's annual required contribution was determined using the individual entry age actuarial cost method. The State's unfunded actuarial accrued liability as of the June 30, 2005 transition date is being amortized over a period of 30 years using the level (principal and interest combined) percent of payroll (open) contribution amortization method. For judges, the June 30, 2007 valuation was used to determine the Annual Required Contribution for fiscal year 2008.

The individual entry-age actuarial cost method is used to determine the annual required contribution amounts and the annual net OPEB obligation. The actuarial assumptions include a 3.566% discount rate; an annual healthcare cost trend rate of 12% progressively declining to 4.5% after 10 years; and a salary growth rate ranging from 8.25% in year 1 to 4.75% in year 15 and beyond for State Employees and legislators, ranging from 17% in year 1 to 4.5% in year 15 and beyond for teachers, ranging from 15% in year 1 to 5% in year 15 and beyond for Police, and 5.25% in all years for judges. The discount rate of 3.566% was calculated based upon the average rate of return during the 10 years ended June 30, 2008 for short term investments of the General Fund.

The impact of Public Law 2008-09 on plan provisions and benefits has been factored into the June 30, 2005 actuarial valuation.

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

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

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

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island are covered by the Rhode Island Board of Governors for Higher Education Health Care Insurance Retirement Program. The Program offers a self-insured health care plan for pre-65 and post-65 retirees or a fully insured Medicare HMO plan for post-65 retirees. For the year ended June 30, 2008, the Program operated

on a pay as you go basis and no provision has been made to fund future benefits to be provided to plan members. The University and colleges have recognized the annual required contribution (OPEB cost) as determined by an actuarial valuation performed as of June 30, 2006. For fiscal 2008, annual OPEB cost for the university and colleges was $2,975,528 and actual contributions made were $1,897,053. Additional disclosures regarding the Program are detailed in the financial statements for each institution.

Note 15. Deferred Compensation

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

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

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

Note 16. Risk Management

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

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

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. The State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2008 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds				
Liability for unpaid claims	$ 19,836	$ 234,456	$ 233,642	$ 20,650

The State is self-insured for risks of loss related to torts. Tort claims are defended by the State's Attorney General and, when necessary, appropriations are provided to pay claims.

The State is self-insured for various risks of loss related to work related injuries of State employees. The State maintains the Assessed Fringe Benefits Fund, an internal service fund that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

Note 17. Condensed Financial Statement Information

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

	RIHMFC	RISLA	RITBA	RIEDC	NBC
Condensed statement of net assets:					
Other assets	$ 2,108,233	$ 1,057,517	$ 33,417	$ 284,540	$ 89,326
Capital assets - nondepreciable			2,677	116,099	415,607
Capital assets - depreciable (net)		3,611	83,127	377,584	223,261
Due from primary government				634	
Total assets	2,108,233	1,061,128	119,221	778,857	728,194
Long term debt	1,616,370	950,167	25,796	377,802	427,227
Other liabilities	207,477	33,640	5,391	41,541	14,217
Due to primary government	12,000			11,678	
Total liabilities	1,835,847	983,807	31,187	431,021	441,444
Net assets:					
Invested in capital assets, net of related debt	9,766	196	57,596	224,143	228,385
Restricted					
Debt service	207,217	75,583	6,359		
Other				79,366	190
Other nonexpendable					
Unrestricted	55,403	1,542	24,079	44,327	58,175
Total net assets	272,386	77,321	88,034	347,836	286,750
Condensed statement of activities:					
Program expenses					
Personal services	12,811	2,564	1,918	26,460	17,053
Supplies, materials, and services	9,408	7,259	1,780	17,331	14,522
Interest expense	73,620	39,610			
Depreciation, depletion, and amortization	2,757	969	2,399	17,903	7,464
Other program expenses	7,648	10,554	2,352	39,348	13,199
Total program expenses	106,244	60,956	8,449	101,042	52,238
Program revenue					
Charges for services	93,785	54,315	12,040	63,156	67,078
Operating grants and contributions				10,036	28
Capital grants and contributions				36,617	
Net program (expense) revenue	(12,459)	(6,641)	3,591	8,767	14,868
Interest and investment earnings	20,401	7,952	2,335	7,555	2,196
Miscellaneous			(4)	10,476	70
Payments from primary government	(26,020)			21,327	
Change in net assets	(18,078)	1,311	5,922	48,125	17,134
Beginning net assets as restated	290,464	76,010	82,112	299,711	269,616
Ending net assets	272,386	77,321	88,034	347,836	286,750

	RIHEBC	RIRRC	RIHEAA	RIPTA	RIIFC
Condensed statement of net assets:					
Other assets	$ 9,915	$ 123,068	$ 27,260	$ 14,622	$ 1,299
Capital assets - nondepreciable		14,835	307	6,557	
Capital assets - depreciable (net)	38	47,484	904	77,078	
Due from primary government				3,547	
Total assets	9,953	185,387	28,471	101,804	1,299
Long term debt		16,639	366	7,221	
Other liabilities	246	98,853	2,018	21,454	826
Due to primary government					
Total liabilities	246	115,492	2,384	28,675	826
Net assets:					
Invested in capital assets, net of related debt	39	46,929	1,211	83,635	
Restricted					
Debt service		2,155			
Other			24,876		
Other nonexpendable					
Unrestricted	9,668	20,811		(10,506)	473
Total net assets	9,707	69,895	26,087	73,129	473
Condensed statement of activities:					
Program expenses					
Personal services	378	14,152	3,220	47,261	62
Supplies, materials, and services	1,473	21,209	6,132	50,050	47
Interest expense					
Depreciation, depletion, and amortization	23	13,776	257	10,633	
Other program expenses		13,419	16,884		
Total program expenses	1,874	62,556	26,493	107,944	109
Program revenue					
Charges for services	2,143	66,993	15,292	32,643	120
Operating grants and contributions			368	20,602	
Capital grants and contributions				4,104	
Net program (expense) revenue	269	4,437	(10,833)	(50,595)	11
Interest and investment earnings	205	1,383	1,150	382	19
Miscellaneous	(1)	(423)		2,838	
Payments from primary government		(5,000)	10,220	32,725	
Change in net assets	473	397	537	(14,650)	30
Beginning net assets as restated	9,234	69,498	25,550	87,779	443
Ending net assets	9,707	69,895	26,087	73,129	473

	RICWFA	RIIRBA	RIWRBC	RIPTCA	TCCRI
Condensed statement of net assets:					
Other assets	$ 1,010,150	$ 3,200	$ 5,734	$ 1,727	$ 6,773
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	46	353		6,027	25
Due from primary government					
Total assets	1,010,196	3,734	5,734	8,575	6,798
Long term debt	648,882		9,427	1,113	
Other liabilities	9,895	774	433	473	1,778
Due to primary government					
Total liabilities	658,777	774	9,860	1,586	1,778
Net assets:					
Invested in capital assets, net of related debt	46	535		5,975	26
Restricted					
Debt service	329,259				
Other			(4,271)	1,168	1,594
Other nonexpendable					
Unrestricted	22,114	2,425	145	(154)	3,400
Total net assets	351,419	2,960	(4,126)	6,989	5,020
Condensed statement of activities:					
Program expenses					
Personal services	501			3,437	2,591
Supplies, materials, and services	2,531	143	35	1,733	564
Interest expense	26,379				15
Depreciation, depletion, and amortization	390	14	107	938	23
Other program expenses			416	61	2,307
Total program expenses	29,801	157	558	6,169	5,500
Program revenue					
Charges for services	21,364	282	1,226	4,967	4,848
Operating grants and contributions	10,904				
Capital grants and contributions					
Net program (expense) revenue	2,467	125	668	(1,202)	(652)
Interest and investment earnings	12,376	76	135	(58)	166
Miscellaneous			3	217	
Payments from primary government				2,292	1,056
Change in net assets	14,843	201	806	1,249	570
Beginning net assets as restated	336,576	2,759	(4,932)	5,740	4,450
Ending net assets	351,419	2,960	(4,126)	6,989	5,020

	URI	RIC	CCRI	CFSD	Totals
Condensed statement of net assets:					
Other assets	$ 220,877	$ 48,577	$ 23,923	$ 6,519	$ 5,076,677
Capital assets - nondepreciable	63,173	4,310	4,919		629,486
Capital assets - depreciable (net)	354,608	82,937	43,172	3,297	1,303,552
Due from primary government					4,181
Total assets	638,658	135,824	72,014	9,816	7,013,896
Long term debt	212,418	19,171	9,077	1,746	4,323,422
Other liabilities	54,458	19,238	11,043	7,069	530,824
Due to primary government		19,327			43,005
Total liabilities	266,876	57,736	20,120	8,815	4,897,251
Net assets:					
Invested in capital assets, net of related debt	236,957	54,598	40,358	3,103	993,498
Restricted					
Debt service					620,573
Other	26,317	4,387	5,337	116	139,080
Other nonexpendable	76,058	16,152			92,210
Unrestricted	32,450	2,951	6,199	(2,218)	271,284
Total net assets	371,782	78,088	51,894	1,001	2,116,645
Condensed statement of activities:					
Program expenses					
Personal services	260,096	87,742	71,812	54,266	606,324
Supplies, materials, and services	113,025	22,497	24,749	1,548	296,036
Interest expense				15	139,639
Depreciation, depletion, and amortization	20,378	4,713	2,946	276	85,966
Other program expenses	27,019	6,667	2,818		142,692
Total program expenses	420,518	121,619	102,325	56,105	1,270,657
Program revenue					
Charges for services	319,837	72,307	55,354	9,821	897,571
Operating grants and contributions		3,165	1,093		46,196
Capital grants and contributions	56,162	3,833	2,686		103,402
Net program (expense) revenue	(44,519)	(42,314)	(43,192)	(46,284)	(223,488)
Interest and investment earnings	3,839	(202)	416	19	60,345
Miscellaneous	14,941	6		65	28,188
Payments from primary government	75,390	44,347	47,820	44,088	248,245
Change in net assets	49,651	1,837	5,044	(2,112)	113,290
Beginning net assets as restated	322,131	76,251	46,850	3,113	2,003,355
Ending net assets	371,782	78,088	51,894	1,001	2,116,645

Significant transactions between primary government and component units

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 10,220	Operating assistance
R.I. Economic Development Corporation	10,864	Operating and capital assistance
University of Rhode Island	74,943	Educational assistance
Rhode Island College	44,512	Educational assistance
Community College of Rhode Island	48,182	Educational assistance
Central Falls School District	43,526	Educational assistance
R.I. Public Transit Authority	8,202	Operating assistance
R.I. Housing & Mortgage Finance Corporation	(26,020)	Operating assistance
ISTEA		
R.I. Public Transit Authority	32,882	Operating assistance
Bond Capital		
RI Economic Development Corporation	14,547	Construction, improvement or purchase of assets
University of Rhode Island	41,309	Construction, improvement or purchase of assets
Rhode Island College	5,915	Construction, improvement or purchase of assets
Certificates of Participation		
University of Rhode Island	6,237	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	9,107	Construction, improvement or purchase of assets
Total Governmental Activities	$ 324,426	

Note 18. Other Information

A. Elimination Entries

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

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 16,345	$ 3,943	$ 20,288	$ (16,588)	$ 3,700
Loans to other funds	78,829	2,100	80,929	(80,929)	
Total assets	$ 95,174	$ 6,043	$ 101,217	$ (97,517)	$ 3,700
Liabilities					
Due to other funds	$ 14,295	$ 2,293	$ 16,588	$ (16,588)	$
Loans from other funds	71,129	9,800	80,929	(80,929)	
Total liabilities	$ 85,424	$ 12,093	$ 97,517	$ (97,517)	$
Program revenue					
General government	$ 30	$ 291,713	$ 291,743	$ (291,743)	
Human services		8,348	8,348	(8,348)	
Public safety		10,272	10,272	(10,272)	
Expenses					
General government	30	290,813	290,843	(290,843)	
Human services		8,689	8,689	(8,689)	
Public safety		10,831	10,831	(10,831)	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 724,428	$ 7,778	$ 732,206	$ (407,278)	$ 324,928
Operating transfers out	(403,012)	(4,266)	(407,278)	407,278	
Net transfers	$ 321,416	$ 3,512	$ 324,928	$	$ 324,928

	Total Business-type Activities		Total	Eliminations	Internal Balances
Liabilities					
Due to other funds	$ 3,700	$	$ 3,700	$	$ 3,700
	$ 3,700	$	$ 3,700	$	$ 3,700
Transfers					
Operating transfers in	$ 33,283	$	$ 33,283	$ (33,283)	$
Operating transfers out	(358,211)		(358,211)	33,283	(324,928)
Net transfers	$ (324,928)	$	$ (324,928)	$	$ (324,928)

B. Related Party Transactions

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

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC), a subsidiary of the R.I. Economic Development Corporation, 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, 2008 were as follows:

Guaranteed loans outstanding at June 30, 2008	$509,527,000
Loans guaranteed during the year	247,588,000
Guarantee claims paid during the year	21,668,000

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) and the State have entered into a contractual relationship whereby RIHMFC assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, RIHMFC made $3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the $3,800,000, subject to appropriations, in installments of $950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been made, nor have any payments for transfers totaling $39,485,000 made during the years ended June 30, 1998 through 2008 been made.

In November 2004, the voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007 at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC, one-third to the State for all payments after September 2007. RIC will repay

the State for the debt service paid on its behalf on a straight-line basis amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009. RIC recognized $20 million as a liability to the State for its two-thirds of the debt service as a result of these issuances. Additionally, RIC has recorded $10 million of contributed capital by the State.

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

C. Restatements, Reclassifications and Other Changes in Presentation

	Governmental Activities	Discretely Presented Component Units	Governmental Funds
June 30, 2007			
Net assets as previously reported	$ 982,917	$ 2,017,401	
Fund balance as previously reported			$ 921,468
Correction of errors		(14,042)	
Reclassifications	42	(4)	42
June 30, 2007 net assets/fund balance as restated	$ 982,959	$ 2,003,355	$ 921,510

The beginning net assets of Governmental Activities within the government-wide financial statements were increased by $42,000. This increase is the result of the Rhode Island Economic Policy Council, a blended component unit as of June 30, 2007, being merged with the Rhode Island Economic Development Corporation, a discretely presented component unit. This merger also resulted in a reclassification of total net assets of the governmental funds for the same amount at June 30, 2007.

The beginning net assets of certain discretely presented component units decreased by an aggregate amount of approximately $14,000,000 to correct errors in prior periods. The majority of this decrease was attributable to a $13.8 million decrease in net assets for the Rhode Island Resource Recovery Corporation. During 2007, the Corporation ceased development activities of the industrial park and began actively marketing the land for sale. Based upon the sales consummated during 2007, the intent of the Corporation and other information available prior to the issuance of its 2007 financial statements, the land should have been reclassified from land held for development to land held for sale and reduced from its cost basis to net realizable value. As a result, the Corporation's financial statements overstated both total assets and net assets as of June 30, 2007 by the amount necessary to reduce the land to net realizable value. That amount totaled $13,758,679.

The State's fiscal 2008 financial statements include the following new funds:

- Rhode Island Capital Plan Fund - Capital Projects Fund
- Coastal Resources Management Council Dredge Fund – Special Revenue Fund

- Vehicle Replacement Revolving Loan Fund – Internal Service Fund

The Energy Revolving Internal Service Fund was dissolved and remaining net assets were transferred to the General Fund.

In accordance with GASB Statement No. 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* a net OPEB obligation has been recorded within the government-wide financial statements and proprietary funds reflecting an actuarially determined annual required contribution for postemployment benefits provided to employees (see Note 14).

D. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

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

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 98 percent of estimated general revenues. The remaining 2 percent is contributed to the Budget Reserve Account until such account equals 3 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

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

Budgetary Controls

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

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

Budgetary Compliance

The General Fund ended fiscal 2008 with an operating deficit of $42.9 million resulting from a deficiency of general revenue compared to general revenue expenditures. Actual general revenues were $7.1 million less than estimated revenues and actual general revenue expenditures were $35.8 million more than budgeted amounts. Expenditures in three departments exceeded appropriations from general revenues by a significant amount: the Department of Human Services by $22.8 million; the Department of Mental Health Retardation and Hospitals by $7.8 million; and the Department of Corrections by $8.6 million.

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2008:

- Assessed Fringe Benefits Fund ($5,659,000)
- State Telecommunications ($1,347,000)
- Central Laundry ($137,000)
- Records Center ($82,000)

The deficits will be eliminated through charges for services in fiscal year 2009.

Note 19. Subsequent Events

Primary Government

On November 4, 2008 the voters authorized the State to issue $87,215,000 of transportation bonds and $2,500,000 of open space and recreational development bonds.

On December 2, 2008 the State of Rhode Island issued $107,820,000 in General Obligation Bonds with interest rates ranging from 3.00% to 6.60% with maturity dates of August 2009 through August 2024. This issuance included an $86,875,000 Consolidated Capital Development Loan of 2008, Series B, an $8,500,000 Capital Development Loan of 2008, Series C, and a $12,445,000 Consolidated Capital Development Loan of 2008, Refunding Series D.

Subsequent to June 30, 2008, investments held within the pension trust funds have declined significantly in value consistent with overall declines in the domestic and international financial markets. At March 31, 2009, these declines were approximately 25% compared to the fair value of investments at June 30, 2008. The State Investment Commission has adopted a long-term investment policy for the investments held within the pension trust funds, which includes diversification of holdings pursuant to an asset

allocation model. Additionally, the impact on the funded status of the plans and required contributions due to any near term decline in value of the pension trust fund investments will be tempered by the five-year smoothing employed in the actuarial value of assets.

As of March 31, 2009 the Employees' Retirement System has successfully exited the securities lending program. As a result of this action, all securities on loan were called back, and collateral obligations were returned in whole.

The State's cash equivalent type investments at June 30, 2008 included approximately $83,765,000 invested with The Reserve – U.S. Government Fund which is a money market mutual fund. The Reserve petitioned the Securities and Exchange Commission (SEC) and was granted permission on September 22, 2008 to suspend redemptions from the U.S. Government Fund. The State had approximately $62 million invested in The Reserve - U.S. Government Fund on September 22, 2008, the date redemptions were suspended. The Reserve liquidated the U.S. Government Fund making a partial distribution and then final distribution on January 16, 2009. The Office of the General Treasurer received full redemption of its shares in the Reserve - US Government Fund, plus accrued interest, at a rate above current market levels, without loss in value.

Funds on deposit with fiscal agent at June 30, 2008 as well as certain investments held within the discretely presented component units included guaranteed investment contracts (GIC's) with AIG Matched Funding a subsidiary of American International Group (AIG). Bond proceeds were invested in the GIC's pending disbursement for project costs. The AIG GIC's contained provisions that were triggered by a downgrade in the ratings assigned to the corporate issuer of the GIC's which occurred in September 2008. The credit rating downgrade allowed the State and the Rhode Island Clean Water Finance Agency (a discretely presented component unit) to request return of the invested funds which subsequently occurred.

The State Investment Commission has modified, due to the increased need for security, its short-term investment policy regarding Certificates of Deposits and Commercial Paper. Certificates of Deposits, regardless of duration, shall be fully collateralized, at a percent not to be below 102%. Further, investments in Commercial Paper will cease.

The State sold $350 million of General Obligation Tax Anticipation Notes in October 2008. The notes bear interest at 3.5% and are due June 30, 2009.

In March 2009, the State obtained an interest free $75 million line of credit from the Federal Unemployment Insurance Trust Fund. The line of credit will be used to fund unemployment insurance benefits.

Subsequent to June 30, 2008, in response to instability in the financial markets, the U.S. Treasury instituted a Temporary Guarantee Program for Money Market Funds. The program provides a guarantee to participating money market mutual fund shareholders based on the number of shares invested in the fund at the close of business on September 19, 2008. This program expires on April 30, 2009 unless extended by the U.S. Treasury.

The State and its component units had significant amounts invested in money market funds at June 30, 2008. Money market funds must elect to participate in the Temporary Guarantee Program for Money Market Funds. All the money market funds holding State funds at June 30, 2008 have elected to participate in the guarantee program.

In December 2008, the Board of the Employees' Retirement System approved an increase to the fiscal 2010 employer contribution rates for State employees from 20.69% to 25.03% of covered payroll. The fiscal 2010 contribution rates had previously been established and approved by the Board based on an actuarial valuation performed as of June 30, 2007. An increase in the fiscal 2010 employer contribution rate was recommended by the actuary in response to an expected decrease in covered payroll for fiscal 2010. This is due to a significant increase in the number of state employee retirements prompted largely by changes in retiree medical coverage effective October 1, 2008. The expected decrease in fiscal 2010 covered payroll requires that the amortization of the unfunded actuarial accrued liability be applied to a smaller payroll base thereby causing an increase in the employer contribution rate.

In January 2009, the State signed a joint development agreement with Deepwater Wind Rhode Island, LLC that outlines the terms and conditions for the construction of wind energy development off the shores of Rhode Island that is expected to provide 1.3 million megawatt hours per year of renewable energy, which is approximately 15 percent of all electricity used in the State. The first phase of the project is scheduled to begin in late 2010 and to be completed in June 2012. It is expected that the development will cost in excess of $1.5 billion to construct, which will all be funded through private investment sources.

On April 2, 2009 the Rhode Island Economic Development Corporation, on behalf of the State issued $169,395,000 of Grant Anticipation Revenue Vehicle Bonds which 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, and $12,410,000 of Rhode Island Motor Fuel Tax Revenue Bonds which are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty cents ($.30) per gallon Motor Fuel Tax.

In July 2008, the Rhode Island Convention Center Authority (RICCA) entered into a lease with the State Department of Administration and commenced operations of the Veterans Memorial Auditorium and Cultural Center (VMA). Operation of the VMA is shared by two facilities-management groups: Professional Facilities Management Inc. of Providence (PFM) and Spectacor Management Group (SMG). PFM will manage the marketing, bookings and box office; SMG will manage the physical plant, mechanical operations and security.

In March 2009, the Convention Center Authority issued $71,220,000 of Refunding Revenue bonds for the purpose of refunding the Authority's outstanding Variable Rate Refunding Revenue Bonds 2001 Series A, and to finance an associated swap termination payment, debt service reserve fund and the costs of issuance.

Component Units

Effective July 1, 2008, the General Assembly reduced the amount of debt authorization available to the Rhode Island Industrial Recreational Building Authority from $80,000,000 to $20,000,000.

On August 14, 2008, the Rhode Island Student Loan Authority issued $85 Million in Tax-Exempt Student Loan Program Revenue Bonds (Series B-1, Series B-2, Series B-3 and Series B-4) and $15 Million in Taxable Student Loan Program Revenue Bonds (Series B-5). The Series B-1, Series B-2 and Series B-3 Bonds are to be used to refinance the 1996 Series 1, Series 2 and Series 3 Bonds. The Series B-4 and Series B-5 are for the purpose of financing student loans.

On November 25, 2008, the Rhode Island Student Loan Authority issued $85 Million in Tax-Exempt Student Loan Program Revenue Bonds (Series C-1 and C-2) and $15 Million in Taxable Student Loan Program Revenue Bonds (Series C-3). The Series C-1 and Series C-2 Bonds are to be used to refinance the 1995 Series 1 Bonds.

On July 17, 2008, the Narragansett Bay Commission (NBC) issued the 2008 Series A Wastewater System Revenue Refunding Bonds in the principal amount of $66,360,000 maturing September 1, 2034. The Refunding Bonds were issued to refund the 2004 Series A Revenue Bonds. The 2008 Series A are Multi-Modal and have been issued in weekly rate mode with the interest rate determined weekly and interest paid monthly. The owner of the bonds in a weekly mode can require NBC (acting through its remarketing agent) to repurchase the bonds. The remarketing agent has agreed to use its best efforts to remarket any purchased bonds. NBC has an irrevocable direct pay letter of credit issued by RBS Citizens, National Association. In the event that the remarketing agent is unable to remarket tendered bonds, the letter of credit provides that the bank be obligated to pay to the Trustee, the amount necessary to pay the principal and Purchase Price of and interest on the Bonds of up to 60 days at the maximum Rate of 10% on the Bonds. The letter of credit expires on July 16, 2020.

Subsequent to June 30, 2008 the R.I. Health & Educational Building Corporation, the R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation issued various conduit debt obligations. These are not obligations of the respective corporations or the State.

On November 20, 2008, the University of Rhode Island issued two series of bonds: $34.1 million Series 2008 A and $3.8 million Series 2008 B bonds (taxable). Proceeds of Series 2008 A bonds were used to refund the University of Rhode Island Series 2004 B bonds while Series 2008 B bonds proceeds were used to finance swap termination payments in connection with the termination of an interest rate swap dated December 22, 2004.

On August 26, 2008, R.I. Housing and Mortgage Finance Corporation (RIHMFC) issued $64,720,000 of Homeownership Opportunity Bonds, Series 60.

On October 1, 2008 RIHMFC instructed its trustees to redeem the Homeownership Opportunity Bonds in the amount of $12,060,000.

RIHMFC has renewed its line of credit with Bank of America N.A. which expired in October 2008. Terms of the new agreement are as follows: a) Commitment Amount: $30,000,000, b) Maturity Date: 10/30/2009, c) Interest Rate: Variable rate tied to LIBOR.

As a result of a combination of savings, decrease in fuel costs and receipt of funds from various sources, the Rhode Island Public Transit Authority has reduced its originally projected $10 million budget deficit for fiscal year 2009 to $1.3 million. It is unclear what effect the remaining deficit could have on the Authority's operations.

A forensic audit of the R.I. Resource Recovery Corporation is ongoing and has highlighted various matters involving land transactions, the development of an industrial park adjacent to the landfill, and environmental issues. Management has not yet determined the impact of the forensic audit, or other investigations of the corporation, other than the carrying value of certain assets held for development that were written down in fiscal year 2008.

State of Rhode Island
and Providence Plantations

REQUIRED SUPPEMENTARY INFORMATION

June 30, 2008

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,082,857	$ 1,069,100	$ 1,073,617	$ 4,517
General Business Taxes:				
Business Corporations	167,207	156,500	150,469	(6,031)
Public Utilities Gross Earnings	109,300	97,300	99,437	2,137
Financial Institutions	2,003	1,200	1,830	630
Insurance Companies	68,834	63,500	67,997	4,497
Bank Deposits	1,600	1,700	1,710	10
Health Care Provider Assessment	48,900	50,900	53,357	2,457
Sales and Use Taxes:				
Sales and Use	908,724	853,400	844,197	(9,203)
Motor Vehicle	50,235	45,200	48,610	3,410
Motor Fuel	1,100	1,290	991	(299)
Cigarettes	112,500	118,100	114,675	(3,425)
Alcohol	11,100	10,900	11,141	241
Other Taxes:				
Inheritance and Gift	30,100	38,000	35,334	(2,666)
Racing and Athletics	2,600	2,800	2,813	13
Realty Transfer Tax	13,800	10,900	10,223	(677)
Total Taxes	2,610,860	2,520,790	2,516,401	(4,389)
Departmental Revenue	362,870	357,500	356,546	(954)
Total Taxes and Departmental Revenue	2,973,730	2,878,290	2,872,947	(5,343)
Other Sources				
Gas Tax Transfer	4,685	4,535	4,514	(21)
Other Miscellaneous	140,279	180,970	181,810	840
Lottery	339,700	356,800	354,321	(2,479)
Unclaimed Property	14,600	15,500	15,387	(113)
Total Other Sources	499,264	557,805	556,032	(1,773)
Total General Revenues	3,472,994	3,436,095	3,428,979	(7,116)
Federal Revenues	1,723,323	1,780,991	1,740,283	(40,708)
Restricted Revenues	161,974	154,732	126,090	(28,642)
Other Revenues	57,174	55,956	58,639	2,683
Total Revenues	5,415,465	5,427,774	5,353,991	(73,783)
Expenditures:				
Department of Administration				
Central Management				
General Revenue Total	1,550	1,592	1,631	(39)
Federal Fund Total	238	229	234	(5)
** Restricted Receipts Total		119	73	46
Total-Central Management	1,788	1,940	1,938	2

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Legal Services				
Legal Support/DOT	122	236	142	94
General Revenue Total	1,837	2,255	2,493	(238)
Total-Legal Services	1,959	2,491	2,635	(144)
Accounts & Control				
General Revenue Total	3,253	3,499	3,465	34
Budgeting				
General Revenue Total	2,091	1,997	1,902	95
Purchasing				
General Revenue Total	2,399	2,184	2,178	6
Auditing				
General Revenue Total	1,792	1,690	1,621	69
Other			100	(100)
Total-Auditing	1,792	1,690	1,721	(31)
Human Resources				
Other Fund Total	793	528	1,384	(856)
General Revenue Total	10,067	10,179	9,678	501
Federal Fund Total	2,066	1,974	783	1,191
Restricted Receipts Total	578	484	499	(15)
Total-Human Resources	13,504	13,164	12,345	819
Personnel Appeal Board				
General Revenue Total	97	111	105	6
Facilities Management				
General Revenue Total	36,056	36,576	35,046	1,530
Federal Fund Total	7,214	7,774	1,766	6,008
Restricted Receipts Total	7,488	1,090	1,057	33
Other Fund Total	555	562	5,435	(4,873)
Total-Facilities Management	51,313	46,003	43,304	2,699
Capital Projects & Property Management				
General Revenue Total	3,749	3,334	3,291	43
Information Technology				
General Revenue Total	17,650	18,848	18,623	225
Federal Fund Total	7,390	5,602	5,520	82
Restricted Receipts Total	1,423	1,744	908	836
Other Fund Total	1,403	2,258	1,526	732
Total-Information Technology	27,866	28,452	26,577	1,875

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Library and Information Services				
General Revenue Total	1,101	986	1,025	(39)
Federal Fund Total	1,084	1,064	1,022	42
Restricted Receipts Total	2	2	1	1
Total-Library and Information Services	2,187	2,051	2,047	4
Statewide Planning				
General Revenue Total	3,793	3,782	3,730	52
Federal Fund Total	9,330	10,454	8,302	2,152
Federal Highway-PL Systems Planning	1,689	2,048	1,875	173
Air Quality Modeling	21	21	8	13
Total-Statewide Planning	14,833	16,304	13,914	2,390
Security Services				
General Revenue Total	19,933	19,689	19,900	(211)
Energy Resources				
General Revenue Total	2,237	2,606	2,350	256
Federal Funds Total	19,688	22,027	21,268	759
Restricted Receipts Total	200	509	70	439
Total-Energy Resources	22,125	25,143	23,689	1,454
General				
Miscellaneous Grants and Payments	661	661	652	9
Torts-Court Awards	400	408	326	82
EDC Airport Impact Aid		1,001	1,001	
State Employees/Teachers Retiree Health	1,442		1,428	(1,428)
Governor's Contingency Fund			128	(128)
Economic Development Corporation Grant	8,699	7,655	7,655	
Slater Centers of Excellence	3,000	2,919	2,919	
Economic Policy Council	300	292	292	
Dunkin Donuts Center Renovations	12,500	8,400	8,400	
Transfer to RICAP Fund		19,423	19,423	
Motor Vehicle Excise Tax Payment	135,500	135,317	135,278	39
Property Valuation	1,100	1,100	1,079	21
General Revenue Sharing Program	65,112	55,112	55,112	
Payment in Lieu of Tax Exempt Properties	27,767	27,767	27,767	
Distressed Communities Relief Program	10,384	10,384	10,384	
Resource Sharing and State Library Aid	8,773	8,773	8,746	27
Library Construction Aid	2,813	2,813	2,673	140
EPScore-EDC	1,500	1,460	1,460	
Police/Fire Incentive Pay	675	675	674	1
Federal Fund Total			4	(4)
Restricted Receipts Total	1,296	1,396	3,781	(2,385)
Total-General	281,922	285,555	289,180	(3,625)
Debt Service Payments				
RIPTA Debt Service	681	675	675	
Transportation Debt Service	35,442	33,569	33,413	156
RIRBA-DLT Temporary Disability Insurance	46	46	46	
COPS-DLT Building-TDI	359	284	277	7

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
COPS-DLT Building-Reed Act	26	7	7	
Investment Receipts-Bond Funds			63	(63)
Debt Service Payments	126,160	131,156	131,003	153
Federal Fund Total	1,178	947	931	16
Restricted Receipts Total	1,542	3,195	3,585	(390)
Total-Debt Service Payments	165,434	169,877	169,999	(122)
Retirement Alternative				
Pay Plan Reserve General Revenue	(9,105)			
Other Fund Total	(2,715)			
Federal Fund Total	(2,607)			
Restricted Receipts Total	(419)			
Total-Retirement Alternative	(14,846)			
Total-Department of Administration	601,399	623,486	618,189	5,297
Department of Business Regulation				
Central Management				
General Revenue Total	1,283	1,278	1,204	74
Banking Regulation				
General Revenue Total	3,083	2,958	2,857	101
Restricted Receipts Total	145	145	65	80
Total-Banking Regulation	3,228	3,103	2,922	181
Commercial Licensing and Racing & Athletics				
General Revenue Total	1,363	1,093	1,132	(39)
Restricted Receipts Total	607	553	436	117
Total-Commercial Licensing and Racing & Athletics	1,970	1,647	1,568	79
Board of Design Professionals				
General Revenue Total	406	392	347	45
Insurance Regulation				
Federal Funds	52	202	114	88
General Revenue Total	5,185	5,024	4,640	384
Restricted Receipts Total	856	969	864	105
Total-Insurance Regulation	6,093	6,194	5,618	576
Board of Accountancy				
General Revenue Total	155	151	153	(2)
Total-Department of Business Regulation	13,136	12,765	11,812	953
Department of Labor and Training				
Central Management				
General Revenue Total	195	183	140	43
Restricted Receipts	484	453	504	(51)
Total-Central Management	679	635	644	(9)

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Workforce Development Services				
Reed Act-Woonsocket Network Office Renovations		75	63	12
Reed Act-Rapid Job Entry	799	795	589	206
Reed Act-Workforce Development	5,200	4,188	2,526	1,662
General Revenue Total	3	6		6
Federal Fund Total	13,368	20,279	14,281	5,998
Restricted Receipts Total	14,952	11,664	7,799	3,865
Total-Workforce Development Services	34,322	37,008	25,259	11,749
Workforce Regulation and Safety				
General Revenue Total	2,737	2,480	2,551	(71)
Income Support				
General Revenue Total	3,175	3,322	3,376	(54)
Federal Fund Total	14,757	15,238	14,602	636
Restricted Receipts Total	1,761	1,872	1,834	38
Total-Income Support	19,693	20,433	19,812	621
Injured Workers Services				
Restricted Receipts Total	11,087	11,086	9,961	1,125
Labor Relations Board				
General Revenue Total	473	428	310	118
Total-Department of Labor and Training	68,991	72,069	58,537	13,532
Legislature				
General Revenue Total	36,972	34,116	32,378	1,738
Restricted Receipts Total	1,524	1,452	1,452	
Total-Legislature	38,496	35,568	33,829	1,739
Total-General Assembly	38,496	35,568	33,829	1,739
Office of the Lieutenant Governor				
Lieutenant Governor	925	840	850	(10)
Department of State Administration				
General Revenue Total	1,685	1,658	1,757	(99)
Corporations				
General Revenue Total	1,799	1,854	1,914	(60)
State Archives				
General Revenue Total	89		109	(109)
Federal Fund Total	40	38	28	10
Restricted Receipts Total	443	559	420	139
Total-State Archives	573	597	557	40

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Elections				
General Revenue Total	583	611	688	(77)
Federal Fund Total	547	534	883	(349)
Total-Elections	1,130	1,146	1,571	(425)
State Library				
General Revenue Total	690	676	713	(37)
Office of Civics Public Information				
General Revenue Total	190	244	308	(64)
Total-Department of State	6,066	6,174	6,820	(646)
Treasury Department				
Treasury				
General Revenue Total	2,590	2,464	2,387	77
Federal Fund Total	291	280	237	43
Restricted Receipts Total	10			
Total-Treasury	2,891	2,744	2,624	120
State Retirement System				
Administrative Expenses-State Retirement System	6,132	6,330	5,688	642
Retirement-Treasury Investment Operations	877	917	833	84
Total-State Retirement System	7,009	7,246	6,520	726
Unclaimed Property				
Restricted Receipts Total	23,095	24,228	28,253	(4,025)
RI Refunding Bond Authority				
General Revenue Total	40	37	36	1
Crime Victim Compensation Program				
General Revenue Total	279	273	246	27
Federal Fund Total	1,625	870	563	307
Restricted Receipts Total	1,658	1,361	1,213	148
Total-Crime Victim Compensation Program	3,561	2,504	2,023	481
Total-Treasury Department	36,597	36,759	39,455	(2,696)
Commission for Human Rights				
General Revenue Total	984	952	952	
Federal Fund Total	405	371	389	(18)
Total-Commission for Human Rights	1,389	1,323	1,341	(18)
Board of Elections				
General Revenue Total	1,437	1,290	1,315	(25)
Federal Fund Total	587	631	611	20
Total-Board of Elections	2,024	1,921	1,926	(5)
Rhode Island Ethics Commission				

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
General Revenue Total	1,410	1,330	1,343	(13)
Office of Governor				
General Revenue Total	4,922	4,774	4,958	(184)
Public Utilities Commission				
General Revenue Total	661	648	475	173
Federal Fund Total	100	97	71	26
Restricted Receipts Total	6,335	6,194	4,888	1,306
Total-Public Utilities Commission	7,096	6,938	5,433	1,505
Rhode Island Commission on Women				
General Revenue Total	108	106	106	
Department of Revenue				
Director of Revenue				
General Revenue Total	752	432	452	(20)
Office of Revenue Analysis				
General Revenue Total	750	364	31	333
Property Valuation				
General Revenue Total	850	789	775	14
Taxation				
General Revenue Total	17,821	16,037	16,172	(135)
Federal Fund Total	1,235	1,160	1,190	(30)
Restricted Receipts Total	830	877	779	98
Motor Fuel Tax Invasion		129	72	57
Temporary Disability Insurance	910	791	876	(85)
Total Taxation	20,797	18,994	19,088	(94)
Registry of Motor Vehicles				
General Revenue Total	18,404	17,544	17,657	(113)
Federal Fund Total	100	969	281	688
Restricted Receipts Total	15	15	11	4
Total Registry of Motor Vehicles	18,518	18,528	17,949	579
Total-Department of Revenue	41,667	39,107	38,296	811
Office of Health and Human Services				
General Revenue Total	307	387	363	24
Federal Fund Total	5,826	7,159	3,169	3,990
Restricted Revenues Total	446	314	316	(2)
Total-Office of Health and Human Services	6,579	7,860	3,848	4,012

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Children, Youth, and Families				
Central Management				
General Revenue Total	5,903	6,938	7,201	(263)
Federal Fund Total	3,360	2,852	2,867	(15)
Total-Central Management	9,263	9,790	10,068	(278)
Children's Behavioral Health Services				
General Revenue Total	18,806	16,664	15,803	861
Federal Fund Total	13,269	13,165	14,040	(875)
Total-Children's Behavioral Health Services	32,074	29,830	29,843	(13)
Juvenile Correctional Services				
General Revenue Total	29,680	29,520	30,172	(652)
Federal Fund Total	611	617	349	268
Restricted Receipts Total	6	10	23	(13)
Total-Juvenile Correctional Services	30,297	30,147	30,543	(396)
Child Welfare				
General Revenue	88,661	93,104	91,930	1,174
18 to 21 year olds	6,000	5,550	6,186	(636)
Federal Fund	58,427	58,687	48,520	10,167
18 to 21 year olds	4,545	4,383	6,441	(2,058)
Restricted Receipts Total	1,748	2,241	2,709	(468)
Total-Child Welfare	159,381	163,965	155,786	8,179
Higher Education Incentive Grant				
General Revenue Total	200	200	200	
Total-Department of Children, Youth, and Families	231,215	233,932	226,441	7,491
Department of Elderly Affairs				
Intermodal Surface Transportation Fund	4,685	4,535	4,477	58
General Revenue Total	16,522	16,219	15,963	256
Safety and Care of the Elderly	1	1	1	
RIPAE	2,082	1,170	1,005	165
Federal Fund Total	13,057	12,946	11,980	966
Restricted Receipts Total	690	1,330	957	373
Total-Department of Elderly Affairs	37,036	36,200	34,383	1,817
Department of Health				
Central Management				
General Revenue Total	4,901	4,190	4,172	18
Federal Fund Total	4,856	8,366	5,574	2,792
Restricted Receipts Total	3,717	4,489	3,072	1,417
Total-Central Management	13,475	17,046	12,818	4,228
State Medical Examiner				
General Revenue Total	2,157	2,142	2,000	142
Federal Fund Total	142	132	155	(23)
Total-State Medical Examiner	2,299	2,273	2,155	118

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Health Service Regulation				
General Revenue Total	6,523	6,464	5,779	685
Federal Fund Total	4,914	6,784	4,847	1,937
Restricted Receipts Total	437	397	327	70
Total-Health Services Regulation	11,873	13,645	10,953	2,692
Family Health				
General Revenue Total	2,589	2,470	2,454	16
Federal Fund Total	29,851	33,972	47,125	(13,153)
Restricted Receipts Total	18,186	17,372	10,109	7,263
Total-Family Health	50,626	53,814	59,688	(5,874)
Environmental Health				
General Revenue Total	4,000	3,782	3,808	(26)
Federal Fund Total	6,125	5,953	5,180	773
Restricted Receipts Total	3,063	2,908	2,184	724
Other Fund Total		100	15	85
Total-Environmental Health	13,187	12,743	11,187	1,556
Health Laboratories				
General Revenue Total	8,171	6,822	6,567	255
Federal Fund Total	2,064	2,379	1,973	406
Total-Health Laboratories	10,234	9,201	8,540	661
Disease Prevention and Control				
General Revenue Total	6,148	5,301	5,205	96
Federal Fund Total	17,354	19,465	15,974	3,491
Walkable Communities Initiative	29	29	31	(2)
Total-Disease Prevention and Control	23,530	24,795	21,211	3,584
Total-Department of Health	125,224	133,518	126,552	6,966
Department of Human Services				
Central Management				
General Revenue	9,114	9,547	9,434	113
Statewide operating savings		(19,647)		(19,647)
Federal Fund	4,252	4,446	3,739	707
Statewide operating savings		(19,916)		(19,916)
Restricted Receipts Total	1,746	1,995	2,003	(8)
Total-Central Management	15,112	(23,575)	15,176	(38,751)
Child Support Enforcement				
General Revenue Total	3,831	3,236	3,101	135
Federal Fund Total	7,570	7,439	7,195	244
Restricted Receipts Total	50			
Total-Child Support Enforcement	11,450	10,675	10,296	379
Individual and Family Support				
General Revenue Total	24,755	22,809	22,623	186
Federal Fund Total	52,884	56,446	50,007	6,439

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Restricted Receipts Total	134	134	134	
Other funds total			600	(600)
Total-Individual and Family Support	77,772	79,389	73,364	6,025
Veterans' Affairs				
General Revenue Total	17,109	18,180	17,387	793
Federal Fund Total	6,385	9,436	6,596	2,840
Restricted Receipts Total	1,517	2,097	558	1,539
Total-Veterans' Affairs	25,011	29,713	24,542	5,171
Health Care Quality, Financing and Puchasing				
General Revenue Total	23,023	21,011	20,482	529
Federal Fund Total	43,747	41,881	38,446	3,435
Restricted Receipts Total	187	206	32	174
Total-Health Care Quality, Financing and Purchasing	66,957	63,099	58,959	4,140
Medical Benefits				
General Revenue Total				
Managed Care	259,158	258,634	247,455	11,179
Hospital	127,762	133,320	133,212	108
Other	55,381	53,200	80,310	(27,110)
Pharmacy	63,240	61,446	60,544	902
Long Term Care	171,867	171,700	158,177	13,523
Federal Fund Total				
Managed Care	293,563	292,566	293,488	(922)
Hospital	115,823	131,780	133,203	(1,423)
Long Term Care	189,938	189,700	174,663	15,037
Other	60,551	64,353	94,738	(30,385)
Pharmacy	24,000	23,454	22,434	1,020
Special Education	20,733	20,733	16,152	4,581
Restricted Receipts Total	5,590	4,262	4,300	(38)
Total-Medical Benefits	1,387,604	1,405,148	1,418,678	(13,530)
Supplemental Security Income Program				
General Revenue Total	28,456	28,039	28,021	18
Family Independence Program				
TANF/Families Independence Program	15,958	17,705	19,119	(1,414)
Child Care	7,442	10,438	12,689	(2,251)
Federal Fund Total	84,438	84,561	80,864	3,697
Total-Family Independence Program	107,839	112,703	112,672	31
State Funded Programs				
General Public Assistance	4,090	3,393	3,223	170
Federal Fund Total	85,553	93,368	102,603	(9,235)
Total-State Funded Programs	89,644	96,760	105,826	(9,066)
Total-Department of Human Services	1,809,844	1,801,952	1,847,534	(45,582)

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Department of Mental Health, Retardation, and Hospital				
Central Management				
Federal Fund Total	67	118		118
General Revenue Total	741	1,817	1,854	(37)
Total-Central Management	808	1,935	1,854	81
Hospital & Community System Support				
General Revenue Total	4,238	3,545	3,385	160
Federal Fund Total	373	413	300	113
Total-Hospital & Community System Support	4,611	3,959	3,686	273
Services for the Developmentally Disabled				
General Revenue Total	120,498	118,660	120,868	(2,208)
Federal Fund Total	136,747	134,506	137,498	(2,992)
Total-Services for the Developmentally Disabled	257,244	253,166	258,366	(5,200)
Integrated Mental Health Services				
General Revenue Total	43,959	42,010	42,716	(706)
Federal Fund Total	38,245	36,228	37,406	(1,178)
Total-Integrated Mental Health Services	82,204	78,238	80,122	(1,884)
Hospital & Community Rehabilitation Svcs				
General Revenue Total	57,020	51,728	56,712	(4,984)
Federal Fund Total	56,699	50,147	53,825	(3,678)
Restricted Receipts	2,950	2,504	2,486	18
Total-Hospital & Community Rehabilitation Svcs	116,669	104,379	113,023	(8,644)
Substance Abuse				
RICAP-Asset Protection				
General Revenue Total	17,005	16,438	16,417	21
Federal Fund Total	11,840	13,491	12,699	792
Restricted Receipts Total	90	90	102	(12)
Total-Substance Abuse	28,934	30,019	29,218	801
Total-Department of Mental Health, Retardation, and Hospital	490,470	471,695	486,269	(14,574)
Office of Child Advocate				
General Revenue Total	521	485	445	40
Federal Fund Total	40	38	40	(2)
Total-Office of Child Advocate	561	522	485	37
Rhode Island Commission of the Deaf and Hard of Hearing				
General Revenue Total	370	327	289	38
Federal Fund Total	18		(1)	1
Total-Rhode Island Commission of the Deaf and Hard of Hearin	388	327	289	38
RI Developmental Disabilities Council				
Federal Fund Total	461	406	395	11

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Governor's Commission on Disabilities				
General Revenue Total	536	351	350	1
Federal Fund Total	182	194	77	117
Restricted Receipts Total	51	14	13	1
Total-Governor's Commission on Disabilities	768	559	441	118
Office of Mental Health Advocate				
General Revenue Total	424	406	419	(13)
Department of Elementary and Secondary Education				
Education Aid				
General Fund Total	679,417	679,396	679,308	88
Federal Fund Total	1,119	75	7	68
Restricted Receipts Total	1,460	1,459	1,326	133
Total-Education Aid	681,996	680,931	680,640	291
Housing Aid				
General Revenue Total	52,862	49,653	49,652	1
Teachers' Retirement				
General Revenue Total	78,072	80,225	83,029	(2,804)
RI School for the Deaf				
Other Funds		10		10
Restricted Receipts Total		1		1
General Revenue Total	6,808	6,571	6,551	20
Federal Fund Total	368	271	133	138
Total-RI School for the Deaf	7,176	6,854	6,684	170
Central Falls School District				
General Revenue Total	43,795	43,416	43,416	
Davies Career and Technical School				
General Revenue Total	14,572	14,048	14,243	(195)
Federal Fund Total	1,237	1,425	1,104	321
Total-Davies Career and Technical School	15,809	15,473	15,347	126
Metropolitan Career and Technical School				
General Revenue Total	11,488	11,488	11,488	
Administration of the Comprehensive Education Strategy				
General Revenue Total	21,317	20,573	19,985	588
Statewide Uniform Chart of Accounts	1,100	1,100	1,154	(54)
Federal Fund Total	175,672	187,402	174,465	12,937
Restricted Receipts Total	1,190	1,053	855	198
HRIC Adult Education Grants	4,500	4,617	4,326	291
Total-Administration of the Comprehensive Education Strategy	203,778	214,745	200,786	13,959
Total-Department of Elementary & Secondary Education	1,094,975	1,102,784	1,091,042	11,742

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Board of Governors for Higher Education				
General Revenue Total	8,136	7,908	7,908	
Federal Fund Total	3,526	5,301	4,925	376
Restricted Receipts-BOG	200	453	97	356
General Revenue Total-URI	77,036	74,897	74,897	
General Revenue Total-RIC	45,751	44,347	44,347	
General Revenue Total-CCRI	49,254	47,820	47,820	
Total-Board of Governors for Higher Education	200,488	196,377	195,004	1,373
Rhode Island State Council on the Arts				
Operating Support	1,536	733	743	(10)
Grants	1,241	1,966	1,369	597
Restricted Receipts Total		200		200
Federal Fund Total	706	672	612	60
Art for Public Facilities Fund	3,000	1,000	210	790
Total-Rhode Island Council on the Arts	6,484	4,571	2,934	1,637
Rhode Island Atomic Energy Commission				
URI Sponsored Research	191	240	238	2
General Revenue Total	820	799	834	(35)
Federal Fund Total	421	537	353	184
Total-Rhode Island Atomic Energy Commission	1,431	1,576	1,425	151
R I Higher Education Assistance Authority				
Needs Based Grants and Work Opportunity	10,000	9,244	9,244	
Authority Operations and Other Grants	1,020	976	976	
Total-R I Higher Education Assistance Authority	11,020	10,220	10,220	
Historical Preservation and Heritage Commission				
General Revenue Total	1,578	1,487	1,495	(8)
Federal Fund Total	529	548	509	39
Restricted Receipts Total	496	492	191	301
Total-Historical Preservation and Heritage Commission	2,603	2,527	2,195	332
R I Public Telecommunications Authority				
General Revenue Total	1,364	1,316	1,316	
Department of Attorney General				
Criminal				
General Revenue Total	12,988	13,055	13,107	(52)
Federal Fund Total	1,323	1,275	1,202	73
Restricted Receipts Total	339	332	320	12
Total-Criminal	14,650	14,661	14,629	32

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Civil				
General Revenue Total	4,897	4,133	4,043	90
Restricted Receipts Total	634	608	548	60
Total-Civil	5,532	4,741	4,591	150
Bureau of Criminal Identification				
General Revenue Total	1,018	965	940	25
Federal Fund Total	57	118	97	21
Total-Bureau of Criminal Identification	1,074	1,083	1,037	46
General				
General Revenue Total	2,432	2,474	2,459	15
Total-Department of Attorney General	23,688	22,960	22,716	244
Department of Corrections				
Central Management				
General Revenue Total	10,466	9,088	8,405	683
Federal Fund Total	359	140	134	6
Total-Central Management	10,826	9,229	8,539	690
Parole Board				
General Revenue Total	1,259	1,214	1,222	(8)
Federal Fund Total	33	71	52	19
Total-Parole Board	1,292	1,285	1,274	11
Institutional Corrections				
General Revenue Total	160,572	159,947	170,207	(10,260)
Federal Fund Total	2,035	2,568	2,049	519
Total-Institutional Corrections	162,606	162,515	172,256	(9,741)
Community Corrections				
General Revenue Total	15,658	14,302	13,304	998
Federal Fund Total	380	804	454	350
Total-Community Corrections	16,038	15,106	13,758	1,348
General Revenue Total-Corrections	187,955	184,551	193,138	(8,587)
Federal Fund Total-Corrections	2,808	3,584	2,689	895
Total-Department of Corrections	190,762	188,135	195,827	(7,692)
Judicial Department				
Supreme Court				
General Revenue Total	26,369	25,792	25,211	581
Judicial Tenure and Discipline	120	116	108	8
Defense of Indigents	3,066	2,983	3,369	(386)
Federal Fund Total	122	365	250	115
Restricted Receipts Total	1,131	1,455	1,190	265
Total-Supreme Court	30,807	30,712	30,127	585

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Superior Court				
Federal Fund Total	535	217	155	62
General Revenue Total	20,700	19,595	19,635	(40)
Total-Superior Court	21,235	19,812	19,790	22
Family Court				
General Revenue Total	17,794	17,657	18,017	(360)
Federal Fund Total	1,407	2,097	1,468	629
Total-Family Court	19,201	19,755	19,485	270
District Court				
General Revenue Total	10,638	9,836	9,626	210
Traffic Tribunal				
General Revenue Total	7,387	6,820	6,835	(15)
Worker's Compensation Court				
Restricted Receipts Total	7,387	7,206	7,206	
Total-Judicial Department	96,656	94,141	93,068	1,073
Militia of the State				
National Guard				
General Revenue Total	1,761	1,755	1,586	169
Federal Fund Total	9,289	9,016	7,468	1,548
Restricted Receipts Total	145	160	31	129
Total-National Guard	11,195	10,931	9,086	1,845
Emergency Management				
General Revenue Total	803	743	734	9
Federal Fund Total	11,306	23,629	12,047	11,582
Restricted Receipts Total	263	142	127	15
Total-Emergency Management	12,371	24,513	12,908	11,605
Total-Militia of the State	23,566	35,445	21,994	13,451
E-911 Uniform Emergency Telephone System				
General Revenue Total	4,733	4,879	4,945	(66)
Federal Fund Total		100	15	85
Restricted Receipts Total	1,297	875	875	
Total- E-911 Uniform Emergency Telephone System	6,030	5,854	5,834	20
State Fire Marshall				
General Revenue Total	2,671	2,355	2,204	151
Federal Fund Total	228	1,038	477	561
Total-State Fire Marshall	2,899	3,393	2,682	711
Fire Safety Code Board of Appeal and Review				
General Revenue Total	303	290	288	2

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Rhode Island Justice Commission				
General Revenue Total	161	232	232	
Federal Fund Total	4,152	4,510	4,145	365
Restricted Receipts Total	30	133	11	122
Total-Rhode Island Justice Commission	4,342	4,875	4,387	488
Municipal Police Training Academy				
General Revenue Total	429	428	434	(6)
Federal Fund Total	50	66	23	43
Total-Municipal Police Training Academy	479	494	456	38
Rhode Island State Police				
Airport Corporation	144	138	140	(2)
Traffic Enforcement-Municipal Training	379	342	253	89
Lottery Commission Assistance	142	137	141	(4)
Road Construction Reimbursement	2,367	2,356	1,957	399
General Revenue Total	52,058	50,689	51,467	(778)
Federal Fund Total	1,092	2,368	1,298	1,070
Restricted Receipts Total	312	461	218	243
Total-Rhode Island State Police	56,494	56,491	55,474	1,017
Office of Public Defender				
General Revenue Total	9,325	9,016	9,031	(15)
Federal Fund Total	422	359	272	87
Total-Office of Public Defender	9,747	9,375	9,303	72
Department of Environmental Management				
Office of Director				
DOT Recreational Projects			(22)	22
General Revenue Total	6,043	5,768	5,789	(21)
Federal Fund Total	556	422	73	349
Restricted Receipts Total	2,505	2,508	2,169	339
Total-Office of Director	9,104	8,698	8,009	689
Natural Resources				
Blackstone Bikepath Design	788	788	236	552
DOT Recreational Projects	118	70	54	16
General Revenue Total	18,318	17,901	19,001	(1,100)
Federal Fund Total	17,159	17,910	8,684	9,226
Restricted Receipts Total	3,830	3,530	3,069	461
Total-Natural Resources	40,213	40,200	31,044	9,156

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, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Environmental Protection				
General Revenue Total	12,052	10,544	11,243	(699)
Federal Fund Total	10,438	12,525	9,267	3,258
Restricted Receipts Total	10,611	10,033	8,246	1,787
Total-Environmental Protection	33,101	33,103	28,755	4,348
Total-Department of Environmental Management	82,418	82,001	67,809	14,192
Coastal Resources Management Council				
General Revenue Total	1,880	1,941	1,985	(44)
Federal Fund Total	1,607	1,770	1,779	(9)
Restricted Receipts Total	1,022	395	120	275
Total-Coastal Resources Management Council	4,509	4,106	3,884	222
Water Resources Board				
General Revenue Total	1,893	1,629	1,226	403
Restricted Receipts Total	400	400	327	73
Total-Water Resources Board	2,293	2,029	1,553	476
Total Departmental Expenditures	5,349,750	5,359,493	5,339,363	20,130
Transfer of Appropriations at June 30, 2007 to RI Capital Fund			7,770	(7,770)
Transfer of Excess Budget Reserve to RI Capital Fund			44,369	(44,369)
Total Expenditures	5,349,750	5,359,493	5,391,502	(32,009)
Change in Fund Balance	$ 5,415,465	$ 68,281	(37,511)	$ (105,792)
Fund balance - beginning			144,166	
Fund balance - ending			$ 106,655	
General Revenue Total	$ 3,407,278	$ 3,367,814	$ 3,405,251	$ (37,437)
Federal Fund Total	1,723,323	1,780,991	1,741,158	39,833
Restricted Receipts Total	161,974	154,732	135,546	19,186
Other Fund Total	57,174	55,956	57,408	(1,452)
	$ 5,349,749	$ 5,359,493	$ 5,339,363	$ 20,130

General Fund - General Revenue Summary

General Revenue - Variance - Final Budget compared to Actual	$ (7,116)
General Revenue Expenditures - Variance - Final Budget compared to actual	$ (37,437)
Change in General Revenue Reappropriations Fiscal 2007 - Fiscal 2008	1,902
Other Adjustments	(299)
	$ (35,834)
Unreserved General Fund (General Revenue) Deficit - June 30, 2008	$ (42,950)

** Certain totals may not add due to rounding.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2008
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 140,550	$ 136,050	$ 135,412	$ (638)
Departmental restricted revenue	662	1,445	(207)	(1,652)
Federal grants	274,707	239,425	196,327	(43,098)
Other revenues	3,019	11,192	5,386	(5,806)
Total revenues	418,938	388,112	336,918	(51,194)
Other financing sources:				
Operating transfers in			28,198	28,198
Payments from component units			52	52
Total revenues and other financing sources	418,938	388,112	365,168	(22,944)
Expenditures:				
Central Management				
Gasoline Tax	3,712	1,558	1,673	(115)
Federal Funds	17,167	17,788	7,298	10,490
Total - Central Management	20,879	19,346	8,971	10,375
Management and Budget				
Gasoline Tax	3,010	2,295	760	1,535
Total - Management and Budget	3,010	2,295	760	1,535
Infrastructure - Engineering				
Gasoline Tax	46,094	46,695	46,317	378
RICAP - RIPTA Land and Buildings				
Train Station				
State Infrastructure Bank	1,000	1,344		1,344
Land Sale Revenue	2,000	9,346	1,226	8,120
Federal Funds	257,540	221,637	181,123	40,514
Restricted Receipts	662	1,445	(161)	1,606
Subtotal - Infrastructure - Engineering	307,296	280,467	228,505	51,962
State Match - FHWA			28,198	(28,198)
Total - Infrastructure - Engineering	307,296	280,467	256,703	23,764
Infrastructure - Maintenance				
Gasoline Tax	39,479	38,822	37,761	1,061
Outdoor Advertising	19	503		503
Radio System Upgrade		335		335
Nonland Surplus	288	336	270	66
Total - Infrastructure - Maintenance	39,786	39,996	38,031	1,965
Total Expenditures	370,971	342,104	304,465	37,639
Other financing uses:				
Transfers to other funds				
Gas tax			44,239	
Other			852	
Total expenditures and other financing uses			349,556	
Net change in fund balance			15,612	
Fund balance - beginning			32,819	
Fund balance - ending			$ 48,431	

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2008
(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)
06/30/2007	6,231,410	11,083,014	4,851,604	56.2%	1,619,417	299.6%
06/30/2006	5,651,066	10,575,851	4,924,786	53.4%	1,559,966	315.7%
06/30/2005	5,444,369	9,762,675	4,318,306	55.8%	1,504,526	287.0%

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)
06/30/2007	45,997	60,428	14,431	76.1%	15,836	91.1%
06/30/2006	36,315	42,216	5,901	86.0%	13,475	43.8%
06/30/2005	29,617	37,511	7,894	79.0%	13,225	59.7%

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)
06/30/2007	29,631	35,355	5,725	83.8%	6,452	88.7%
06/30/2006	23,873	27,504	3,631	86.8%	6,313	57.4%
06/30/2005	19,347	22,251	2,904	86.9%	5,685	51.0%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2008
(Expressed in thousands)

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

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

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

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

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

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

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

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

State of Rhode Island and Providence Plantations
Required Supplementary Information
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June 30, 2008
(Expressed in thousands)

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

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

Budget and Actual

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

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

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

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

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

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

Schedules of Funding Progress-Other Postemployment Benefits

The June 30, 2005 actuarial valuation for the Rhode Island Retiree Health Care Benefits Plans was restated to reflect the changes in the plan provision due to the enactment of

Public Law 2008-09. Those changes in plan provisions became effective for employees retiring on or after October 1, 2008.

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

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Agriculture		
Agricultural Research - Basic and Applied Research	10.001	$ 60,594
Plant and Animal Disease, Pest Control, and Animal Care	10.025	51,394
Wildlife Services	10.028	29,778
Inspection Grading and Standardization	10.162	144,809
Rural Housing Preservation Grants	10.433	36,850
Food Donation (See Note 2)	10.550	2,786,473
Food Stamp Cluster:		
Food Stamps	10.551	102,586,057
State Administrative Matching Grants for Food Stamp Program	10.561	8,229,262
Child Nutrition Cluster:		
School Breakfast Program	10.553	5,789,711
National School Lunch Program	10.555	22,574,595
Special Milk Program for Children	10.556	101,227
Summer Food Service Program for Children	10.559	1,150,021
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557	24,324,698
Child and Adult Care Food Program	10.558	7,034,609
State Administrative Expenses for Child Nutrition	10.560	906,898
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	190,418
Emergency Food Assistance Program (Food Commodities) (See Note 2)	10.569	1,094,499
Team Nutrition Grants	10.574	29,867
Senior Farmers Market Nutrition Program	10.576	29,574
Cooperative Forestry Assistance	10.664	898,988
Total U.S. Department of Agriculture		$ 178,050,322
U.S. Department of Commerce		
Personal Census Search	11.006	$ 31,412
Economic Development - Support for Planning Organizations	11.302	67,827
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance (See Note 2)	11.307	13,224,397
Interjurisdictional Fisheries Act of 1986	11.407	95,007
Coastal Zone Management Administration Awards	11.419	2,247,130
Coastal Zone Management Estuarine Research Reserves	11.420	560,695
Marine Fisheries Initiative	11.433	457,483
Habitat Conservation	11.463	76,408
Unallied Science Program	11.472	110,262
Atlantic Coastal Fisheries Cooperative Management Act	11.474	242,939
Educational Partnership Program	11.481	36,730
Total U.S. Department of Commerce		$ 17,150,290
U.S. Department of Defense		
Procurement Technical Assistance for Business Firms	12.002	$ 131,939
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	280,492
National Guard Military Operations and Maintenance (O&M) Projects	12.401	7,469,181
Total U.S. Department of Defense		$ 7,881,612

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor Program Title	CFDA Number		Total Expenditures
U.S. Department of Housing and Urban Development			
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families	14.103	$	1,065,978
Mortgage Insurance - Homes (See Note 2)	14.117		2,972,431
Home Equity Conversion Mortgages (See Note 2)	14.183		9,783,223
Qualified Participating Entities (QPE) Risk Sharing	14.189		16,722,933
Section 8 Project-Based Cluster:			
Section 8 Housing Assistance Payments Program-Special Allocations	14.195		118,591,695
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856		570,968
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		6,067,557
Emergency Shelter Grants Program	14.231		458,273
Supportive Housing Program	14.235		3,662,339
Shelter Plus Care	14.238		944,016
HOME Investment Partnerships Program	14.239		4,177,496
Housing Opportunities for Persons with AIDS	14.241		715,513
Community Development Block Grant/Brownfields Economic Development Initiative	14.246		19
Fair Housing Assistance Program - State and Local	14.401		154,122
Demolition and Revitalization of Severely Distressed Public Housing	14.866		36,448
Section 8 Housing Choice Vouchers	14.871		10,273,896
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		676,596
Lead Outreach Grants	14.904		3,648
Total U.S. Department of Housing and Urban Development		$	176,877,151
U.S. Department of Interior			
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	15.605	$	2,483,041
Wildlife Restoration	15.611		1,008,519
Clean Vessel Act	15.616		112,910
Sportfishing and Boating Safety Act	15.622		63,110
Historic Preservation Fund Grants-In-Aid	15.904		443,973
Outdoor Recreation - Acquisition, Development and Planning	15.916		396,825
Save America's Treasures	15.929		65,266
Total U.S. Department of Interior		$	4,573,644
U.S. Department of Justice			
State Domestic Preparedness Equipment Support Program	16.007	$	(890,712)
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202		(12,486)
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203		144,426
Juvenile Accountability Block Grants	16.523		125,715
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		797,105
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541		495,995
Missing Children's Assistance	16.543		108,405
Gang-Free Schools and Communities - Community-Based Gang Intervention	16.544		8,006
Victims of Child Abuse	16.547		36,632
State Justice Statistics Program for Statistical Analysis Centers	16.550		50,123
National Criminal History Improvement Program (NCHIP)	16.554		69,049
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		93,025

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor Program Title	CFDA Number	Total Expenditures
Crime Laboratory Improvement-Combined Offender DNA Index System Backlog Reduction	16.564	957
Crime Victim Assistance	16.575	1,636,401
Crime Victim Compensation	16.576	616,819
Edward Byrne Memorial Formula Grant Program	16.579	1,018,812
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	76,838
Drug Court Discretionary Grant Program	16.585	464,748
Violence Against Women Formula Grants	16.588	1,396,378
Residential Substance Abuse Treatment for State Prisoners	16.593	36,748
State Criminal Alien Assistance Program	16.606	1,514,647
Community Prosecution and Project Safe Neighborhoods	16.609	28,888
Enforcing Underage Drinking Laws Program	16.727	329,309
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735	134,036
Edward Byrne Memorial Justice Assistance Grant Program	16.738	720,572
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	75,875
Anti-Gang Initiative	16.744	1,580
Total U.S. Department of Justice		$ 9,077,891
U.S. Department of Labor		
Labor Force Statistics	17.002	$ 768,592
Compensation and Working Conditions	17.005	13,499
Employment Services Cluster:		
Employment Service/Wagner-Peyser Funded Activities	17.207	3,046,082
Disabled Veterans' Outreach Program (DVOP)	17.801	288,372
Local Veterans' Employment Representative Program	17.804	252,121
Unemployment Insurance (See Note 5)	17.225	267,615,164
Senior Community Service Employment Program	17.235	514,336
Trade Adjustment Assistance	17.245	5,440,465
Employment and Training Assistance-Dislocated Workers	17.246	(2,350)
WIA Cluster:		
WIA Adult Program	17.258	2,434,112
WIA Youth Activities	17.259	2,762,167
WIA Dislocated Workers	17.260	3,955,351
WIA Pilots, Demonstrations, and Research Projects	17.261	6,177
Employment and Training Administration Evaluations	17.262	251,387
Work Incentive Grants	17.266	182,900
Consultation Agreements	17.504	466,493
Total U.S. Department of Labor		$ 287,994,868
U.S. Department of Transportation		
Airport Improvement Program	20.106	$ 11,908,334
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	179,964,394
Motor Carrier Safety	20.217	392,528
Commercial Vehicle Information Systems and Networks	20.237	794,760
Federal Transit Cluster:		
Federal Transit - Capital Investment Grants	20.500	2,720,625
Federal Transit - Formula Grants	20.507	21,530,216
Federal Transit Managerial Training Grants	20.503	51,868

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor Program Title	CFDA Number	Total Expenditures
Federal Transit - Metropolitan Planning Grants	20.505	303,393
Urban Mass Trasnsportation Demonstration Grants	20.506	174,248
Formula Grants for Other Than Urbanized Areas	20.509	546,503
Public Transportation Research	20.514	34,395
State Planning and Research	20.515	4,784
New Freedom Program	20.521	13,993
Highway Safety Cluster:		
State and Community Highway Safety	20.600	1,090,768
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	386,551
Occupant Protection	20.602	238,233
Safety Incentive Grants for Use of Seatbelts	20.604	(13,152)
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	(62,240)
Safety Belt Performance Grants	20.609	13,549
State Traffic Safety Information System Improvements Grants	20.610	184,840
Incentive Grant Program to Prohibit Racial Profiling	20.611	136,081
Incentive Grant Program to Increase Motorcyclist Safety	20.612	29,858
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	5,416,000
National Highway Transportation Safety Administration (NHTSA) Discretionary Safety Grants	20.614	107,745
Pipeline Safety	20.700	70,664
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	16,987
Total U.S. Department of Transportation		$ 226,055,925
Equal Opportunity Employment Commission		
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	$ 241,116
Total Equal Opportunity Employment Commission		$ 241,116
General Services Administration		
Donation of Federal Surplus Personal Property (See Note 2)	39.003	$ 30,142
Total General Services Administration		$ 30,142
National Foundation on the Arts and the Humanities		
Promotion of the Arts - Partnership Agreements	45.025	$ 612,949
Promotion of the Arts - Leadership Initiatives	45.026	7
Museums for America	45.301	170
Grants to States	45.310	1,011,894
National Leadership Grants	45.312	10,008
Total National Foundation on the Arts and the Humanities		$ 1,635,028
National Science Foundation		
Computer and Information Science and Engineering	47.070	$ 6,935
Education and Human Resources	47.076	91,320
Total National Science Foundation		$ 98,255

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Veterans Affairs		
Grants to States for Construction of State Home Facilities	64.005	$ 3,623
Veterans Domiciliary Care	64.008	5,528,449
All-Volunteer Force Educational Assistance	64.124	93,233
State Cemetery Grants	64.203	1,064,295
Total U.S. Department of Veterans Affairs		$ 6,689,600
Environmental Protection Agency		
Air Pollution Control Program Support	66.001	$ 960,320
State Indoor Radon Grants	66.032	287,622
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	194,668
Water Pollution Control State, Interstate and Tribal Program Support	66.419	223,372
State Public Water System Supervision	66.432	463,766
Water Quality Management Planning	66.454	108,436
National Estuary Program	66.456	126,704
Capitalization Grants for Clean Water State Revolving Funds	66.458	3,076,868
Capitalization Grants for Drinking Water State Revolving Funds	66.468	6,731,003
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	56,856
Beach Monitoring and Notification Program Implementation Grants	66.472	164,486
Water Protection Grants to the States	66.474	2,930
Performance Partnership Grants	66.605	4,363,622
Surveys, Studies, Investigations and Special Purpose Grants	66.606	1,026
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	237,822
Environmental Policy and Innovation Grants	66.611	629
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	122,667
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	189,273
Pollution Prevention Grants Program	66.708	27,652
Multi-Media Capacity Building Grants for States and Tribes	66.709	135,721
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	2,063,908
State and Tribal Underground Storage Tanks Program	66.804	64,925
Leaking Underground Storage Tank Trust Fund Program	66.805	605,340
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	146,400
Brownfield Pilots Cooperative Agreements	66.811	437,972
State and Tribal Response Program Grants	66.817	916,500
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	356,641
Environmental Policy and State Innovation Grants	66.940	104,615
Total Environmental Protection Agency		$ 22,171,744
U.S. Department of Energy		
State Energy Program	81.041	$ 554,354
Weatherization Assistance for Low-Income Persons	81.042	1,011,543
Office of Science Financial Assistance Program	81.049	89,821
University Reactor Infrastructure and Education Support	81.114	262,947
Total U.S. Department of Energy		$ 1,918,665

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Education		
Adult Education - State Grant Program	84.002	$ 2,398,459
Civil Rights Training and Advisory Services	84.004	607
Student Financial Assistance Cluster: (See Note 6)		
Federal Supplemental Educational Opportunity Grants	84.007	2,420,781
Federal Family Education Loans (See Note 2)	84.032	34,439,072
Federal Work-Study Program	84.033	1,706,707
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038	15,536,595
Federal Pell Grant Program	84.063	22,107,813
Federal Direct Student Loans (See Note 2)	84.268	55,289,472
Academic Competitiveness Grants	84.375	319,985
Title I Grants to Local Educational Agencies	84.010	49,281,722
Title I Program for Neglected and Delinquent Children	84.013	567,064
Undergraduate International Studies and Foreign Language Programs	84.016	50,438
Special Education Cluster:		
Special Education - Grants to States	84.027	40,823,583
Special Education - Preschool Grants	84.173	1,619,828
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032	3,598,826
TRIO Cluster:		
TRIO-Student Support Services	84.042	685,903
TRIO-Talent Search	84.044	483,117
TRIO-Upward Bound	84.047	595,003
TRIO-Educational Opportunity Centers	84.066	742,010
Vocational Education - Basic Grants to States	84.048	5,452,225
Leveraging Educational Assistance Partnership	84.069	367,919
Fund for the Improvement of Postsecondary Education	84.116	(213)
Rehabilitation Services -Vocational Rehabilitation Grants to States	84.126	12,280,134
National Institute on Disability and Rehabilitation Research	84.133	41,873
Independent Living - State Grants	84.169	287,299
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	231,057
Special Education - Grants for Infants and Families With Disabilities	84.181	4,042,623
Safe and Drug-Free Schools and Communities - National Programs	84.184	188,536
Byrd Honors Scholarships	84.185	150,000
Safe and Drug-Free Schools and Communities - State Grants	84.186	1,683,636
Supported Employment Services for Individuals with Severe Disabilities	84.187	524,145
Education for Homeless Children and Youth	84.196	235,141
Even Start - State Educational Agencies	84.213	434,807
Assistive Technology	84.224	424,180
Tech-Prep Education	84.243	362,707
Rehabilitation Training-Continuing Education	84.264	15,948
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	18,045
School to Work Opportunities	84.278	1
Twenty-First Century Community Learning Centers	84.287	5,437,078
State Grants for Innovative Programs	84.298	561,020
Education Technology State Grants	84.318	1,867,494
Special Education - State Personnel Development	84.323	382,913
Special Education-Personnel Development to Improve Services and Results for Children with Disabilities	84.325	180,018

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor Program Title	CFDA Number	Total Expenditures
Special Education-Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	56,132
Advanced Placement Program	84.330	7
Grants to States for Incarcerated Youth Offenders	84.331	72,778
Comprehensive School Reform Demonstration	84.332	372,032
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	4,465,995
Teacher Quality Enhancement Grants	84.336	684,717
Vocational Education-Occupational and Employment Information State Grants	84.346	(677)
Reading First State Grants	84.357	3,023,144
English Language Acquisition Grants	84.365	2,041,897
Mathematics and Science Partnerships	84.366	1,815,881
Improving Teacher Quality State Grants	84.367	12,674,004
Grants for Enhanced Assessment Instruments	84.368	898,868
Grants for State Assessments and Related Activities	84.369	4,549,039
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	26,000
National Writing Project	84.928	43,388
Other Department of Education Awards	N/A	4,118
Total U.S. Department of Education		$ 298,562,894
National Archives and Records Administration		
National Historical Publications and Records Grants	89.003	$ 28,427
Total National Archives and Records Administration		$ 28,427
Elections Assistance Commission		
Help America Vote Act Requirements Payments	90.401	$ 1,494,177
Total Elections Assistance Commission		$ 1,494,177
U.S. Department of Health and Human Services		
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	$ 156,414
Special Programs for the Aging-Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	25,085
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	111,665
Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	93.043	65,038
Aging Cluster:		
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	1,548,796
Special Programs for the Aging-Title III, Part C - Nutrition Services	93.045	2,330,785
Nutrition Services Incentive Program	93.053	587,433
Special Programs for the Aging-Title IV- and Title II - Discretionary Projects	93.048	455,161
Alzheimer's Disease Demonstration Grants to States	93.051	191,467
National Family Caregiver Support, Title III, Part E	93.052	641,533
Public Health Emergency Preparedness	93.069	7,228,994
Food and Drug Administration - Research	93.103	3,007

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number	Total Expenditures
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	1,978,224
Maternal and Child Health Federal Consolidated Programs	93.110	646,843
Environmental Health	93.113	92,764
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	390,644
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	(16,888)
Emergency Medical Services for Children	93.127	108,998
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	189,517
Injury Prevention and Control Research and State and Community Based Programs	93.136	354,319
Projects for Assistance in Transition from Homelessness (PATH)	93.150	287,766
Grants to States for Loan Repayment Program	93.165	26,838
Disabilities Prevention	93.184	72,927
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	926,819
Family Planning - Services	93.217	1,106,287
Consolidated Knowledge Development and Application (KD&A) Program	93.230	693,955
Traumatic Brain Injury State Demonstration Grant Program	93.234	77,962
Abstinence Education Program	93.235	8
Grants for Dental Public Health Residency Training	93.236	107,771
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	21,382
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	2,793,504
Universal Newborn Hearing Screening	93.251	123,225
State Planning Grants Health Care Access for the Uninsured	93.256	116,313
Immunization Grants (See Note 2)	93.268	17,052,144
Substance Abuse and Mental Health Services-Access to Recovery	93.275	115,355
Drug Abuse National Research Service Awards for Research Training	93.278	218,654
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	6,862,370
Student Financial Assistance Cluster: (See Note 6)		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342	1,604,170
Nursing Student Loans (See Note 2)	93.364	1,575,188
Cancer Detection and Diagnosis Research	93.394	47,484
Promoting Safe and Stable Families	93.556	1,540,550
Temporary Assistance for Needy Families	93.558	67,288,217
Child Support Enforcement	93.563	7,922,026
Refugee and Entrant Assistance - State Administered Programs	93.566	302,131
Low-Income Home Energy Assistance	93.568	19,725,190
Community Services Block Grant	93.569	3,546,510
CCDF Cluster:		
Child Care and Development Block Grant	93.575	22,132,546
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	12,120,707
Refugee and Entrant Assistance - Discretionary Grants	93.576	63,879
State Court Improvement Program	93.586	94,905
Grants to States for Access and Visitation Programs	93.597	131,005
Chafee Education and Training Vouchers Program (ETV)	93.599	214,998
Head Start	93.600	119,729
Voting Access for Individuals with Disabilities - Grants to States	93.617	35,577
Developmental Disabilities Basic Support and Advocacy Grants	93.630	398,378
Developmental Disabilities Projects of National Significance	93.631	222,124

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor Program Title	CFDA Number	Total Expenditures
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	505,006
Children's Justice Grants to States	93.643	103,200
Child Welfare Services - State Grants	93.645	1,080,907
Social Services Research and Demonstration	93.647	1,958
Foster Care - Title IV-E	93.658	12,347,811
Adoption Assistance	93.659	6,270,117
Social Services Block Grant	93.667	12,938,154
Child Abuse and Neglect State Grants	93.669	162,785
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	860,172
Chafee Foster Care Independence Program	93.674	471,503
State Children's Insurance Program	93.767	55,948,034
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	(21)
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	761,736
State Survey and Certification of Health Care Providers and Suppliers	93.777	2,632,510
Medical Assistance Program (See Note 4)	93.778	989,937,588
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	960,949
Seed Grants to States for Qualified High-Risk Pools	93.781	62,359
Medicaid Transformation Grants	93.793	46,923
Reimbursement of State Costs for Provision of Part D Drugs	93.794	10,250
Child Health and Human Development Extramural Research	93.865	131,813
National Bioterrorism Hospital Preparedness Program	93.889	1,948,566
Grants to States for Operation of Offices of Rural Health	93.913	110,477
HIV Care Formula Grants	93.917	4,511,365
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Control Early Detection Programs	93.919	1,760
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	720,969
HIV Prevention Activities - Health Department Based	93.940	1,482,863
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	292,998
Assistance Programs for Chronic Disease Prevention and Control	93.945	24
Occupational Health and Safety Surveillance	93.957	125,013
Block Grants for Community Mental Health Services	93.958	1,276,964
Block Grants for Prevention and Treatment of Substance Abuse	93.959	7,869,741
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	411,072
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	800,156
Preventive Health and Health Services Block Grant	93.991	517,217
Maternal and Child Health Services Block Grant to the States	93.994	1,470,306
Total U.S. Department of Health and Human Services		$ 1,293,551,638

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor Program Title	CFDA Number	Total Expenditures
Corporation for National and Community Service		
Learn and Serve America - School and Community Based Programs	94.004	$ 207,071
AmeriCorps	94.006	12,193
Foster Grandparent/Senior Companion Cluster:		
Senior Companion Program	94.016	394,214
Total Corporation for National and Community Service		$ 613,478
Social Security Administration		
Disability Insurance/SSI Cluster:		
Social Security - Disability Insurance	96.001	$ 6,777,527
Social Security - Research and Demonstration	96.007	1,206
Total Social Security Administration		$ 6,778,733
U.S. Department of Homeland Security		
State Homeland Security Cluster: (See Note 7)		
State Domestic Preparedness Equipment Support Program	97.004	$ 626,902
Homeland Security Grant Program	97.067	10,145,609
State and Local Homeland Security Training Program	97.005	473
Boating Safety Financial Assistance	97.012	1,071,500
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	21,119
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	40,648
Flood Mitigation Assistance	97.029	55,071
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	827,338
National Dam Safety Program	97.041	25,527
Emergency Management Performance Grants	97.042	1,308,413
State Fire Training Systems Grants	97.043	7,932
Assistance to Firefighters Grant	97.044	105,339
Community Emergency Response Teams	97.054	(11,459)
Interoperable Communications Equipment	97.055	14,181
Port Security Grant Program	97.056	34,747
Homeland Security Advanced Research Projects Agency	97.065	155,211
Map Modernization Management Support	97.070	223
National Explosives Detection Canine Team Program	97.072	165,392
Rail and Transit Security Grant Program	97.075	34,107
Buffer Zone Protection Program (BZPP)	97.078	330,049
Total U.S. Department of Homeland Security		$ 14,958,322
Research and Development Cluster:		
U.S. Department of Agriculture		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$ 21,091
Grants for Agricultural Research, Special Research Grants	10.200	572,631
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	4,375,069
Grants for Agricultural Research - Competitive Research Grants	10.206	991,207
Sustainable Agriculture Research and Education	10.215	35,802
1890 Institution Capacity Building Grants	10.216	13,190
Higher Education Challenge Grant	10.217	35,830
Higher Education Multicultural Scholars Program	10.220	13,500
Agricultural and Rural Economic Research	10.250	40,403

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA Number	Total Expenditures
Integrated Programs	10.303	1,053,702
Homeland Security-Agricultural	10.304	24,010
Crop Insurance	10.450	16,375
Crop Insurance Education in Targeted States	10.458	12,077
Cooperative Extension Service	10.500	278,728
Soil and Water Conservation	10.902	5,093
Soil Survey	10.903	33,313
Environmental Quality Incentives Program	10.912	220,078
Wildlife Habitat Incentive Program	10.914	3,927
Other Research and Development	N/A	106,447
U.S. Department of Commerce		
ITA Special Projects	11.113	3,448
Sea Grant Support	11.417	2,637,060
Coastal Zone Management Administration Awards	11.419	49,363
Coastal Zone Management Estuarine Research Reserves	11.420	6,984
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	6,243
Climate and Atmospheric Research	11.431	203,976
Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes	11.432	45,522
Marine Fisheries Initiative	11.433	47,993
Cooperative Science and Education Program	11.455	358,957
Special Oceanic and Atmospheric Projects	11.460	246,005
Habitat Conservation	11.463	220,450
Unallied Science Program	11.472	1,016,608
Coastal Services Center	11.473	376,647
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478	461,498
Other Research and Development	N/A	264,653
U.S. Department of Defense		
Basic and Applied Scientific Research	12.300	4,209,308
Military Medical Research and Development	12.420	189,913
Basic Scientific Research	12.431	12,526
Air Force Defense Research Sciences Program	12.800	169,128
Other Research and Development	N/A	639,470
U.S. Department of Interior		
Fish, Wildlife, and Parks Programs on Indian Lands	15.039	10,813
Fish and Wildlife Management Assistance	15.608	159,484
Assistance to State Water Resources Research Institutes	15.805	92,381
U.S. Geological Survey - Research and Data Collection	15.808	583,876
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	24,634
National Center for Preservation Technology and Training	15.923	15,810
Other Research and Development	N/A	311,378
U.S Department of Justice		
Drug-Free Communities Support Program Grants	16.729	1,225
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	29,314
Other Research and Development	N/A	325,299
U.S. Department of State		
Other Research and Development	N/A	149,718

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Transportation		
Highway Planning and Construction	20.205	37
Highway Training and Education	20.215	11,036
University Transportation Centers Program	20.701	919,579
University Transportation Centers	20.760	6,213
Other Research and Development	N/A	18,523
National Aeronautics and Space Administration		
Aerospace Education Services Program	43.001	63,840
Technology Transfer	43.002	906,545
Other Research and Development	N/A	16,161
National Foundation on the Arts and the Humanities		
Laura Bush 21st Century Librarian Program	45.313	197,007
Promotion of the Humanities-Division of Preservation and Access	45.149	4,800
National Science Foundation		
Engineering Grants	47.041	666,083
Mathematical and Physical Sciences	47.049	329,322
Geosciences	47.050	5,956,036
Computer and Information Science and Engineering	47.070	429,096
Biological Sciences	47.074	538,861
Social, Behavioral, and Economic Sciences	47.075	692,415
Education and Human Resources	47.076	3,441,792
Polar Programs	47.078	221,021
International Science and Engineering (OISE)	47.079	481,338
Other Research and Development	N/A	50,293
Environmental Protection Agency		
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	37,927
National Estuary Program	66.456	244,666
Regional Wetland Program Development Grants	66.461	1,456
Wastewater Operator Training Grant Program (Technical Assistance)	66.467	23,590
Science to Achieve Results (STAR) Research Program	66.509	80,268
Office of Research and Development Consolidated Research/Training/Fellowships	66.511	114,934
Surveys, Studies, Investigations and Special Purpose Grants	66.606	105,602
Training and Fellowships for the Environmental Protection Agency	66.607	31,550
Pollution Prevention Grants Program	66.708	72,748
U.S. Department of Energy		
Office of Science Financial Assistance Program	81.049	29,000
Renewable Energy Research and Development	81.087	12,710
Defense Nuclear Nonproliferation Research	81.113	7,010
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	465
Other Research and Development	N/A	73,955
U.S. Department of Education		
Undergraduate International Studies and Foreign Language Programs	84.016	23,375
Higher Education - Institutional Aid	84.031	361,025
Magnet Schools Assistance	84.165	25,472
State Grants for Innovative Programs	84.298	62
Education Technology State Grants	84.318	214,533
Teacher Quality Enhancement Grants	84.336	1,335,753

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2008

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Health and Human Services		
Alzheimer's Disease Demonstration Grants to States	93.051	23,349
Innovations in Applied Public Health Research	93.061	98,949
Environmental Health	93.113	324,032
Applied Toxicological Research and Testing	93.114	1,422
Biometry and Risk Estimation-Health Risks from Environmental Exposures	93.115	66,067
Grants to Increase Organ Donations	93.134	80,626
Research and Training in Complementary and Alternative Medicine	93.213	68,331
Research on Healthcare Costs, Quality and Outcomes	93.226	26,192
Mental Health Research Grants	93.242	16,589
Advanced Education Nursing Grant Program	93.247	222,852
Alcohol National Research Service Awards for Research Training	93.272	33,486
Alcohol Research Programs	93.273	1,039,746
Drug Abuse and Addiction Research Programs	93.279	1,401,826
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	8,432
Advanced Education Nursing Traineeships	93.358	62,215
Nursing Research	93.361	354,538
National Center for Research Resources	93.389	3,540,162
Cancer Cause and Prevention Research	93.393	427,201
Cancer Detection and Diagnosis Research	93.394	645,143
Cancer Biology Research	93.396	128,020
Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	93.768	526,905
Cariovascular Diseases Research	93.837	50,606
Allergy, Immunology and Transplantation Research	93.855	9,585
Microbiology and Infectious Disease Research	93.856	404,322
Biomedical Research and Research Training	93.859	283,515
Aging Research	93.866	301,583
NINR Career Transition Award	93.961	150,864
Geriatric Education Centers	93.969	188,212
Other Research and Development	N/A	31,611
Corporation for National and Community Service		
AmeriCorps	94.006	82,169
U.S. Department of Homeland Security		
Port Security Research and Development Grant	97.060	110,028
Agency for International Development		
USAID Foreign Assistance for Programs Overseas	98.001	55,552
Global Development Alliance	98.011	479,881
Other Agency for International Development Awards	N/A	2,455,078
Total Research and Development Cluster		$ 52,167,345
Other Expenditures of Federal Awards		$ 3,315,223
Total Expenditures of Federal Awards (See Note 2)		$ 2,611,916,490

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

Programs are generally listed in CFDA number order by federal funding agency. When the CFDA number is not available from the State or component unit's accounting records then N/A is indicated in the schedule. The Research and Development (R&D) Cluster is presented at the end of the schedule because there are multiple federal funding agencies. As a result, total expenditures of federal awards presented for some federal funding agencies do not include expenditures for R&D programs.

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

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

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

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

- The following guaranteed/insured mortgage loan programs are reported at the value of loans disbursed during the fiscal year: Mortgage Insurance-Homes (CFDA 14.117); and Home Equity Conversion Mortgages (CFDA 14.183).

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation (continued)

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

- Federal Perkins Loan Program – Federal Capital Contribution (CFDA 84. 038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) - reported at the balance of loans outstanding at June 30, 2008.

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

NOTE 2. NON-CASH ASSISTANCE

CFDA Number	Loan, Loan Guarantee and Insurance Programs	Expenditures of Federal Awards - Year Ended June 30, 2008	Insurance, Loans and Loan Guarantees Outstanding - June 30, 2008
11.307	Economic Adjustment Assistance	$ 13,224,397	$ 7,990,231
14.117	Mortgage Insurance – Homes	2,972,431	102,431,359
14.183	Home Equity Conversion Mortgages	9,783,223	N/A
84.032	Federal Family Education Loans	34,439,072	
84.032	Federal Family Education Loans (Guaranty Agency)	(a)	1,559,148,711
84.038	Federal Perkins Loan Program – Federal Capital Contributions	15,536,595	15,413,948
84.268	Federal Direct Student Loans	55,289,472	
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,604,170	1,604,170
93.364	Nursing Student Loans	1,575,188	1,575,188
	Other Non-Cash Assistance		
10.550	Food Donation	2,786,473	
10.569	Emergency Food Assistance (Food Commodities)	1,094,499	
39.003	Donation of Federal Surplus Personal Property	30,142	
93.268	Immunization Grants (Vaccines)	15,281,064	
	Total Non-Cash Assistance	$ 153,616,704	

(a) Administrative cost allowances (cash assistance) totaling $ 3,598,826 are reported in the schedule, however, for the purpose of determining federal awards expended in accordance with OMB Circular A-133 loan guarantees outstanding are added to the cash assistance amount for the Federal Family Education Loans (Guaranty Agency) Program – CFDA 84.032.

NOTE 3. FEDERAL AWARDS RECEIVED FROM PASS-THROUGH ENTITIES

The majority of expenditures of federal awards reflected in the schedule are from awards made directly by the federal government to the State and its component units. An immaterial amount of funds have been passed-through from other entities to component units of the State totaling approximately $5.5 million. Of this amount, $5.1 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. Of the remaining amount ($388,000), approximately $87,000 is unidentified as to either the CFDA number and/or the pass-through entity.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 2008:

Program	CFDA Number	Rebate Amount
Medical Assistance Program	93.778	$ 22,729,195
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	$ 5,032,382

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance) remitted the rebates. The Medical Assistance Program rebates reduced previously-incurred program expenditures therefore Medical Assistance Program expenditures are reported net of the applicable federal share of rebates ($12 million) earned during fiscal year 2008. WIC program expenditures include amounts funded by rebates earned as well as direct federal assistance.

NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES

Expenditures of federal awards for Unemployment Insurance (CFDA Number 17.225) represent $253.4 million funded from the State's account in the federal Unemployment Trust Fund and $14.2 million funded by federal grants.

NOTE 6. STUDENT FINANCIAL ASSISTANCE CLUSTER

Expenditures for the Student Financial Assistance Cluster are listed under two separate departments, Department of Education and Department of Health and Human Services. The total expenditures for the cluster are $135 million.

NOTE 7. HOMELAND SECURITY CLUSTER

The OMB A-133 Compliance Supplement (March 2008) included guidance on reporting expenditures of federal awards made by the Department of Homeland Security. Consistent with that guidance, expenditures are reported in the Schedule of Expenditures of Federal Awards using the CFDA number(s) shown on the notice of award for the period in which the funds were awarded. Certain expenditures reported under other than the *Homeland Security Cluster* programs (CFDA numbers 97.004 and 97.067) have been considered part of the cluster for Type A program determination and audit testing purposes.

Auditor's Reports

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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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AUDITOR GENERAL
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- *INTEGRITY*
- *RELIABILITY*
- *INDEPENDENCE*
- *ACCOUNTABILITY*

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State), as of and for the year ended June 30, 2008, which collectively comprise the State's basic financial statements and have issued our report thereon dated April 9, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As described in our report on the State's financial statements, other auditors audited the financial statements of:

- certain component units which represent 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 9% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 55% of the assets and 1% of the revenues of the business-type activities; and

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

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

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Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the State's financial statements that is more than inconsequential will not be prevented or detected by the State's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting: Findings 2008-1, 2008-2, 2008-3, 2008-4, 2008-5, 2008-6, 2008-7, 2008-8, 2008-9, 2008-10, 2008-11, 2008-12, 2008-13, 2008-14, 2008-15, 2008-16, 2008-17, 2008-18, 2008-19, 2008-20, 2008-21, 2008-22, 2008-23, 2008-24, 2008-25, 2008-27, 2008-28, 2008-29, 2008-30, 2008-31, 2008-33, 2008-34, 2008-35, 2008-36, 2008-37, and 2008-38.

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

Our consideration of the internal control over financial reporting and the reports of the other auditors was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 2008-1, 2008-2, 2008-7, 2008-12, 2008-16, 2008-17, 2008-19, 2008-20, 2008-21, 2008-22, 2008-23, 2008-34, 2008-36, 2008-37, and 2008-38 to be material weaknesses.

Compliance and Other Matters

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

and which are described in the accompanying schedule of findings and questioned costs as Findings 2008-26 and 2008-32.

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

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

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

Ernest A. Almonte, CPA, CFF
Auditor General

April 9, 2009

STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

ERNEST A. ALMONTE, CPA, CFF
AUDITOR GENERAL
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- *INTEGRITY*
- *RELIABILITY*
- *INDEPENDENCE*
- *ACCOUNTABILITY*

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

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

Compliance

We have audited, except as described in the next three sentences, the compliance of the State of Rhode Island and Providence Plantations (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. 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 17% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2008. Those audits were performed by other auditors whose reports on compliance with requirements applicable to the major federal programs were furnished to us, and this report, insofar as it relates to those programs that were audited by other auditors, is based solely on the reports of the other auditors. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

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

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We were unable to obtain sufficient documentation supporting the compliance of the State with the Adoption Assistance program (CFDA 93.659) regarding the eligibility requirement, nor were we able to satisfy ourselves as to the State's compliance with this requirement by other auditing procedures.

We were unable to obtain sufficient documentation supporting the compliance of the State with the Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959) regarding the earmarking requirement, nor were we able to satisfy ourselves as to the State's compliance with this requirement by other auditing procedures.

We were unable to obtain sufficient documentation supporting the compliance of the State with the Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959) regarding the maintenance of effort requirement, nor were we able to satisfy ourselves as to the State's compliance with this requirement by other auditing procedures.

As described in Finding 2008-53 in the accompanying schedule of findings and questioned costs, the State did not comply with the special tests and provisions requirement regarding materials testing that is applicable to its Highway Planning and Construction program (CFDA 20.205). Compliance with this requirement is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

As described in Finding 2008-54 in the accompanying schedule of findings and questioned costs, the State did not comply with the subrecipient monitoring requirement that is applicable to its Highway Planning and Construction program (CFDA 20.205). Compliance with this requirement is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

As described in Finding 2008-72 in the accompanying schedule of findings and questioned costs, the State did not comply with the special tests and provisions requirement regarding automated data processing risk analysis and review that is applicable to its Medicaid Cluster (CFDA 93.775, 93.777, and 93.778). Compliance with this requirement is necessary, in our opinion, for the State to comply with the requirements applicable to that cluster of programs.

As described in Finding 2008-114 in the accompanying schedule of findings and questioned costs, the State did not comply with the special tests and provisions requirement regarding subgrant awards that is applicable to its Homeland Security Cluster (CFDA 97.004 and CFDA 97.067). Compliance with this requirement is necessary, in our opinion, for the State to comply with the requirements applicable to that cluster of programs.

As described in Finding 2008-115 in the accompanying schedule of findings and questioned costs, the State did not comply with the subrecipient monitoring requirement that is applicable to its Homeland Security Cluster (CFDA 97.004 and CFDA 97.067). Compliance with this requirement is necessary, in our opinion, for the State to comply with the requirements applicable to that cluster of programs.

In our opinion, based on the results of our audit and the reports of the other auditors, and except for (1) the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the requirements of the Adoption Assistance program regarding eligibility, and (2) the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the requirements of the Block Grants for Prevention and Treatment of Substance

Abuse program regarding earmarking and maintenance of effort, and (3) the noncompliance described in the five preceding paragraphs, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008. 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 2008-82, 2008-101, 2008-105, and 2008-111.

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Other auditors have audited certain major federal programs administered by the State and its component units which had combined expenditures of federal awards representing 17% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2008. 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.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the State's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of a compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the State's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings 2008-39, 2008-40, 2008-41, 2008-42, 2008-43, 2008-44, 2008-45, 2008-46, 2008-47, 2008-48, 2008-49, 2008-50, 2008-51, 2008-52, 2008-53, 2008-54, 2008-55, 2008-56, 2008-57, 2008-58, 2008-59, 2008-60, 2008-61, 2008-62, 2008-63, 2008-64, 2008-65, 2008-66, 2008-67, 2008-68, 2008-69, 2008-70, 2008-71, 2008-72, 2008-73, 2008-74, 2008-75, 2008-76, 2008-77, 2008-78, 2008-79, 2008-80, 2008-81, 2008-83, 2003-84, 2008-85, 2008-86, 2008-87, 2008-88, 2008-89, 2008-90, 2008-91, 2008-92, 2008-93, 2008-94, 2008-95, 2008-96, 2008-97, 2008-98, 2008-99, 2008-100, 2008-102, 2008-103, 2008-104, 2008-106, 2008-107, 2008-108, 2008-109, 2008-110, 2008-112, 2008-113, 2008-114, and 2008-115 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the State's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider Findings 2008-52, 2008-53, 2008-54, 2008-

72, 2008-84, 2008-88, 2008-92, 2008-98, 2008-107, 2008-108, 2008-114, and 2008-115 to be material weaknesses.

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

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

Ernest A. Almonte, CPA, CFF
Auditor General

May 22, 2009

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

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Table of Findings by Federal Program D-48

Basic Financial Statements

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

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

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

3) The audit disclosed instances of noncompliance which are material to the basic financial statements.

Federal Awards

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

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

Program	CFDA #
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Adoption Assistance	93.659
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers	93.777
Medical Assistance	93.778
Block Grants for Prevention and Treatment of Substance Abuse	93.959
Homeland Security Cluster:	
State Domestic Preparedness Equipment Support Program	97.004
Homeland Security Grant Program	97.067

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

7) Major programs are listed in the table below.

Major Programs

Program Title	CFDA Number
Food Stamp Cluster:	
Food Stamps	10.551
State Administrative Matching Grants for Food Stamp Program	10.561
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Public Works and Economic Development Cluster:	
Economic Adjustment Assistance	11.307
Home Equity Conversion Mortgages	14.183
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
Airport Improvement Program	20.106
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Family Education Loans	84.032
Federal Work-Study Program	84.033
Federal Perkins Loan Program – Federal Capital Contributions	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Academic Competiveness Grants	84.375
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342
Nursing Student Loans	93.364

Major Programs (continued)

Program Title	CFDA Number
Title I Grants to Local Educational Agencies	84.010
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
Federal Family Education Loans (Guaranty Agency)	84.032
Improving Teacher Quality State Grants	84.367
Immunization Grants	93.268
Temporary Assistance for Needy Families	93.558
Child Support Enforcement	93.563
Low-Income Home Energy Assistance	93.568
CCDF Cluster:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596
Foster Care – Title IV-E	93.658
Adoption Assistance	93.659
Social Services Block Grant	93.667
State Children's Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers	93.777
Medical Assistance Program	93.778
Block Grants for Prevention and Treatment of Substance Abuse	93.959
Homeland Security Cluster:	
State Domestic Preparedness Equipment Support Program	97.004
Homeland Security Grant Program	97.067
Research and Development Cluster	Various

8) The dollar threshold used to distinguish between Type A and Type B programs was $7,835,749.

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

Finding 2008-1

COMPLETE IMPLEMENTATION OF A COMPREHENSIVE FULLY-INTEGRATED STATE ACCOUNTING SYSTEM

The State operates a statewide accounting system called the Rhode Island Financial and Accounting Network System (RIFANS) to meet its accounting and financial reporting responsibilities. Originally envisioned as a multi-module, integrated accounting system, full implementation has stalled and various functionalities are not operational. Consequently, many of the intended benefits for improved efficiency, enhanced management information, and reduced incompatibility and redundancy of accounting applications throughout state government have not been achieved. This weakens overall controls over financial reporting due to necessary, but nonetheless undesirable, procedures to utilize incompatible accounting systems for certain transactions or use RIFANS system capabilities in unintended ways. For example, receipts are recorded in the RIFANS general ledger module by journal entry since no revenue/cash receipts functionality exists within RIFANS. This causes departments and agencies to have wider access to the general ledger that would ordinarily be warranted.

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

- revenue/receivables – receipts/revenue are currently recorded via journal entry transactions (directly to the general ledger) instead of through a receivables module as part of the fully integrated Oracle accounting system. This weakens controls by providing numerous individuals the access to initiate and approve journal entry 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/receivable module would improve control over the recording of revenue and receivables and improve information available to management.

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

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

- cash management – this module is necessary to integrate the cash management, investing, and accounts payable functions which are critical to improving the efficiency and effectiveness of the State's management of its significant cash and investment balances. Additionally, controls over the purchase and sale of investments require improvement which could be addressed through implementing the cash management module.

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

- capital projects - the State currently accumulates the construction in progress segment of capital assets external to its accounting system and could account for it within RIFANS with the implementation of a capital projects module. This module could also enhance the State's preparation of its capital budget annually.

Current budgetary challenges will likely impact the pace with which these additional modules can be implemented. However, the State must consider the continued weakening of controls over financial reporting and deferred realization of operational efficiency and effectiveness that will result if complete system implementation is delayed.

RECOMMENDATION

2008-1 Complete installation of remaining modules necessary to achieve a comprehensive fully integrated accounting system.

Finding 2008-2

CONTROLS OVER ACCOUNTING AND FINANCIAL REPORTING – STATEWIDE ACCOUNTING SYSTEM

RIFANS represents a more integrated accounting system than its predecessor but still lacks many of the important system modules that would allow it to function as a comprehensive accounting system for the State. RIFANS includes Oracle's general ledger, procurement, accounts payable, and asset (capital asset) modules.

RIFANS relies on a complex establishment of agency initiation and approval hierarchies along with transaction workflow processes to ensure that adequate control is administered over the processing of system transactions. These hierarchies and workflows represent the system tools to ensure that adequate segregation of duties and control is maintained over the processing of transactions throughout the system.

RIFANS Control Structure – Agency Hierarchies

RIFANS allows the State to configure detailed agency transaction initiation and approval hierarchies and various levels of approval authority to ensure that transactions are appropriately authorized and controlled. Agency approval hierarchies are a key control within RIFANS to ensure that adequate segregation of duties is maintained between the initiation and approval of various transaction types. The hierarchies outline the authorization limits at which specific agency personnel can initiate and approve transactions.

The State remained unable to provide sufficient documentation (i.e., RIFANS reports, flowcharts, etc.) of RIFANS' agency hierarchies and modifications made to the control structure

since inception. This significantly limited the State's ability to monitor and evaluate the overall control structure within RIFANS.

Our analysis of agency hierarchies established within RIFANS found that most were not designed to prevent individual users from being able to both initiate and approve significant transactions. We noted instances where users had incompatible access for the initiation and approval of transactions in almost all agencies and departments. While our transaction testing, on a sample basis, did not identify a significant number of transactions that were initiated and approved by the same individual, the system design of agency hierarchies, in many instances, would not have prevented such occurrences.

The State will need to reevaluate the design of specific agency hierarchies to ensure that adequate segregation of duties exist over the processing of transactions within RIFANS. Additionally, the State should also develop an "approval only" access within RIFANS so that final agency approvers have access limited to just approving transactions.

We also noted that the State does not have adequate policies and procedures in place over the delegation function within RIFANS. RIFANS allows system users to delegate approval authority to other individuals when they will be out of the office. Our testing noted instances where individuals had delegated approval authority to other users that did not have equivalent approval levels and where transactions were delegated back to the initiator for approval. To maintain effective control over the processing of transactions in RIFANS, the State should ensure that users only delegate transaction approvals to individuals with equivalent approval authority and not to the original transaction initiator.

The State needs to significantly improve its policies and procedures relating to the establishment and modification of agency hierarchies. The policies and procedures should include the review and approval of agency requests for hierarchy modifications by a designated individual responsible for internal control within RIFANS.

RIFANS Control Structure – Transaction Workflows

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

During fiscal 2008, the State transitioned the workflow for vendor invoice processing by centralizing the accounts payable function within the Office of Accounts and Control. This new process requires the Office of Accounts and Control to match vendor invoices to the underlying purchase orders and receiving reports in RIFANS before initiating the vendor payment in the system. Once entered by the Office of Accounts and Control, the invoice is routed to the appropriate departmental approver for final approval. This centralized payment function served to improve the segregation of duties over invoice transactions by moving the payment function outside of the agency that also had the responsibility for creating purchase requisitions, receiving goods and services, and

reconciling accounts related to these transactions. Although this new centralization was only effective during part of the year, it represented an improvement in control over invoice transactions.

As is the case with agency hierarchies, system workflows represent a significant system control within RIFANS that must be well documented. During fiscal 2008, the State was unable to provide adequate documentation or explanation of system workflows designed within RIFANS. Once documented, State management should be able to continually reassess the critical RIFANS agency hierarchies and system workflows that are relied on by management to ensure accurate financial reporting. In addition, management has the continual responsibility for ensuring that these controls remain operational and effective over its financial reporting process.

RECOMMENDATIONS

2008-2a Formalize procedures to ensure that agency hierarchies and system workflows are documented and maintained to provide sufficient documentation of accounting controls within RIFANS.

2008-2b Develop an "approval only" access within RIFANS so that final agency approvers have access limited to approving transactions.

2008-2c Evaluate the continual effectiveness of specific agency hierarchies and system workflows to ensure that adequate segregation of duties is maintained over all transactions processed through RIFANS.

2008-2d Improve controls over the delegation of approval authority within RIFANS.

Accounts Payable Module – Account Selection

The State utilizes the Oracle accounts payable module within RIFANS to initiate and record vendor payment transactions. When vendor invoices are received and matched to the related purchase order and receiving data within RIFANS, invoice payments are initiated. The accounts payable module requires the user to either select an underlying purchase order or the vendor if no purchase order exists. The accounts payable module, however, does not require the user to select an expenditure account and will apply a default account of general fund accounts payable if no selection is made.

We noted that payments were made and charged to the default payable account because the user did not select an account. In these instances, the agency did not identify the error in a timely manner because the vendor was paid. The State should require RIFANS users to select an expenditure account and eliminate the default option to prevent such errors from occurring.

RECOMMENDATION

2008-2e Modify RIFANS to require users to select an appropriate account within the accounts payable module prior to the system initiating invoice transactions.

Recording Cash Transfers Between Funds and Bank Accounts within RIFANS

Certain journal entry transactions commonly referred to as "CSH" transactions, (CSH is the prefix of the transaction identification number) are utilized in RIFANS to record cash transfers between State bank accounts. Upon approval by the Controller's office, cash transfers are recorded in RIFANS and faxed to the Office of the General Treasurer as instruction to transfer funds. If a cash transfer were not made, it would likely take months before the omission was identified in the General Treasurer's bank reconciliation process.

Control over the recording of cash transfers could be improved through more systemic control processes such as:

- development of a daily "CSH" report that would instruct the Treasurer's office regarding the required daily cash transfers between State accounts. The Treasurer's office could implement supervisory review procedures in conjunction with this report to ensure that Treasury personnel have transferred funds in accordance with authorization from RIFANS; or

- exploration of the feasibility of transferring funds between State bank accounts via ACH. RIFANS may be able to produce a daily ACH file for cash transfers between State accounts which could eliminate the current manual transfer process.

While the automation of cash transfers between State accounts by ACH would be the best solution, implementation of either process would improve controls over cash transfers.

The State modified the RIFANS workflow process for "CSH" transactions at the end of fiscal 2008 to route the transactions to the General Treasurer's office for final approval. This modification did not provide any significant improvement in "CSH" transaction controls because could still modify the accounting entry before final posting.

RECOMMENDATIONS

2008-2f Develop a daily cash transfer report to instruct the General Treasurer's Office regarding required daily transfers between State bank accounts. Implement supervisory review procedures within the General Treasurer's Office to ensure funds have been transferred based on RIFANS transactions.

2008-2g Explore the feasibility within RIFANS to generate an ACH file to transfer funds between State bank accounts.

Controls over Journal Entry Transactions

RIFANS journal entry transactions are utilized to record a variety of financial reporting activity including:

- cash receipts,
- accounting adjustments,
- financial reporting entries such as accruals and closing adjustments,
- transfers of cash between funds and bank accounts ("CSH" transactions), and
- cost allocations to functions and activities.

State agencies currently utilize journal entry transactions within RIFANS to record cash receipts because RIFANS does not utilize an accounts receivable/revenue module. Controls are weakened by providing journal entry capability and general ledger access to agency users that would not otherwise require it. Journal entry posting capability in most accounting systems is limited to specific general ledger accounting staff and those with responsibility for financial reporting. Journal entries are subject to fewer controls within RIFANS than disbursement transactions controlled through the accounts payable module. For instance, journal entries can be modified by approvers during the approval process instead of only being rejected back to the transaction initiator for modification. This characteristic of journal entries in RIFANS also weakens controls over cash receipts and "CSH" transactions by allowing the approver to initiate modifications to the transactions prior to being posted to the system. The State's internal control over financial reporting would be improved if journal entries were only available to individuals responsible for the State's financial reporting.

In addition to receipts, there is a significant volume of journal entries to process accounting adjustments. Supporting documentation for most journal entries is voluminous; therefore, most journal entries do not include documentation sufficient to appropriately review the transaction at the time of approval. We considered the highest departmental approval of journal entries to be more substantive and the final approval at the Controller's office to be more perfunctory. Accordingly, we believe that the State should amend its current journal entry procedures (and related transaction hierarchy design) to ensure that all journal entries require supervisory approval (by a user other than the transaction initiator) at the agency level before flowing to the Controller's office for final approval.

RECOMMENDATIONS

2008-2h Require supervisory approval at the agency level for all journal entries before transactions are routed to the Controller's office for final approval.

2008-2i Implement the necessary Oracle system modules to allow for a more limited use of journal entry transactions in RIFANS.

Finding 2008-3

CONTROLS OVER COMPLIANCE WITH STATE PURCHASING REGULATIONS

RI General Law chapter 37-2 delineates purchasing requirements for all State agencies, unless exempted by law. The Division of Purchasing (Division), Department of Administration is responsible for administering a statewide procurement program including promulgating policies and procedures consistent with the General Laws. As part of our audit of the State's financial statements, we evaluated the effectiveness of the State's policies and procedures to prevent material noncompliance with General Law Chapter 37-2 and related regulations.

All agencies subject to State purchasing requirements are required to follow the State's policies and procedures for procuring goods and services. These policies and procedures require agencies to submit purchase requisitions prior to ordering and receiving goods or services. The purchase requisition is the first step in the purchasing process which ultimately leads to generation of a purchase order as notification to the vendor of the terms of the purchase and authorization for the

agency to make payment to the vendor after the goods or services have been received. Purchase orders may be generated from a specific competitive bidding process, documented sole source vendor situation, or from master price agreements with certain vendors that have agreed to set terms for providing goods and services to State agencies. Generally, a RIFANS invoice referenced to an underlying purchase order serves as documentation that the agency complied with State purchasing regulations.

We tested 120 invoice transactions to assess compliance with their underlying approved purchase orders and master price agreements. The Division's policies and procedures were applicable to 85 of the 120 sample transactions. The remaining 35 sample items were non-procurement type disbursements and therefore were not subject to purchasing requirements. We also tested a sample of 60 purchase orders established during fiscal 2008 for compliance with applicable purchasing regulations.

RIFANS Controls to Ensure Compliance with State Purchasing Regulations

RIFANS does not have a systemic control to ensure that agencies comply with State purchasing policies. Invoice transactions can be created without first following the required procurement activity. While the Office of Accounts and Control reviews all invoice transactions greater than $20,000 to ensure that the transaction has an underlying purchase order authorizing the vendor payment, not all invoice transactions subject to purchasing regulations are reviewed. Transactions subject to purchasing regulations between $5,000 and $20,000 are post audited on a sample basis, leaving a significant volume of vendor invoice transactions not subject to adequate controls to ensure compliance with State purchasing requirements. Further, these activities will detect noncompliance after the fact but not prevent noncompliance with State purchasing requirements.

Controls over invoice payments were somewhat enhanced during fiscal 2008 through the centralization of the vendor payment function under the Office of Accounts and Control. This new process requires billing specialists within the Office of Accounts and Control to match the vendor invoice with the underlying purchase order and receiving report in RIFANS prior to initiating the vendor payment. The State completed its transition to this new centralized vendor payment process for most executive branch agencies and departments during fiscal 2008.

The State should enhance RIFANS controls to better ensure agencies subject to the State's purchasing procedures from bypassing the centralized purchasing process and controls within the system. The State also needs to develop specific system reporting to identify instances of noncompliance with State purchasing guidelines.

RECOMMENDATIONS

2008-3a Enhance RIFANS controls to prevent agencies from processing invoices without having authorized purchase orders established.

2008-3b Develop a standardized report within RIFANS to identify invoice transactions processed without an underlying purchase order. Utilize this report to monitor and enforce agency compliance with State purchasing requirements.

Vendor Registration

The State currently has one employee responsible for the registration of vendors within RIFANS. In many instances, requests to register a vendor come from the same agency employees who also initiate and approve purchase requisitions and invoice transactions. This current process, coupled with access to these other user functions, increases the risk that a system user could create fraudulent payments to a fictitious vendor.

Overall control could be enhanced by requiring all requests to register vendors on RIFANS to be approved by agency chief financial or executive officers before being completed. This approval would further ensure that only legitimate vendors are added to RIFANS.

Additionally, we were unable to obtain vendor documentation for 5 vendors out of the 56 vendors included in our sample because the vendors were registered more than three years ago and the documentation had been destroyed. The Division of Purchasing should periodically update vendor information within RIFANS to ensure that all vendors are active and all vendor information is current. Vendor enrollment documentation should be retained consistent with other record retention guidelines.

RECOMMENDATIONS

2008-3c Require approval by agency chief financial or executive officers prior to enrolling vendors within RIFANS.

2008-3d Update vendor information periodically to ensure vendors are active, vendor information is current, and all information is on file with the Division of Purchasing.

Finding 2008-4

COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES

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

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

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

Efforts need to continue to develop an initial assessment (with continual monitoring thereafter) to ensure that mission critical information systems meet the State's formalized system security standards. For systems that do not meet the State's current systems security standards, a risk-based priority timeline should be adopted to modify systems as required. In addition, new information systems or significant system modifications should be subjected to a formalized systems security certification by DoIT prior to becoming operational.

RECOMMENDATIONS

2008-4a Complete an initial assessment of compliance with newly promulgated systems security standards for the State's mission critical systems.

2008-4b Adopt a risk-based priority timeline to achieve compliance of all significant State systems with DoIT's formalized system security standards.

2008-4c Require systems security certification procedures to be performed by DoIT prior to new or significantly modified systems becoming operational.

2008-4d Consider additional information system security personnel resources to assist in the daily information systems security monitoring procedures.

Finding 2008-5

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

Controls over financial reporting can be improved by accounting for all long-term asset and liability account balances within RIFANS. Governmental financial reporting involves two perspectives; the fund perspective, which for governmental funds focuses on current available resources, and the government-wide financial statements which are full-accrual entity-wide financial statements. The RIFANS accounting system, upon implementation in fiscal 2007, was designed to meet only the fund level reporting perspective. Beginning in fiscal 2008, a full-accrual set of financial records was established within RIFANS for purposes of generating government-wide financial statements for the State. The full-accrual set of financial records within RIFANS accumulates fund level transactions and records capital asset additions during each monthly closing process. Long-term assets and liabilities, not recorded for the fund perspective, were accounted for independently of the RIFANS accounting system during fiscal 2008.

Long-term assets and liabilities are accumulated from various sources and are maintained less formally and are not subject to typical accounting controls. Controls over financial reporting should

be improved by accounting for all long-term assets and liabilities in the general ledger and ensuring that changes in those balances are recorded within the system and subject to accounting controls. This would also prevent the inadvertent omission of balances recorded at the close of one year from the subsequent year's financial statements.

The State should explore the implementation of Oracle modules designed to account for receivables and liabilities (non-vendor payments), whether short-term or long-term, in RIFANS. Such subsidiary modules would allow the State to continuously account for long-term receivables and liabilities within the State's accounting system as opposed to only posting the activity to RIFANS at year-end.

RECOMMENDATION

2008-5 Improve controls over financial reporting by accounting for all long-term assets and liabilities within the RIFANS accounting system.

Finding 2008-6

RIFANS – ORACLE PATCHES

The RIFANS accounting system application utilizes an Oracle database to store transaction data. Oracle releases a Critical Patch Update (CPU) approximately every quarter which is a collection of patches intended to address multiple security vulnerabilities found within its products. They also include non-security fixes that are required by those security patches due to various types of system interdependencies. Oracle strongly recommends that fixes and patches be applied as soon as possible following their release.

It is critical that adequate controls such as patching and system upgrades are in place to appropriately secure RIFANS and maintain accountability and system integrity. DoIT policy states that "All security problem fix software, patches, command scripts, and the like provided by vendors, official computer emergency response teams (CERTs), and other trusted third parties must be promptly installed and documented" (*Policy 10-07, DoIT Security Policy Technical Controls,§ 2.3.4.3).*

DoIT has not applied Oracle CPUs since April 2007. Oracle has released seven quarterly patch updates since April 2007. RIFANS is exposed to unnecessary risk that could be mitigated by applying all applicable Oracle supplied CPUs.

RECOMMENDATION

2008-6 Apply Oracle critical patch updates to the Oracle database supporting the RIFANS accounting system on a timely basis to ensure continued and secure operation of the system.

Finding 2008-7

ACCOUNTING CONTROLS OVER FEDERAL REVENUE AND EXPENDITURES

The State needs to improve controls over recording federal revenue to ensure (1) amounts are consistent with the limitations of grant awards from the federal government and (2) claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system. Federal revenue within the governmental activities was nearly $2 billion for fiscal 2008. Generally, federal revenue is recognized as reimbursable expenditures are incurred for federal grant programs. Some federal grants are open-ended entitlement programs where the federal government will reimburse the State for all allowable costs incurred under the program. Other federal grants are limited by a specific award amount and grant period. These grant periods are often for the federal fiscal year and are not aligned with the State's fiscal year. Expenditures could be recorded in a specific federal program account yet not be reimbursable from the federal government either because grant funds have been exhausted or the expenditures do not meet the specific program limitations. Further, official claims for reimbursement from the federal government as documented on federal reports should be reconciled to amounts considered reimbursable per the RIFANS accounting system.

We noted the following control deficiencies:

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

- Departments and agencies administering federal programs are responsible for monitoring expenditure amounts compared to grant awards and preparing federal reports detailing this information. In some instances, agencies are making necessary adjustments on federal reports but not adjusting the State's accounting system. Timely recording of such adjustments in the RIFANS accounting system is necessary to ensure that federal program expenditures recorded in the accounting system are consistent with amounts reported to the federal government and do not exceed federal grant awards.

- The Office of Accounts and Control requires departments and agencies to submit an annual Federal Grants Information Schedule (FGIS), which is intended to reconcile federal program expenditures reported to the federal government with amounts included in RIFANS. The FGIS schedule, however, does not provide adequate control over federal revenue and expenditures reported in RIFANS. The FGIS should be revised to require reconciliation of:

    - federal expenditures reported in RIFANS with federal expenditures reported on federal reports (cash-basis);
    - federal revenue reported in RIFANS with cash basis drawdowns made during the fiscal year; and

- deferred revenue or federal receivable balances recorded at year-end by the Office of Accounts and Control utilizing revenue and expenditure amounts recorded for the fiscal year.

Although departmental compliance with the FGIS filing requirements has improved in recent years, the current FGIS filing process is not utilized in a manner that serves as an effective control over the preparation of the State's annual financial statements. Internal controls, as well as coordination between the departments administering federal programs and the Office of Accounts and Control, need to be enhanced to ensure federal revenue is recorded appropriately.

- We noted a number of federal accounts that required adjustment due to the following reasons:

  - Federal expenditures and revenue relating to CFDA 93.558 (Temporary Assistance for Needy Families) had to be reduced $3.4 million for unallowable costs that were not adjusted by the Department of Human Services in a timely manner.

  - Federal expenditures and revenue totaling $406,062 and $939,651 relating to the Adoption Assistance (CFDA 93.659) and Foster Care programs (CFDA 93.658), respectively, had to be reduced due to overstated expenditure estimates recorded by the Department of Children, Youth, and Families.

  - The State initially recorded a deferred revenue balance of $2.1 million at June 30, 2008 for CFDA 93.767, State Children's Health Insurance Program, that based on actual program activity and DHS's internal records should have reflected a $1 million federal receivable in the State's financial statements.

  - Certain federal expenditures totaling $1.7 million relating to fiscal years 2005 through 2008 for the Adoption Assistance Program (CFDA 93.659) were disallowed by the federal grantor. This disallowance required adjustment in the State's accounting system and financial statements at June 30, 2008.

- The State currently relies on the linkage of federal accounts by CFDA (Catalog of Federal Domestic Assistance) number (assigned as a specific program identification number by the federal government) to report expenditures and revenue by federal program. We found that controls continue to require enhancement. Initial RIFANS reports of federal accounts from RIFANS generated in July 2008 included several federal accounts with no corresponding CFDA number or incorrect CFDA number references. Incomplete linkage of federal accounts with CFDA numbers in RIFANS significantly impacts the State's ability to produce an accurate Schedule of Expenditures of Federal Awards (SEFA). The incomplete data also impacts audit planning for the Single Audit by making it more difficult to identify major programs.

- The State's accounting system is ineffective in handling adjustments to prior year federal revenue and expenditures. The federal government often adjusts federal grant amounts relating to prior fiscal years or disallows expenditures that were already claimed and reported on the State's financial statements. In most instances, the respective agencies adjust current period federal activity for these adjustments by claiming current expenditures against prior period grant awards or by reducing current period expenditures by federal disallowances. This practice can cause the current federal period activity to be misstated and result in non-

compliance relating to period of availability requirements for federal grants. The State should develop accounting policies that require adjustments to prior period federal revenue and expenditures to be accounted for in distinct natural accounts – different from those that record current period federal activity. This will allow for accurate reconciliation of prior period activity on federal reports and allow the Office of Accounts and Control to identify these transactions to determine if prior period adjustments are required for financial reporting.

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

RECOMMENDATIONS

2008-7a Redesign the Federal Grants Information Schedule (FGIS) to ensure that it fully meets the intended objective of ensuring that reported federal program expenditures, amounts due from the federal government, and available grant awards are consistent with amounts recorded within the State accounting system.

2008-7b Ensure that variances identified on the FGIS are fully resolved prior to the preparation of draft financial statements.

2008-7c Improve controls over the creation and linkage of federal accounts within RIFANS. Ensure that all federal accounts are linked to the appropriate CFDA reference within the general ledger to allow for accurate reporting of federal revenue and expenditures by program.

2008-7d Establish accounting procedures that distinctly identify adjustments to prior period federal activity in the State's RIFANS accounting system.

2008-7e Create an additional senior level position within the Office of Accounts and Control to enhance statewide controls over the financial reporting aspects of federal programs.

Finding 2008-8

CONTROLS OVER STATE PAYROLL PROCESSING

The State utilizes two separate and distinct information systems to manage personnel information for approximately 14,000 State employees and payroll costs totaling more than $918 million annually. The personnel system stores all critical personnel information such as employee name, address, hire date, salary, etc.. The payroll system calculates the State's biweekly payroll and related withholdings and tax liabilities. Any changes in personnel information impacting payroll needs to be recorded in both systems. The use of two separate systems increases the risk that

required changes will not be consistently and accurately made in both systems. This control weakness could be resolved through implementation of the Oracle human resource module as an integrated RIFANS component.

We analyzed the results of a payroll data match conducted by the State with a social security data verification service. The match conducted by the State noted similar issues to the match conducted by our office earlier in fiscal 2008. The data match resulted in reports of social security numbers that are associated with deceased individuals, numbers that are potentially invalid due to number/name match discrepancies and inconsistencies with the individual's date of birth/social security number issue date.

We noted instances where deceased individuals were not removed from the State's payroll system. We also noted incorrect employee data within the State's payroll system most likely resulting from data entry errors and incomplete data records for certain employees.

Controls should be strengthened to ensure the integrity and completeness of employee data within the State's personnel and payroll systems. Improvements should include 1) matching periodically the data elements within the two systems, 2) subscribing to a social security number verification service to ensure that deceased, terminated and inactive employees are promptly removed from the files, and 3) resolving any discrepancies relating to the two systems.

RECOMMENDATIONS

2008-8a Correct data integrity issues noted by the payroll system data match with the social security verification service.

2008-8b Match data reported in the State's personnel system with data reported in the State payroll system to identify and correct discrepancies between the two systems.

2008-8c Review data fields in the State's payroll system periodically to identify missing or incomplete data.

Finding 2008-9

CONTROLS OVER EXPENDITURE DATA IMPORTS TO RIFANS

Within the RIFANS accounting system, data (batch) imports are used to process payments to a large group of payees without creating an individual payment or requiring individual approval for each payee. These batch imports are initiated at and transmitted from numerous departments and agencies to the Office of Accounts and Control via the file transfer protocol (FTP). Payments to foster families on behalf of children in the care of the Department of Children, Youth and Families are one example of batch import data.

FTP is one of the more common methods of transferring data from one computer to another over the Internet, or through an internal network. Each department or agency that creates batch import files has a unique FTP site to which the files are uploaded, files are automatically deleted periodically, and access to the FTP sites is limited to a small number of users.

Batch import payment data is transmitted via the FTP process in a clear / open text format without encryption. Encryption of these data transmissions would enhance controls to prevent altering payment information prior to its posting to the accounting system. DoIT's policies and procedures (section 6.7 of policy 05-03) require encryption of data during transmission.

RECOMMENDATION

2008-9 Implement data encryption over batch payment data transmitted via the FTP service to the RIFANS accounting system.

Finding 2008-10

TRANSACTIONS WITH COMPONENT UNITS

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

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

- The State reflected a $7.2 million receivable from the Rhode Island Public Transit Authority (RIPTA) for debt service reimbursements – RIPTA has not recorded a related liability on its financial statements.

- The State's Colleges and University recorded receivables totaling $3.7 million from the Rhode Island Capital Plan Fund for proceeds still owed for appropriated capital projects – the Rhode Island Capital Plan Fund did not report the relating liability due these entities at June 30, 2008.

- The Rhode Island Economic Development Corporation (EDC) reported amounts due from the State of Rhode Island totaling $633,646 for two of its component units. The State's General Fund reflected these liabilities to these component units within accounts payable. This inconsistent accounting classification caused the interfund balances between the primary government and discretely presented component units to be out of balance in the government-wide financial statements.

The Office of Accounts and Control should provide more specific guidance to component units to follow in reporting these transactions. Additionally, the Office of Accounts and Control should review the draft component unit financial statements prior to issuance to ensure that transactions between the State and its component units are recorded appropriately and consistently.

RECOMMENDATIONS

2008-10a Provide more specific guidance to the State's component units on recording transactions with the primary government.

2008-10b Review draft component unit financial statements prior to issuance to ensure that transactions between the State and its component units are recorded appropriately and consistently.

Finding 2008-11

LEGACY SYSTEMS – ACCOUNT STRUCTURE CONVERSION

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

RECOMMENDATION

2008-11 Complete conversion of subsidiary accounting systems using the legacy account structure to the new RIFANS account structure.

Finding 2008-12

ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

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

We continue to note control weaknesses in the process for identifying and recording capital assets. These control deficiencies led to the following misstatements in recording the State's capital assets for fiscal 2008:

- Capital assets totaling in excess of $12.5 million consisting mostly of land and building improvement projects in the implementation or construction phase as of June 30, 2008 were not recorded in the capital asset accounting records. This results from a weakness in the State's accumulation of expenditures for project based capital assets. Project based capital

asset acquisitions are tracked manually, independent of the automated process employed within RIFANS. Functionality to track project based expenditures involving multiple transactions that could span more than one accounting period should be integrated into the RIFANS accounting system. This could be accomplished by "flagging" transactions as potential capital asset additions by designated line item (for project based capital assets) as well as by natural account.

- Contributed capital totaling approximately $3.7 million received by the State as part of the acquisition of non-depreciable intangibles (deeds to developmental rights and conservation easements) was not identified by the State. Because these amounts are not reflected by receipts in RIFANS, the Controller's office relies on agencies to inform them of contributed capital related to the acquisition of property or property rights.

- The State removed $2.9 million of prior year construction in progress assets that were subsequently believed to be non-capital in nature. By way of audit adjustment, approximately $1.7 million was subsequently determined to meet capitalization criteria and was reclassified as construction in progress. Further, for fiscal year 2008, the State recorded construction in progress of approximately $638,000 which should have been expensed.

- Controls are inadequate to ensure all disposals or sales of certain categories of capital assets are recorded in the State's capital asset records and financial statements. The State recorded no computer systems and equipment disposals during fiscal 2008. This lack of recorded disposals appears to be inconsistent with the short estimated useful life of this asset class (five years) and the large number of computer equipment assets included in this category. Further, The State did not identify the transfer of the Hanley Vocational School to the City of Providence during fiscal 2008. Inadequate controls to identify disposals also prevent the State from identifying and reporting gains and losses on disposals of capital assets. As discussed below, performing periodic physical inventories can partly mitigate this control deficiency.

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

Capital Assets Acquired with Federal Funds

Office of Management and Budget (OMB) Circular A-102 requires States to use, manage, and dispose of equipment acquired with federal funds in accordance with state laws and procedures. The RIFANS system does not currently have reports designed to identify capital assets by funding source. Additionally, the State's weaknesses in accounting and physical controls over capital assets impacted its ability to identify equipment purchased with federal funds and to ensure compliance with its own procedures regarding the use, management and disposition of all equipment.

Capital Leases

The State does not have adequate controls in place to identify capital assets (mostly machinery and equipment) acquired through capital leases. The State's RIFANS accounting system and established capital asset policies and procedures do not provide an effective means to identify

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

Periodic Physical Inventories

Periodic physical inventories of the State's capital assets should be performed to ensure the accuracy of the State's capital asset accounting records and to serve as an important element of physical control over capital assets. No physical inventories were performed during fiscal 2008. Physical inventories should be performed on a cyclical basis such that each agency is visited every three years. The Department of Administration's Bureau of Audits could be utilized to assist in this effort.

The State will need to enhance RIFANS' standardized reports for capital assets to provide sufficiently detailed asset inventory data to facilitate the performance of physical inventories. Such reports would also provide useful information for financial reporting and management purposes. Currently, the lack of reporting capability within RIFANS hampered the ability to use the State's capital asset detail as a verification tool for State agency inventory documentation. RIFANS is presently unable to provide a detailed report of all assets by specific location (street address, building, etc). Original data entry errors and lack of asset description detail uploaded from the original input has left many of the required fields, which are necessary to track the assets successfully, unavailable for reference purposes.

Infrastructure Assets

The State should revisit its criteria regarding when infrastructure assets are placed in service. Many infrastructure asset construction projects involve significant dollars and construction can span multiple years. For example, the I-WAY highway construction project is being completed in phases and consequently some sections of the new highway and bridges are already place in service. Five years may elapse between when those sections were placed into service and the entire project is complete. Waiting until the entire project is complete before recording any depreciation expense may warrant reconsideration.

The State has recorded no disposals of infrastructure assets. Due to the nature of the assets, "disposals" generally result from substantial replacement or reconstruction. At that time, the original capitalized costs are removed, along with related accumulated depreciation, and the costs associated with the substantial replacement or reconstruction are added to the recorded value of infrastructure assets. This process is complicated by the processes that were used to retroactively record the State's infrastructure assets in prior years, which involved estimates. The process for recording the State's investment in infrastructure assets needs to be refined to ensure that when specific criteria is met,

previously capitalized costs are removed as infrastructure assets are substantially replaced or reconstructed.

Capitalization Thresholds

During fiscal 2008, the State's management generally utilized a $1,000,000 threshold for all asset categories excluding land/land rights and furniture and equipment. For land and land rights, all amounts are capitalized and a $5,000 threshold has been set for furniture and equipment. For certain asset categories, the $1,000,000 thresholds are reasonable given the nature and size of the State's operations; however, we believe a $1,000,000 for buildings is inappropriately high. The State's investment in group homes, all of which were acquired for less than $1,000,000 individually, would not have been capitalized under this current criteria. Further, this policy may result in inconsistent accounting treatment for the acquisition of real estate representing both land and buildings. Under existing accounting policy, the cost of real estate representing land would be capitalized and the building portion would be expensed if less than $1,000,000.

RECOMMENDATIONS

2008-12a Develop procedures to track project-based capital projects within RIFANS.

2008-12b Enhance procedures to ensure the proper identification and recording of capital asset disposals.

2008-12c Improve procedures to ensure that contributed capital relating to the acquisition of capital assets is fully recognized in the financial statements.

2008-12d Review existing application of capital asset policies and procedures to ensure that the State's investment in capital assets is not understated.

2008-12e Implement procedures to ensure that all capital lease activity is identified and recorded in accordance with GAAP in the State's financial statements.

2008-12f Perform physical inventories of capital assets utilized by the State's departments and agencies on a cyclical basis. Enhance RIFAN's standardized reports for capital assets to provide sufficiently detailed asset inventory data to facilitate the performance of physical inventories.

2008-12g Revisit the criteria for placing infrastructure assets in service particularly when the construction project is completed in phases and spans multiple years.

2008-12h Refine the process for recording the State's investment in infrastructure assets to ensure that when specific criteria is met, previously capitalized costs are removed as infrastructure assets are substantially replaced or reconstructed.

2008-12i Reconsider the capitalization threshold established for the acquisition of buildings.

Finding 2008-13

CONTROLS OVER EMPLOYEE PAYROLL SYSTEM

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

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

RECOMMENDATION

2008-13 Identify critical data elements to be tracked as changes occur. Capture and maintain the unique user identification for each transaction resulting in changes to critical payroll master file data elements.

Finding 2008-14

RIFANS ACCESS CONTROLS

Access to the RIFANS accounting system was not sufficiently restricted during fiscal year 2008. RIFANS system access is controlled through unique passwords and assigned system access roles. These roles, which are assigned based on job function and responsibility level, permit or limit access to various system capabilities. Access is further controlled by permitting only the viewing of data or the actual entry or changing of system information.

Access roles are assigned to all users of the RIFANS accounting system. In general, roles that allow users to initiate, process, and approve disbursement transactions, modify vendor information, or adjust accounting records must be adequately controlled and duties should be segregated. We found that various individuals had system access that was in excess of what was required for their respective duties or functions, which does not sufficiently restrict the opportunity for perpetrating or concealing errors or irregularities. *(Policy 10-06: IT Security Handbook Operational Controls, § 1.3.1)*

RECOMMENDATION

2008-14a Strengthen access controls over the RIFANS accounting system by ensuring user access is appropriate for the user's assigned functions.

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

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

The Division of Information Technology (DoIT) has formalized policies and procedures to secure logical access over the RIFANS accounting system.

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

- Passwords are not required to be of a specific design (i.e., a mix of alphanumeric characters and upper/lower cases). *(Policy 10-07: IT Security Handbook Technical Controls, § 1.3.2.5)*

- Simple passwords are allowed (i.e., repeating characters, re-using the same password, using similar passwords). *(Policy 10-07: IT Security Handbook Technical Controls, § 1.3.2.6)*

- Access to the system is not restricted based on time-of-day, day-of-week, calendar-date, and method of entry or location. *(Policy 10-07: IT Security Handbook Technical Controls, § 1.3.3)*

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

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

- Authentication and access security functions/processes are not clearly defined and documented (written formal policies). *(Policy 10-07: IT Security Handbook Technical Controls, § 1.4.5.3)*

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

RECOMMENDATIONS

2008-14b Apply the principles of "separation of duties" and "least privilege" when establishing an individual's RIFANS access privileges, ensuring these are based on job duties and responsibilities.

2008-14c Review RIFANS user accounts on a scheduled basis to ensure the assigned access privileges are appropriate.

2008-14d Implement DoIT compliant password policies that are enforceable by the RIFANS system.

2008-14e Promptly remove or, as required, adjust access privileges for terminated or transferred employees.

2008-14f Implement a security awareness training program and require the attendance of all RIFANS users to ensure they are aware of management expectations regarding user compliance with systems security. Repeat this training program on a regular / 'as-required' basis.

2008-14g Appoint a RIFANS Security Officer to develop, implement and manage a comprehensive security program specific to the RIFANS operation. The above RIFANS Security Officer working with the DoIT – CISO should perform a comprehensive *'IT Security Compliance Assessment Audit'* to determine exactly where the current RIFANS system is not compliant with the published DoIT IT Security Policies and Procedures. This audit should detail where there are RIFANS security compliance issues and include a corrective action plan, designed to address all areas of non-compliance.

Finding 2008-15

PROGRAM CHANGE CONTROL – OPERATIONAL ISSUES

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

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

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

RECOMMENDATIONS

2008-15a Assess use of the ClearCase software package to determine what combination of operational, procedural and/or technical adjustments are required to use the package in a manner that results in adequate program change control over critical computer applications supporting financial reporting.

2008-15b Establish program change control procedures for all mainframe applications.

Finding 2008-16

ACCOUNTING CONTROL OVER INVESTMENT TRANSACTIONS

Short-term investment of available cash balances within the various funds of the State are made by the Office of the General Treasurer (Treasury). Treasury records these transactions within an independent investment accounting system (SI50) which tracks purchases, sales, maturities, and investment income. Treasury's SI50 investment system cannot communicate directly with the State's accounting system. During fiscal 2008, investment activity was recorded on a monthly basis within the State's accounting system based on data exported from SI50. Investment purchases, sales, and income are not initially recorded in RIFANS. Daily cash balances reported by RIFANS are inaccurate because they do not reflect daily investment activity.

Investment purchases and sales represent a significant dollar volume of cash receipt and disbursement transactions. Monthly investment activity during fiscal year 2008 routinely exceeded $1 billion for all funds. Failure to record this activity within the State's accounting system on a timely basis significantly weakens controls over cash receipts and disbursements.

Subsequent to June 30, 2008, the Office of the General Treasurer began implementation of a new software package to record and track short-term investment activity. The new software is intended to allow daily interface of investment transactions to the State's RIFANS accounting system.

RECOMMENDATION

2008-16 Record investment activity on a daily basis in the RIFANS accounting system. Improve control over investment transactions by integrating the investment function within the State's accounting system.

Finding 2008-17

FUNDS ON DEPOSIT WITH FISCAL AGENT

Funds on Deposit with Fiscal Agent on the Statement of Net Assets – Governmental Activities totaled more than $185 million at June 30, 2008. These assets result from the issuance of certain debt (Grant Anticipation Revenue Vehicle (GARVEE), and Motor Fuel Revenue Bonds and Certificates of Participation) by the State. Unlike the issuance of general obligation bonds of the State where the proceeds are received by the General Treasurer and disbursed through the State accounting system for authorized purposes, these debt proceeds are retained by a trustee. A trust agreement entered into at the time of issuance governs (a) the establishment of various trust accounts and restrictions on their use, (b) permitted investments of the bond proceeds, (c) documentation required to release the funds for valid project expenditures and (d) various other legal and operational matters.

Because these debt proceeds are not actually "received" directly by the State, the manner in which they are accounted for, monitored, and invested differs from other funds of the State. Because of the dollar significance of these assets, compliance monitoring, and controls over financial reporting should be enhanced. We observed the following weaknesses:

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

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

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

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

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

RECOMMENDATIONS

2008-17a Enhance controls over funds on deposit with fiscal agent by centralizing oversight responsibilities, segregating certain duties, and clarifying the role and responsibilities of the trustee.

2008-17b Clarify responsibility for oversight and monitoring of investments held by fiscal agents resulting from the issuance of debt.

Finding 2008-18

DISCLOSURE OF DEPOSIT AND INVESTMENT RISKS

Generally accepted accounting principles (GAAP) require detailed disclosures in the notes to the financial statements regarding deposits with financial institutions and investments. The disclosures focus on custodial, credit, interest rate, and foreign currency risks. The amounts subject to such disclosures exceed $750 million at June 30, 2008 (exclusive of pension trust funds and discretely presented component units). The disclosures provided in the State's financial statements each year, as drafted by the Office of Accounts and Control, have typically required material adjustment due to inaccurate and, in some cases, incomplete information. This largely results from individuals preparing the disclosures that are not involved in the management and investment of these balances and therefore not being familiar with various investment vehicles used by the Office of the General Treasurer and their unique characteristics (e.g., collateralization requirements, credit rating, FDIC insurance provisions, etc.).

Since the Office of the General Treasurer is responsible for cash deposits and investments, much of the information required for disclosure is within their control. Accordingly, staff of the Office of the General Treasurer should be involved in the preparation and review of the State's deposit and investment disclosures. A work-group comprised of staff from the Offices of Accounts and Control and the General Treasurer should be established to accumulate all the information needed to meet the GAAP disclosure requirements for deposits and investments.

RECOMMENDATION

2008-18 Establish a work-group to accumulate all the information needed to meet the GAAP disclosures for deposit and investment risks.

Finding 2008-19

TAXATION – CONTROLS OVER ELECTRONIC FUNDS TRANSFER (EFT) RECEIPTS

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

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

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

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

RECOMMENDATIONS

2008-19a Develop monitoring and reporting procedures for the automated logging system control process over EFT receipts. These procedures should identify and report any operational problems within the system's daily production cycle and ensure the control process remains operational.

2008-19b Develop a formal reporting system to audit/review changes made to the EFT data files to ensure that all EFT transactional changes were required, authorized, and properly applied.

Finding 2008-20

TAXATION – CONTROLS OVER THE RECORDING OF ACCOUNTS RECEIVABLE CORRECTION ADJUSTMENTS

The Division of Taxation (Division) should strengthen controls over Accounts Receivable Correction (ARC) transactions posted to their mainframe systems. The Division currently requires supervisory approval of all ARC transactions for sales, withholding, and corporate taxes before they are posted to those respective systems. However, ARC transactions relating to personal income taxes do not require supervisory review prior to posting. Over $57 million in ARC transactions were posted to the personal income tax system in fiscal 2008. There were three individual ARC transactions over $1 million each. While it would be impractical for a supervisor to review each ARC posted to the system due to the number of ARC transactions processed, we believe that a supervisor should at least review all ARCs over an established threshold.

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

RECOMMENDATIONS

2008-20a Establish a threshold for supervisory review of accounts receivable corrections of personal income tax accounts.

2008-20b Improve data entry controls over ARC transactions.

Finding 2008-21

TAXATION – CONTROLS OVER TAX REVENUE RECOGNITION

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

Taxation was aware of these situations before fiscal year end, but the receivable balances were not adjusted prior to providing the balances to the Office of Accounts and Control for financial reporting purposes. An audit adjustment was recorded to decrease taxes receivable by $4.3 million,

and the related allowance by $3.2 million, for a net decrease in taxes receivable of $1.1 million. We proposed similar adjustments to gas tax receivable balances which were not booked

The Office of Accounts and Control estimates tax refunds payable at June 30 based on the July refunds paid in the subsequent fiscal year. Due to staff shortages, the Division has not been able to process all prior period adjustments by July of the following fiscal year. Therefore, processing of certain refunds has been delayed and not processed until August or later. An audit adjustment of $1.4 million was booked to increase tax refunds payable and decrease tax revenue. Similarly, we proposed an audit adjustment to estimate refunds payable related to gas tax for $400,000 which was not booked. At the time of our audit, many gas tax refunds relating to fiscal 2008 had been claimed but not yet processed by Taxation. The Office of Accounts and Control should revise its method for estimating refunds that is based on payment history instead of refunds paid immediately after fiscal year end.

RECOMMENDATIONS

2008-21a Post transactions to taxpayer account balances to meet fiscal year end cut-off.

2008-21b Revise the methodology for estimating tax refunds payable which is based on an analysis of tax refund payment history rather than refunds paid immediately after fiscal year end.

Finding 2008-22

ACCOUNTING CONTROLS OVER CAPITAL PROJECTS FUNDED WITH DEBT PROCEEDS

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

Project Codes

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

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

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

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

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

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

Accumulating Project Expenditures

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

Further, RIFANS cannot accumulate expenditures over multiple fiscal years. Many projects are active over a period of years and consequently total project expenditures are accumulated on spreadsheets within the Budget Office using annual data extracts from RIFANS. These cumulative project expenditure worksheets are the only full accounting of costs from project inception. These worksheets are not subject to appropriate control procedures that should be in place for key accounting information. This data should be accumulated within the overall RIFANS accounting system; however, functionalities that would allow this are not currently operational within the system (see Finding 2008-1).

Reconciliation of Cumulative Project Expenditures and Unexpended Bond Proceeds

No reconciliation is performed between unexpended project amounts (project authorization less cumulative expenditures) as reflected in the accounting system to the actual balance of unexpended (and invested) bond proceeds. Overall, cash and investment balances are reconciled for the Bond Capital Fund as a whole but reconciliations are not performed for each bond proceeds account. Such a reconciliation would ensure that project expenditures have been funded from the

appropriate bond proceed accounts and that unexpended proceeds match the remaining project authorization.

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

RECOMMENDATIONS

2008-22a Strengthen control over the accumulation of project expenditures within the RIFANS control structure particularly for projects spanning more than one fiscal year. Revisit the configuration and use of project codes to map expenditures to the appropriate source of bond proceeds. .

2008-22b Reconcile unexpended bond proceeds balances to accounting records detailing project authorizations, cumulative expenditures, and remaining project balances.

2008-22c Initiate a review of the responsibilities performed by various groups with respect to accounting for capital projects to ensure comprehensive control procedures are in place.

Finding 2008-23

INTERMODAL SURFACE TRANSPORTATION FUND - FINANCIAL REPORTING

The Intermodal Surface Transportation (IST) Fund has been established as a special revenue fund to account for transportation related activities of the State including the highway construction program. Controls can be improved to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles.

Controls over the Preparation of Financial Statements

Several account balances reflected in the fiscal 2008 draft financial statements required material audit adjustment due to weaknesses in controls over financial reporting.

- ***Accounts payable*** - Controls over the reporting of accounts payable can be improved to ensure all material amounts are included in the financial statements. One material adjustment required at June 30, 2008 related to a real estate transaction that occurred prior to year-end. The Rhode Island Department of Transportation (RIDOT) excluded real estate transactions from its search for accounts payable and therefore inappropriately excluded these amounts from reported payables. Another adjustment relates to expected settlements of claims against the fund. RIDOT currently does not have a process to record the likely settlements for financial statement purpose.

- ***Fund balance reservation*** – Fund balance within the IST fund includes general obligation bond proceeds transferred in prior years in excess of the required state match to federal funds. Such amounts were not reported as a reserved component of fund balance to reflect legal limitations on their use for only voter approved transportation projects.

RECOMMENDATION

2008-23a Strengthen control procedures over financial reporting to ensure accurate identification of accounts payable and reservations of fund balance.

Amounts Due from the Federal Government

Amounts due from the federal government relate not only to current project expenditures pending reimbursement but also include substantial amounts relating to prior projects. In the case of prior projects, a receivable from the federal government likely exists but funds have not been drawn because project modifications are pending federal approval or RIDOT has chosen to use its allocation of federal funds for new projects instead of collecting amounts owed for reimbursable project expenditures. RIDOT believes this component of amounts due from the federal government (commonly referred to as "earned but unbilled" amounts) are a necessary consequence of making the most effective use of federal highway authorizations for the State's highway construction program.

The "earned but unbilled" (EBUB) component of amounts due from the federal government decreased by $4.7 million during fiscal 2008 to $9.1 million at June 30, 2008, mostly in response to a concerted effort to manage EBUB and to improve cash flow.

The "earned but unbilled" and other long-term components (amounts to be reimbursed for retainage payable) of amounts due from the federal government are controlled within RIDOT Financial Management System (FMS) but not the State accounting system (RIFANS). The balances are only recorded in RIFANS at the end of the year solely for financial reporting purposes. Amounts reported at year-end are immediately reversed in the new fiscal year without additional reporting until the close of the next fiscal year. From the State accounting system perspective, controls are ineffective over this substantial financial statement balance.

Because not all amounts will be fully collected within the next fiscal year, an allowance is established for financial reporting purposes to estimate the amount that is unavailable (the amount that will not be collected within one fiscal year after the balance sheet date). The estimate of amounts that are unavailable is based on past collection practices. The long-term nature of certain receivable balances results in increased risk of uncollectibility.

Federal funds should be drawn for all amounts due from the federal government as soon as all federal requirements have been met (e.g., federal project approval). Other funding sources are required to "finance" these receivable balances since project expenditures are disbursed on a current basis yet reimbursement from the federal government may occur several years later. Failure to collect these amounts due from the federal government for extended periods impacts the State's financial operations negatively.

RECOMMENDATIONS

2008-23b Collect all amounts due from the federal government in reimbursement of highway project expenditures as soon as all federal requirements have been met.

2008-23c Improve controls over the reporting of long-term receivable balances (due from the federal government) within the State's accounting system.

Infrastructure Reporting

RIDOT annually performs a manual analysis to identify the amounts included in expenditures that should be classified as construction in progress (CIP) (capital asset additions) and the amounts reclassified from CIP or added to infrastructure capital assets. This analysis also identifies assets by category which impacts the estimated useful life and depreciation. Although the financial statements for the IST and GARVEE funds are prepared from the RIFANS accounting system, RIDOT obtains transaction detail by project from its FMS since project level expenditure detail is not maintained in RIFANS.

The process performed by RIDOT to determine the amounts to be reported in the financial statements is manually intensive and requires reconciliation to the State's accounting system. The project information obtained from FMS can approximate 18,000 lines of data that must be sorted, subtotaled, categorized and reconciled. This volume of transactions and the data manipulation that occurs exposes the data to risk of errors. The following are examples of the data manipulation performed:

- removal GARVEE related projects by project number,
- identification of differences between the State's accounting system and RIDOT FMS,
- removal prior year accruals,
- add current year accruals,
- categorize project information by as meeting capitalization or expense criteria,
- categorize projects to be capitalized by depreciable life, and
- add an estimate for design costs which are not included as part of construction project costs.

During fiscal year 2008, RIDOT did not perform the reconciliation between the FMS project detail data and the State's accounting system. We identified $3.7 million of infrastructure not being reported to errors in RIDOT's analysis.

RECOMMENDATION

2008-23d Improve controls over the identification of projects to be included in infrastructure.

Finding 2008-24

GARVEE CAPITAL PROJECTS FUND

The GARVEE fund accounts for the expenditure of proceeds from the State's Grant Anticipation Revenue Vehicle (GARVEE) bonds and matching Motor Fuel bonds for specific highway construction related projects. Debt service on the bonds is repaid with federal funds and a dedicated portion of the State's gas tax. Bond proceeds held by a trustee pending disbursement for eligible project costs totaled $157 million at June 30, 2008.

Reconciliation between the GARVEE Trustee, RIDOT FMS and the State's Accounting System

GARVEE project disbursement processing originates in the RIDOT FMS in the same manner as other transportation related project expenditures (IST Fund). These expenditures are also processed within the State's accounting system; however, unlike other State expenditures, disbursement is made by the GARVEE trustee. Periodic reconciliation between all three sources of data is necessary to ensure that all GARVEE project disbursements have been recorded in the State's accounting system which serves as the basis for annual fund financial statements.

RIDOT's reconciliation focused on asset balances rather than specific transaction types or accounts, e.g., gas tax transfers in, expenditures, investment income, and debt service. RIDOT's reconciliation process can be further improved to also include reconciliation by transaction type. This will ensure financial statement activity is not materially misstated.

RECOMMENDATION

2008-24 Expand the reconciliation between the trustee and the State accounting system to encompass transactions at the account level to ensure financial statement activity is not materially misstated.

Finding 2008-25

SYSTEMS SECURITY OVER RIDOT IT APPLICATIONS IMPACTING FINANCIAL REPORTING

The Rhode Island Department of Transportation (RIDOT) utilizes two information technology (IT) applications to gather and process financial information that is used (in conjunction with the State's RIFANS accounting system) for financial reporting. Within the Project Management Portal (PMP), construction progress payment information is captured by the Contract Management System (CMS). Progress payment information is then interfaced with RIDOT's Financial Management System (FMS) where financial processing occurs after which it is transferred to RIFANS for payment.

The Division of Information Technology (DoIT), within the Department of Administration (DOA) has created IT system security standards and policies that are outlined within its IT Security Handbook Controls Manuals (Policy #s 10-05, 10-06, and 10-07). These policy standards and

procedures are to be followed for all IT functions, applications, and systems operating under its control including the CMS and FMS. Our assessment of these systems indicated areas where improvement to IT security, password and user management, processing controls, and system integrity should be made to enhance controls over financial reporting.

Overall, we noted that a RIDOT Security Administrator has not been designated to oversee and implement the DoIT/DOA IT security policies and procedures. Currently, these duties/functions fall within the responsibilities of the RIDOT System Administrator/DBA. The Security Administrator should be independent of the IT programming and technical support functions within RIDOT (Policy # 10-05 2.3.4 Designated Department/Unit/Office Information Security Officer, Policy #10-06 1.4.6 - *The Agency Information Security Officer (ISO)/Alternate ISO).* Additionally, a RIDOT security awareness program has not been designed and implemented as per DoIT/DOA IT Security Handbook standards.

Specific areas requiring attention within the CMS and FMS applications are:

- Some individuals in both the CMS and FMS applications have access rights that are in excess of what is required for their respective duties and/or have access rights which create a conflict of duties. User access should be granted based upon the DoIT/DOA stipulated standard of "least privilege". If excessive rights or conflicting duty access is deemed a business requirement, compensating controls in the form of logging and monitoring of those individual actions should be instituted.

- Password access controls need to be enhanced within the application systems in order to conform to DoIT/DOA standards (e.g., minimum length, character composition, required change interval, etc.).

- Monitoring, logging, and creation and review of audit trails needs to be implemented as mandated by DoIT/DOA IT Security policy.

- The transfer of data from CMS to FMS is accomplished through the internet using an unsecure file transfer protocol and should be performed through a secured protocol.

- The interface of data from CMS to FMS typically includes instances where RIDOT Business Management staff make manual modifications to the payment file names and file contents. This function should be further automated to enhance the accuracy and integrity of the data.

- Application system changes to the CMS application are not made within an appropriate change management structure. A change management methodology and controlled process should be implemented to ensure the integrity of the application system and related data.

RECOMMENDATIONS

2008-25a Complete an initial assessment of compliance with DoIT/DOA Security Handbook policies and standards for the RIDOT financial management system and adopt a risk-based priority timeline to modify systems as required to meet DoIT/DOA IT security standards.

2008-25b Designate a Security Administrator as mandated by the DoIT/DOA IT Security Handbook policy.

2008-25c Assess the propriety of user access rights within the CMS and FMS application systems on a periodic basis as mandated by DoIT/DOA policy (Policy #10-06, 1.3 Policy, 1.3.2 User Administration, and 1.3.2.2 Audit and Management Review).

2008-25d Use a secure file transfer protocol or other secure transmission method to transfer data over the internet from the CMS application to FMS application.

2008-25e Automate the interface process of CMS data to the FMS thereby eliminating the amount of required human intervention. Should manual file modifications continue, implement a process for logging file changes with periodic monitoring by management to ensure that only appropriate changes have been made.

2008-25f Implement change management controls within the CMS application similar to those that are operational within the FMS application to ensure that only authorized and tested system changes are implemented.

Finding 2008-26

MATERIAL VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

The legislatively enacted State Budget for fiscal year 2008, (Chapter 073 of the 2007 Rhode Island Public Laws and amended through Chapter 009 of the 2008 Public Laws), includes appropriations for the State's departments and agencies by program and funding source. For fiscal 2008, actual general revenue expenditures ($3.404 billion) exceeded budgeted general revenue appropriations ($3.368 billion) by approximately $36 million. Actual fiscal year 2008 general revenue expenditures for the Departments of Human Services; Mental Health, Retardation, and Hospitals; and Corrections exceeded their budgeted general revenue appropriations by $22.8 million, $7.8 million, and $8.6 million, respectively.

The excess of actual general revenue expenditures over budgeted general revenue expenditures totaling $36 million combined with a general revenue shortfall of $7 million resulted in the General Fund ending with an operating deficit of $43 million for the fiscal year ended June 30, 2008.

Finding 2008-27

RHODE ISLAND LOTTERY FUND - CONTROLS OVER ACTIVITIES PERFORMED BY THE GAMING SYSTEM CONTRACTOR

The Lottery's gaming systems are designed, operated and maintained by a contractor under a 20-year master contract. As part of the daily operations of these gaming systems, the contractor

provides the Lottery with gaming and financial data necessary to meet its financial reporting and monitoring responsibilities. When considering the overall controls over the Lottery's operations, management must have a thorough understanding of the contractor's control structure and some assurance regarding its overall effectiveness.

While the Lottery works closely with its contractor to ensure the continuity of gaming operations, a formalized understanding of the contractor's control structure has not been documented. This more in-depth consideration of the contractor's control structure would allow for the identification of the specific controls most critical to gaming operations and the accuracy and completeness of reported gaming data that ultimately gets recorded in the Lottery's accounting system. Once identified, the effectiveness of the contractor's internal controls for critical lottery operations should be periodically evaluated.

The Lottery should obtain a periodic, independent assessment of the internal control policies and procedures used by the gaming system contractor. A "SAS 70" examination of the gaming system contractor's controls over critical lottery operations, including tests of the operating effectiveness of the applicable controls, would provide the Lottery with additional assurance regarding the integrity of its gaming operations and the accuracy and reliability of critical lottery financial data utilized in the preparation of the Lottery's financial statements.

The information obtained through periodic "SAS 70" reviews, in addition to the results of periodic information technology audits already performed in conjunction with the Lottery's oversight of its information systems security policies and procedures, would provide the Lottery with additional assurance regarding controls employed by its gaming systems contractor to ensure the integrity of the Lottery's gaming operations.

RECOMMENDATION

2008-27 Obtain a "SAS 70" examination periodically of the gaming system contractor's controls that are deemed most critical to the integrity of the Lottery's games and its financial reporting processes.

Finding 2008-28

RHODE ISLAND LOTTERY FUND - RECONCILIATION TO THE STATE'S ACCOUNTING SYSTEM

The Lottery's internal general ledger accounting system is used for financial reporting; however, the Lottery utilizes the State's accounting system known as the Rhode Island Financial and Accounting Network System (RIFANS) for all disbursements relating to Lottery operations, except for prize disbursements. The Lottery records all payment transactions in both their internal accounting system and RIFANS for payments to vendors. Revenue and cash receipt transactions are also recorded in both systems although more detail is recorded in the Lottery's accounting system. The activity recorded in RIFANS is basically cash receipts and disbursements whereas the Lottery's accounting system records all activity on an accrual basis to prepare financial statements in accordance with generally accepted accounting principles.

For certain centralized billing processes used by the State (e.g., payroll, purchase cards, office supplies, etc.), payments are initiated through the State's Office of Accounts and Control and individual agencies are charged for their pro-rata share of monthly activity. In these instances, the Lottery does not initiate payment and must review reports from RIFANS to identify and record this activity in their internal accounting system.

Controls over financial reporting are weakened because a complete reconciliation is not performed between the two systems to ensure that all activity has been appropriately recorded in both accounting systems. The partial reconciliations which are performed focus primarily on cash balances reported between the two systems.

Until recently the State's accounting system was incapable of meeting the financial reporting needs of the Lottery, however RIFANS can likely accommodate the Lottery's financial reporting objectives with minimal modification (e.g., creating additional accounts). The Lottery should work with the Office of Accounts and Control within the Department of Administration to explore utilizing the State's accounting system exclusively for all accounting and financial reporting thereby eliminating the redundancy of recording activity in two systems and the effort required to perform periodic reconciliations.

Utilizing RIFANS for financial reporting would also simplify cash reconciliation procedures by eliminating the need for the three-way reconciliation between bank balances, RIFANS cash balances, and the Lottery's cash balance. Further, controls over financial reporting would be enhanced by eliminating the risk of omitting transactions recorded only in one system.

RECOMMENDATIONS

2008-28a Perform full periodic reconciliations of activity recorded in the Lottery's accounting system utilized for financial reporting and the State's accounting system.

2008-28b Explore using RIFANS for Lottery financial reporting thereby eliminating the redundancy of recording Lottery activity in two accounting systems.

Finding 2008-29

RHODE ISLAND LOTTERY FUND - INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES

The Lottery has a comprehensive information system security plan designed to safeguard the information systems utilized within its operations. Due to the highly computerized nature of the Lottery's operations, these policies and procedures are vital to ensuring the integrity of these computerized systems. The Lottery ensures compliance with these procedures through monitoring procedures performed by internal information technology (IT) security staff as well as contracted professionals who assist with evaluating the compliance of the Lottery's gaming systems contractor.

Comprehensive assessments of the Lottery's gaming systems have been performed routinely over the past few years by an independent contractor. These assessments included an extensive

evaluation of various general and application control elements. These assessments were performed based on IT security best practices and RILOT Security Policies and Procedures.

Although the majority of the Lottery's information systems policies and procedures were found to be in place and operating effectively within the gaming systems operated by the contractor, certain control weaknesses were identified and communicated to the Lottery in relation to both the On-line and Video Lottery gaming systems. Although a number of technical, operational, and administrative controls are in place consistent with industry standards and best practices, the effectiveness of these controls are undermined by the presence of these identified deficiencies. The Lottery should ensure that these deficiencies are corrected to enhance controls over the gaming system environment.

In addition to the resolution of currently known control deficiencies, the Lottery must consider additional monitoring procedures to ensure the continued compliance of the Lottery's IT policies and procedures. These procedures need to prevent the types of IT security weaknesses that have been periodically identified by the Lottery's IT security contractor.

RECOMMENDATIONS

2008-29a Address all significant IT security deficiencies reported by the Lottery's information systems security contractor.

2008-29b Consider additional monitoring procedures to ensure the continued compliance with IT security policies and procedures.

Finding 2008-30

EMPLOYEES' RETIREMENT SYSTEM – IMPROVE MONITORING CONTROLS OVER SYSTEM INVESTMENTS AND ENHANCE INFORMATION REQUIRED FOR FINANCIAL REPORTING

Financial reporting for the Employees' Retirement System of Rhode Island (ERSRI) includes valuation of investments, consistent recognition of investment income and gains and losses, and preparation of comprehensive note disclosures such as exposure to various investment-related risks and how those risks have been managed or mitigated. These financial reporting objectives must meet generally accepted accounting principles for governments. Meeting these financial statement reporting objectives is a significant task which requires considerable coordination and information gathering among the various parties that are involved in investing or holding the System's assets.

We have reported findings and related recommendations in prior year audits, which highlighted weakness in controls over financial reporting for the System's investments. There has been attention focused on improving the financial reporting and monitoring responsibilities for ERSRI's investments with noted improvements in specific areas. However, collectively, weaknesses continue to exist in controls over financial reporting for the System's investments.

Accounting responsibility for the System's investments is fragmented since a Treasury unit separate from the Retirement Division is responsible for the investment activity cycle. Coordination between the Retirement and Treasury-Finance Divisions can be further enhanced to meet the

objective of preparing timely financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for certain aspects of financial reporting relating to investments should be better coordinated to improve the timeliness, completeness, and quality of the data generated as well as controls over its accumulation. The process of accumulating all the required investment information necessary to prepare financial statements should be coordinated by individuals knowledgeable about financial reporting and governmental GAAP. This process should be lead and coordinated by the Retirement Division. Specific year-end closing tasks should be assigned and data to be requested from various external parties should be formalized and scheduled.

Certain monitoring tasks should be better documented to facilitate preparation and audit of the System's financial statements each year. Monitoring of the investment portfolio can also be enhanced to ensure timely and effective oversight of the System's diversified investments.

The growth and complexity of the System's investment portfolio warrant additional attention to the accounting and financial reporting aspects of the investment cycle. Additionally, complex investment valuation issues, disclosure of investment-related risks, the System's exposure to derivative type investments, and the overall requirements of preparing financial statements in accordance with generally accepted accounting principles increase the need for enhanced monitoring of the various parties involved with the System's investment portfolio.

The specific issues noted during the current audit which are indicative of control weaknesses are outlined below.

- A pooled cash trust account was created for the System's plans to facilitate withdrawals to meet monthly pension payroll. During fiscal 2008, changes were made in the manner in which cash was drawn from the accounts. This resulted in a negative balance in one of the plan's share of the pooled cash trust indicating that assets of one plan were used to pay the benefits of another, which is not permissible. This situation existed for a number of months before being detected after the close of the year. More timely and effective monitoring of plan accounting reports provided by the System's investment custodian could have detected this discrepancy and allowed timely correction.

- Nearly all short-term liquid assets of the System, totaling $424 million at June 30, 2008, were held in a money market mutual fund administered by the System's custodial bank. The Treasury-Finance Division had limited information on this investment to provide required disclosure information in the System's financial statements. It later obtained this information due to our request. Additionally, information was unavailable to evaluate whether or not the money market fund had liquidity problems and losses in value similar to what other money market mutual funds experienced subsequent to June 30.

- The Treasury - Finance Division had insufficient information to provide disclosures concerning the System's exposure to and use of derivative type investments. Gathering information to prepare these disclosures continues to be problematic. The System's disclosures should be enhanced in fiscal year 2009 and will need to be significantly enhanced under guidelines that will become effective beginning in fiscal year 2010 (GASB Statement No. 53 - *Accounting and Financial Reporting for Derivative Instruments).*

- The Treasury – Finance Division did not have a complete or timely process in place to establish a fair value for its alternative investment portfolio (this portfolio represent 8.5% of total investments). We believe this was partly due to the fact that several individuals are

involved in the process, but no one person has been assigned to ensure that the alternative investment portfolio is properly valued and supported by appropriate evidence. This task has consumed a disproportionate amount of audit effort to enable us to opine on the financial statements.

- Disclosures concerning various types of investment risk are required by GASB Statement No. 40 and involve a substantial amount of data gathering and analysis some of which is performed by the System's investment custodian. Review of these draft disclosures should be enhanced, particularly of the analyses prepared by the custodian, to ensure they are (1) prepared consistent with the requirements of GASB 40 and (2) includes all investment types.

- Investment transactions are recorded, reported, and summarized by ERSRI's investment custodian. Recording and reconciling this activity (in summary form) within the System's accounting records is performed only once at the close of the fiscal year. Summarized investment activity reported by the custodian should be analyzed and reconciled monthly to detect variances and mispostings on a timely basis. Variances often occur in the recording of transfers to and from the plans. These variances need to be corrected promptly because of the impact on the allocation of assets among the System's four plans.

An overall investment monitoring plan should be formalized to ensure appropriate and timely oversight of the System's diversified investments. The System's investments are appropriately diversified with many advisors, managers, consultants, and investment custodians involved in the overall administration of the investment portfolio. Each of these parties has a specific role to perform with Treasury assuming ultimate oversight and monitoring responsibility. A detailed monitoring plan which delineates each investment category, the various parties and their respective roles, the frequency of the monitoring activity and the Treasury personnel responsible for the monitoring activity should be formalized.

RECOMMENDATIONS

2008-30a Continue training and developing specific task assignments for individuals involved with investment monitoring to ensure the additional resources committed to these activities achieve the intended objective.

2008-30b Analyze and reconcile investment activity reported by the custodian monthly to detect variances and mispostings on a timely basis.

2008-30c Enhance coordination between the Retirement and Treasury-Finance Divisions to meet the shared objective of preparing financial statements in accordance with generally accepted accounting principles. This process should be lead by the Retirement Division.

2008-30d Formalize an overall investment monitoring plan which delineates each investment category, the various external parties and their respective roles, the frequency of the monitoring activity and the Treasury personnel responsible for the monitoring activity.

Finding 2008-31

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

Contributions from both employees and employers are recognized as revenue (additions) based upon employer payroll activity – contributions are considered receivable when wages are paid to the employee. For financial reporting purposes, contributions receivable at June 30 are derived from (1) the ANCHOR system based actual contribution data submitted to the System without the associated payment or (2) an analysis to calculate contributions receivable based upon either estimates reflecting past employer payroll activity or actual contributions received after the close of the fiscal year but relating to payroll periods before June 30. Due to the complexity of the analyses and the volume of data involved, errors can occur which impact financial statement amounts and require correction. This contributions receivable analysis is independent of ERSRI's controls over financial reporting which are in place over ANCHOR and the PeopleSoft general ledger.

In fiscal 2007, ERSRI increased its efforts and required all participating employers to report their detail contribution data on a more timely basis, particularly at the close of the fiscal year. This improved the reporting of contributions due the system at June 30 but contributions and contributions receivable still required analysis and adjustment to yield amounts that are appropriate for financial statements prepared in accordance with generally accepted accounting principles.

Some of the balances reported by ANCHOR for an employer are inaccurate because of posting errors that occurred in prior periods. While a modification was made to the system, which allows correction of posting errors on a prospective basis, previously known errors have been tracked off-line and therefore the ANCHOR system may not report accurate current balances of contributions receivable for a specific unit. The analysis and correction of misposted contribution data has been ongoing since the ANCHOR system was implemented in fiscal 2002. The analysis and adjustment of member unit contribution receivable data must be completed expeditiously to improve controls over financial reporting.

RECOMMENDATIONS

2008-31a Complete analysis and reconciliation of prior period posting errors affecting contributions and contributions receivable by employer unit.

2008-31b Explore options to improve the reporting of contributions receivable data by the ANCHOR system. In the interim, implement control procedures over the manual processes used to calculated contributions receivable at fiscal year end for financial reporting purposes.

Finding 2008-32

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

During the fiscal year ended June 30, 2008, the Convention Center Authority was unable to fund the Operating Reserve and Renewal and Replacement components of the restrictive covenants

for the Rhode Island Convention Center and the Dunkin' Donuts Center-Providence, respectively, pursuant to the bond indentures. The Authority will fund the Operating Reserve and Renewal and Replacement components noted above provided there is sufficient cash flow.

Finding 2008-33

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY - RECORDING OF CAPITAL ASSETS AND RELATED DEPRECIATION

It has historically been the Authority's policy to capitalize, i.e., record as an asset, expenditures related to contracted projects in a Construction in Progress account, a non-depreciating account. Depreciation of such expenditures does not begin until the contract has expired, all work has been completed (including inspections) and final payments have been made. However, some of the contracts extend over a four year period, during which time some of the work done is in fact substantially complete and being used by the Authority and its customers. An example of this would be a multi-year on call road repair contract. As a result, substantially completed projects are not being depreciated in accordance with GAAP, which requires placing into service such assets once substantially complete. Therefore, depreciation expense has been understated.

RECOMMENDATION

2008-33a We recommend that the Authority begin depreciating the aforementioned assets once such assets are substantially complete. Enhanced communication between the engineering and finance departments will facilitate this. In addition, inquiries should be made by finance personnel towards the end of reporting periods regarding the status of construction projects to ensure appropriate financial recording and reporting.

We also noted that the Authority's policy is to capitalize all expenditures greater than $350. The Government Finance Officers Association recommends a minimum threshold of $5,000 in its *Recommended Practice Establishing Appropriate Capitalization Thresholds for Capital Assets* dated February 24, 2006. Considering the magnitude of the Authority's assets, we suggest a threshold of $10,000 for equipment expenditures and $25,000 for bridge and building improvements with expenditures below the thresholds being expensed as incurred.

RECOMMENDATION

2008-33b Considering the magnitude of the Authority's assets, we suggest a threshold of $10,000 for equipment expenditures and $25,000 for bridge and building improvements with expenditures below the thresholds being expensed as incurred.

Finding 2008-34

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – MATERIAL LIABILITIES RELATED TO REMEDIATION WERE NOT RECORDED IN A PRIOR PERIOD AND THE CURRENT PERIOD

In the course of our audit procedures, we discovered that a material liability for environmental remediation was not recorded in 2006, causing both the 2006 and 2007 financial statements to be materially misstated. In addition, a remediation liability that became known in the current year was not recorded. Generally accepted accounting principles require loss contingencies to be recorded if they are probable and reasonably estimable.

RECOMMENDATION

2008-34 We recommend that the Authority establish procedures to ensure that accounting personnel review all legal invoices as well as discuss potential liabilities with the Board, senior management and the senior engineering staff in order to identify all potential contingent liabilities and document their conclusions regarding if and when a liability should be recorded or disclosed in the Authority's financial statements.

Finding 2008-35

RHODE ISLAND INDUSTRIAL-RECREATIONAL BUILDING AUTHORITY – INTEREST INCOME

The Authority's cash is held and managed by the State of Rhode Island. Based on the confirmation provided by the State for fiscal year ended June 30, 2007, the Authority's interest income was understated and the amount due to Rhode Island Facilities Corporation was overstated by $54,826 as of June 30, 2007. A prior period adjustment of $54,826 has been recorded by the Authority during fiscal year ended June 30, 2008 to correct this error. The error was not discovered until analysis was completed based on the confirmation received from the State for fiscal year ended June 30, 2008.

Finding 2008-36

CENTRAL FALLS SCHOOL DISTRICT

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

The financial reports prepared by the Central Falls School District for the year ended June 30, 2008 had misstatements, that resulted in the proposal of several audit adjustments that were considered material. The misstatements were primarily the result of unrecorded receivables at year-end, revenue recorded to the incorrect fund, and inadequate reconciliation of the accounts payable and other balance sheet accounts at year-end. Central Falls School District's internal controls over

financial reporting are not operating as intended and did not prevent and detect misstatements in the year-end financial reports.

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

RECOMMENDATION

2008-36 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 financial reports for all funds. The monthly reconciliations and financial reports should also be reviewed and approved by the Director of Finance and then submitted to the Superintendent and the Board of Trustees.

Finding 2008-37

FISCAL AGENT OVERSIGHT – MEDICAL ASSISTANCE PROGRAM

As described in Finding 2008-88 (Section III – Federal Award Findings and Questioned Costs), the Department of Human Services' oversight of its fiscal agent designated to pay Medical Assistance program claims was not adequate to assure the reliability of data reported by the Medicaid Management Information System (MMIS). Financial monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State's financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated.

Finding 2008-38

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

As described in Finding 2008-72 (Section III – Federal Award Findings and Questioned Costs), federal regulations mandate that States are responsible for the security of all ADP operational systems involved in the administration of HHS programs. State agencies are required to determine appropriate ADP security requirements based on recognized industry standards governing security of ADP systems and information processing. DHS utilizes two primary systems, INRHODES and Medicaid Management Information System (MMIS), to administer HHS federal programs. Benefit payments disbursed from these two systems during fiscal 2008 totaled over $2 billion. DHS should develop a comprehensive ADP risk analysis and system security review process to ensure a coordinated approach to identifying and addressing security risks related to information systems used to administer federal programs.

Table of Findings by Federal Program		
Program Title	**CFDA**	**Applicable Findings**
Food Donation	10.550	08-41
Food Stamp Cluster:		
Food Stamps	10.551	08-42
State Administrative Matching Grants for Food Stamp Program	10.561	08-39, 08-40, 08-46, 08-47, 08-48
Child Nutrition Cluster:		
School Breakfast Program	10.553	08-39, 08-41, 08-43, 08-44
National School Lunch Program	10.555	08-39, 08-41, 08-43, 08-44
Special Milk Program for Children	10.556	08-39, 08-44
Summer Food Service Program for Children	10.559	08-39, 08-41, 08-43, 08-44
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	08-39, 08-40, 08-45
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance	11.307	None
Home Equity Conversion Mortgages	14.183	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	08-39, 08-40
WIA Cluster:		
WIA Adult Program	17.258	08-39, 08-49, 08-50, 08-51
WIA Youth Activities	17.259	08-39, 08-49, 08-51
WIA Dislocated Workers	17.260	08-39, 08-49, 08-50, 08-51
Airport Improvement Program	20.106	None
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	08-39, 08-40, 08-52, 08-53, 08-54
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	None
Federal Transit – Formula Grants	20.507	None
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	08-55, 08-57, 08-61
Federal Family Education Loans	84.032	08-55, 08-56, 08-57, 08-58, 08-60, 08-61
Federal Work-Study Program	84.033	08-61, 08-62
Federal Perkins Loan Program – Federal Capital Contributions	84.038	08-61
Federal Pell Grant Program	84.063	08-55, 08-57, 08-59, 08-61
Federal Direct Student Loans	84.268	08-61
Academic Competitiveness Grants	84.375	08-61
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	08-61
Nursing Student Loans	93.364	08-61

Table of Findings by Federal Program

Program Title	CFDA	Applicable Findings
Title I Grants to Local Educational Agencies	84.010	08-39
Special Education Cluster:		
Special Education – Grants to States	84.027	08-39
Special Education – Preschool Grants	84.173	08-39
Federal Family Education Loans (Guaranty Agency)	84.032	None
Improving Teacher Quality State Grants	84.367	08-39
Immunization Grants	93.268	08-39, 08-63, 08-64, 08-65
Temporary Assistance for Needy Families	93.558	08-39, 08-42, 08-48, 08-66, 08-67, 08-68, 08-69, 08-70, 08-71, 08-72
Child Support Enforcement	93.563	08-39, 08-73, 08-74
Low-Income Home Energy Assistance	93.568	08-39, 08-75, 08-76, 08-77, 08-78, 08-79
CCDF Cluster:		
Child Care and Development Block Grant	93.575	08-39, 08-42, 08-48, 08-67, 08-71, 08-72, 08-80, 08-81
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	08-39, 08-42, 08-48, 08-67, 08-71, 08-72, 08-80, 08-81
Foster Care – Title IV-E	93.658	08-39, 08-40, 08-82, 08-83
Adoption Assistance	93.659	08-39, 08-40, 08-84
Social Services Block Grant	93.667	08-39, 08-42, 08-48, 08-80, 08-85, 08-86
State Children's Insurance Program	93.767	08-39, 08-42, 08-72, 08-87, 08-88, 08-89, 08-90, 08-91, 08-100
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	08-39
State Survey and Certification of Health Care Providers and Suppliers	93.777	08-39
Medical Assistance Program	93.778	08-39, 08-42, 08-48, 08-66, 08-72, 08-86, 08-88, 08-90, 08-91, 08-92, 08-93, 08-94, 08-95,08-96, 08-97, 08-98, 08-99, 08-100, 08-101, 08-102, 08-103, 08-104
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	08-39, 08-105, 08-106, 08-107, 08-108, 08-109
Homeland Security Cluster:		
State Domestic Preparedness Equipment Support Program	97.004	08-39, 08-40, 08-110, 08-111, 08-112, 08-113, 08-114, 08-115
Homeland Security Grant Program	97.067	08-39, 08-40, 08-110, 08-111, 08-112, 08-113, 08-114, 08-115
Research and Development Cluster	Various	None

Finding 2008-39

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

CASH MANAGEMENT

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

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

Each department is responsible for drawing federal funds for the programs it manages. A comprehensive and uniform control process to ensure that federal funds were drawn in accordance with the specific requirements of the Treasury/State agreement was not in place.

Draw techniques are expenditure driven based on expenditure data recorded in the State's centralized accounting system known as RIFANS. Due to the lack of specific reports available within RIFANS and/or guidance to query the system appropriately to meet cash management requirements, departments utilized their own queries of RIFANS data (or other web-based reports available to users) to determine amounts to be drawn. One risk is that accrual entries and prior year adjustments may be omitted or misinterpreted by the departments and impact the amount of cash drawn from the federal government. For example, the Department of Human Services had excess federal cash on hand at June 30, 2008 for the Child Care Cluster Programs, which appeared to be caused by the posting of a year-end adjustment, which reduced federal expenditures. Another risk is that all activity related to that federal program (CFDA number) may not be obtained when querying the system. We also noted that some departments had implemented their own standard reports and/or queries to meet their cash management needs; however, these would typically not be updated as new accounts or other changes were made to RIFANS.

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

Fiscal 2008 major programs administered by the primary government	22
Fiscal 2008 major programs included in the Treasury/State agreement	12
Total number of components/funding techniques utilized for programs included	27
Total number of components/funding techniques being executed in compliance with the agreement	13

In most instances where the techniques specified in the agreement were not consistently followed, funds were generally drawn later than permitted. In some instances, draws were timed such that no excess federal cash was on hand, but the method for determining the drawdown amount was not in compliance with the Treasury/State agreement. We noted efforts to modify the draw techniques

specified in the Treasury/State Agreement to more accurately reflect program disbursement patterns and actual practice. These efforts should continue to streamline administration of federal cash management and to improve overall compliance with the Treasury/State agreement.

In addition, since each department draws federal cash for its programs, centralized monitoring procedures are necessary to ensure compliance with federal cash management requirements. The Office of Accounts and Control had assigned an employee to review departmental compliance with the Treasury/State agreement. As a result, various changes were made to the fiscal 2008 agreement, including reducing the number of programs included in the agreement. However, after this employee retired during fiscal 2007, review of departmental compliance with federal cash management requirements has not been reassigned. Continual monitoring is needed to improve controls over compliance with the Treasury/State agreement and overall cash management requirements for federal programs.

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

Questioned Costs: None

RECOMMENDATIONS

2008-39a Continue to implement a centralized monitoring process to ensure compliance with cash management requirements for federal programs.

2008-39b Produce standard RIFANS reports and implement specific procedures to ensure data used by departments in drawing cash for federal programs is consistent and appropriate for the intended objective.

2008-39c Continue to review the basis for requesting federal funds (i.e., funding techniques) for applicable federal assistance programs, and modify the Treasury/State agreement to more closely match funding techniques to current practices. Consider automating the process.

2008-39d Investigate automating all draws of federal funds through and interface between the RIFANS accounting system and federal government's automated funds management systems.

An interest liability exists when federal funds reside in a State account prior to being spent for federal program purposes. Federal regulations require that the State calculate the federal and State interest liabilities for each federal assistance program included in the Treasury/State agreement, and maintain records supporting these interest calculations for audit purposes. The State's interest liability is reported to the federal government on the CMIA Annual Report. Our audit disclosed various inconsistencies in the report data used to compute interest liabilities for major assistance programs. We found the following:

- The Treasury/State Agreement stipulates that no interest liability will be incurred (interest-neutral) for transfers of funds made in accordance with the agreed upon procedures specified in the agreement. All but one of the funding techniques included in the Treasury/State agreement were interest-neutral. In calculating the interest liability, compliance with the funding techniques was not considered. For those programs that adhered to the funding techniques, no interest liability would accrue.

- The WIC program utilizes a separate bank account for the payment of program benefits. The interest liability for the benefit portion of the WIC program is based on the average daily balance of federal funds on hand. The Office of Accounts and Control's calculation of the average daily balance and resulting interest liability was incorrect. We noted similar errors in our two previous audits. These errors were not corrected with the correct submission. The combined underpayment from fiscal 2008 and previous uncorrected errors is $7,429.

- CMIA regulations require an interest liability to be paid on all refund transactions in excess of $50,000. This component on the interest liability calculation was not performed in fiscal years 2006, 2007 and 2008.

- The funding technique for drawing funds for the Unemployment Insurance Benefit account was changed in fiscal 2008. The Department of Labor and Training complied with the new technique, which was interest neutral. The Office of Accounts and Control calculated an interest liability when none was necessary. This resulted in an overpayment of $4,206. This overpayment should be reduced by an underpayment of $802 for fiscal 2007.

Questioned Costs: None

RECOMMENDATIONS

2008-39e Modify procedures to ensure that all programs or program components complying with the funding techniques specified in the Treasury/State agreement are excluded from the interest liability calculation.

2008-39f Calculate refund liabilities in accordance with the terms outlined in the Treasury-State Agreement. Submit a corrected CMIA Annual Report as necessary.

Finding 2008-40

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2008-12 (Section II – Financial Statement Findings), accounting and physical control over the State's capital assets can be improved. These control deficiencies also impacted the State's controls over compliance for management of equipment acquired with federal funds.

Questioned Costs: None

Finding 2008-41

FOOD DONATION – CFDA 10.550
Administered by Department of Corrections – State Warehouse
CHILD NUTRITION CLUSTER:
School Breakfast Program – CFDA 10.553
National School Lunch Program – CFDA 10.555
Summer Food Service Program for Children – CFDA 10.559
Administered by: Rhode Island Department of Education (RIDE)

INVENTORY OF DONATED COMMODITIES

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

Warehouse personnel maintain perpetual inventory records based upon goods received, shipped or damaged. Physical counts are performed on a monthly basis. At June 30, 2008, the inventory balances of four items were adjusted to agree with physical inventory counts. The adjustments ranged from 2 cases to 149 cases and included both increases and decreases to the recorded balances.

Some of the variances could be attributable to the fact that the warehouse is also responsible for storing commodities for food banks. These items are similar to those intended for the child nutrition programs and are coded similarly. Other variances could be attributable to timing differences at month end between the time a school's order is posted and the actual shipment is made.

Questioned Costs: None

RECOMMENDATION

2008-41 Investigate and resolve variances between physical counts and inventory records for federal donated food commodities.

Finding 2008-42

FOOD STAMPS – CFDA 10.551
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
CCDF CLUSTER:
Child Care and Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

INRHODES SYSTEM SECURITY– MONITORING OF SYSTEM ACCESS

The INRHODES computer system is used to administer multiple federally financed benefit programs. The INRHODES system also interfaces with other systems that are integral to the administration of those programs (e.g., MMIS for Medicaid claims processing and E-Funds systems for delivery of electronic benefit payments). Controls over access to the INRHODES system data is provided by a combination of physical, system, and application specific logical access controls.

Logical access controls are the layer of security controls that have been designed to prevent unauthorized individuals from gaining access to the application data. The process of assigning access rights to a specific individual is normally based upon two generally accepted standards of practice – segregation of duties and least privilege. The concept behind least privilege is that staff is granted access to only those resources at or below a specific level of "need to know" sensitivity. Segregation of duties is a critical element of any given security policy. In its proper design, it segregates critical systems, application and operational IT components into separate and distinct job functions that prevent any single individual from doing harm to the application, whether by an accidental or intentional act. Within the INRHODES system, access controls are integral to overall program controls and are essential to prevent opportunities for fraud.

DHS has assigned users predefined user roles, in accordance with their specific position classification / job function. These user roles have been created in an effort to match the appropriate level of system access to his/her specific job function in accordance with the least privilege theory detailed above.

The INRHODES system records all individual user's activity into a security/audit file (log files). These types of log files are commonly referred to as the system's "audit trail". System security specialists can use these log files to identify possible security violations, review individual accountability concerns, reconstruct specific system events, and conduct other types of analysis. Realizing the importance of the creation and security over good audit files, DoIT has included within its published policy manual *#10-07 IT Security Handbook – Technical Controls* – an entire section offering guidance on application audit trail requirements.

As has been noted in prior audits, DHS's systems security administrator does not receive scheduled security reports that allow for the monitoring and tracking of system activities performed by INRHODES users. DHS should ensure that appropriate monitoring reports are developed and provided to the department's appointed system security administrator. DHS should also develop

policies and procedures relating to the review of these reports by the systems security administrator and appropriate protocol for following up on issues identified by the department's monitoring.

Questioned Costs: None

RECOMMENDATIONS

2008-42a 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.

2008-42b Develop policies and procedures detailing appropriate investigation of issues identified by the department's monitoring procedures.

Finding 2008-43

CHILD NUTRITION CLUSTER:
School Breakfast Program – CFDA 10.553
National School Lunch Program – CFDA 10.555
Summer Food Service Program for Children – CFDA 10.559
Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT MONITORING

The Rhode Island Department of Education (RIDE) performs on-site reviews of school food authorities (SFAs) as part of its subrecipient monitoring process; however, the results of the reviews were not always analyzed, translated into findings, and communicated to the SFAs for corrective action and follow-up in a timely manner. This finding was first reported in our fiscal 2006 Single Audit Report and again for fiscal 2007.

Federal regulations (7 CFR 210.18 and 7 CFR 210.19) require state agencies to conduct comprehensive evaluations of SFAs participating in the National School Lunch Program. Each SFA should be reviewed at least once during each five-year review cycle; provided that each SFA is reviewed at least once every six years. Consistent with federal requirements, RIDE has divided its subrecipient monitoring reviews into two parts:

- The Coordinated Review Effort (CRE) primarily focuses on eligibility determinations; the system for counting, recording, and reporting correct claims; and meal elements.

- The School Meals Initiative (SMI) review focuses primarily on a qualitative analysis of the nutritional value of the food served and an inspection of the food service preparation areas.

The Rhode Island Department of Education (RIDE) conducts Coordinated Review Effort (CRE) administrative reviews for all food service sponsors as required by federal regulations. RIDE prepares a review schedule for all sponsors on a school year basis. We examined the supporting documentation for all sponsors reviewed for FY 2007-2008 to determine if the reviews complied with applicable federal regulations. We were unable to conclude on the adequacy of reviews performed because of incomplete analysis and documentation in the files.

A food sponsor review consists of essentially two components. The CRE review, also referred to as the administrative review, includes completion of a questionnaire, visits to a required number of sites, a review of free or reduced price applications on file, verification of the meal count collection system, a comparison of claims to counts, and review of net cash resources. RIDE is required to evaluate the information observed at the review and to prepare a letter of findings for the sponsor's follow up. Once the information has been analyzed, RIDE prepares a summary letter to the sponsor discussing findings and recommendations. The sponsor is required to respond, in writing, with a corrective action plan if necessary.

In fiscal 2008, we observed that none of the CRE reviews were performed in a timely manner. As of February 2009, we identified that 7 of the 14 SFA's had been partially completed. On January 7, 2009 RIDE sent letters requesting corrective action plans from the SFA's those letters were sent approximately six months from the date of the review. RIDE's CRE/SMI Tracking Log indicated that seven CRE's reviewed were lacking required corrective action plans.

In addition, since seven of the CRE reviews during fiscal 2007-2008 had not been completed during that school year, those SFAs should be added to the next fiscal year to ensure compliance with Sec. 210.18(C)(a)(1). The federal regulation states, "at a minimum, State agencies shall conduct administrative reviews of all school food authorities at least once during each 5-year review cycle; provided that each school food authority is reviewed at least once every 6 years." The end of the current cycle is fiscal 2008 and the last year to complete is fiscal 2008-2009, therefore the seven not completed has been added to the current schedule. As of February 13, 2009 RIDE had completed two reviews of the twenty-three on the CRE Schedule and there is a risk they will not be completed within the time frame specified unless additional staff is assigned.

The School Meals Initiative (SMI), which focuses primarily on a qualitative analysis of the nutritional value of the food served in the SFA, is required by Sec. 210.19(a)(1). Only one review has been conducted and completed of the fourteen that were scheduled for review in fiscal 2007-2008. In three other instances, food managers from the SFA had provided only partial nutritional information to RIDE and the reviews could not be conducted. Since the required qualitative information for meals was not sent to RIDE we could not determine that the information had been analyzed and translated into findings, if necessary, for conveyance to the sponsors.

RIDE's adherence to the schedule for CRE and SMI reviews has deteriorated since the previous fiscal year. It appears that insufficient resources have been assigned to complete these tasks. During fiscal 2009 RIDE reassigned the SMI review duties to another individual and has separated this function from the CRE review process.

Questioned Costs: None

RECOMMENDATIONS

2008-43a Ensure that CRE and SMI nutritional reviews are completed in a timely manner and include written communication of findings and development of a collaborative, corrective action plan.

2008-43b Conduct follow up visits within required federal timeframes.

Finding 2008-44

CHILD NUTRITION CLUSTER:
School Breakfast Program – CFDA 10.553
National School Lunch Program – CFDA 10.555
Special Milk Program for Children – CFDA 10.556
Summer Food Service Program for Children – CFDA 10.559
Administered by: Rhode Island Department of Education (RIDE)

VERIFICATION OF FREE AND REDUCED PRICE APPLICATIONS

State agencies shall ensure that by December 15 of each school year, School Food Authorities (SFAs) have selected and verified a sample of their approved free and reduced price applications. The Rhode Island Department of Education (RIDE) is required to monitor the verification process for the National School Lunch Program and School Breakfast each year and submit a report to USDA. The SFAs must verify the current free and reduced price eligibility of households selected from a sample. RIDE must submit the results to the USDA in the FNS-472 report.

In fiscal 2008, there were no controls in place to ensure that the SFAs were completing the verification process by December 15. RIDE communicated via a memo to "Superintendents and Administrators of Public and Private Non-Profit Schools" which outlined all of RIDE's policies and procedures including guidelines on the sampling methods to be used and the required reporting and procedural steps to follow in obtaining a sample. The memo outlines more aggressive timelines than established by the federal regulations; but these timelines were not adhered to by the SFAs.

To ensure completeness of the population of sponsors we cross-referenced the authorized sponsors in the eSNACS system to the report for verification and identified two sponsors that had not submitted verification reports and were therefore excluded from the FNS-472 report. RIDE personnel indicated that these sponsors should have submitted verification reports and their exclusion was an oversight.

We selected a sample of 10 sponsors for testing and identified one SFA that did not verify the minimum required sample of applications. We then expanded our sample and identified an additional two sponsors who did not verify the minimum amount of applications. In two instances, the eSNACS program calculated and identified the minimum amount of applications to sample but the SFAs did not comply with the minimum required sample. RIDE does not have any controls or procedures to monitor the SFAs compliance with these requirements including follow-up communication to ensure compliance.

Lastly, we noted that 7 of the 10 SFAs sampled in our testing did not meet the deadline for reporting verification information to RIDE. The CFR 245.6a(c) states, "no later than March 15 each SFA must report information related to its annual verification activity to the State agency in accordance with guidelines."

Questioned Costs: None

RECOMMENDATIONS

2008-44a Ensure the SFAs are sampling and verifying the minimum number of free and reduced price applications. Enhance monitoring procedures to ensure SFA compliance with the eligibility sampling and verification process.

2008-44b Require the SFAs to submit the information to RIDE in accordance with the timelines outlined in federal regulations.

2008-44c Verify the completeness and accuracy of the FNS-472 report prior to submission to the USDA.

Finding 2008-45

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC) – CFDA 10.557
Administered by: Rhode Island Department of Health

PAYROLL CHARGES

A Department of Health (DOH) employee previously assigned to the WIC program has been on military leave for most of the past four years. The employee does not receive any wages, but the WIC program continues to be charged for the employer's share of health insurance premiums, which totaled $14,224 during fiscal 2008, because this employee previously worked 100 percent on the WIC program. Charging the WIC program the full cost of the health insurance premium while the employee has been on leave for several years results in an inequitable distribution of costs which is inconsistent with the requirements of OMB Circular A-87.

Pursuant to OMB Circular A-87, fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as military leave, are an allowable cost of federal programs as long as they are provided under established written leave policies and the costs are equitably allocated to all related activities. In addition, the cost of fringe benefits in the form of employer contributions for health insurance are allowable federal costs as long as such benefits are granted under established written policies and shall be allocated to federal awards and other activities in a manner consistent with the pattern of benefits attributable to the employee whose wages are chargeable to the federal award.

The State has developed an assessed fringe benefits rate applied to all payroll to fund disbursements for certain costs including unemployment compensation and accumulated vacation or sick leave upon retirement. The rate applied to all payroll results in an equitable distribution of such costs to all programs and activities. We believe that health insurance paid for an extended period to employees on military leave should also be included in the assessed fringe benefit rate applied to all payroll.

We reported this situation last year, but the DOH continues to pay the employer share of costs from the WIC account. State employees pay a portion of the total health insurance costs however; the employee on military leave was not billed for the employee share of health insurance

cost in fiscal 2008. The State's current policy on employees on military leave is to cover health insurance costs for only two years.

Questioned Costs: $14,224

RECOMMENDATION

2008-45 Transfer health insurance costs for the employee on military leave to the Assessed Fringe Benefits Fund. Determine if the state is required to continue to pay health insurance costs for an employee on extended military leave.

Finding 2008-46

FOOD STAMPS (STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM) – CFDA 10.561
Administered by: Department of Human Services (DHS)

MATCHING

Generally, the State is required to pay 50 percent of the costs of administering the Food Stamp Program (7 CFR section 277). The State reported $9,212,984 in federal administrative costs for federal fiscal year 2007. We found that DHS fell short of providing the required state match for the Food Stamp Program for federal fiscal 2007 by $45,676.

Questioned Costs: None

RECOMMENDATION

2008-46 Establish controls to determine that the required state match has been provided.

Finding 2008-47

FOOD STAMPS (STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM)– CFDA 10.561
Administered by: Department of Human Services (DHS)

REPORTING – SF-269 FINANCIAL STATUS REPORT

The Department should strengthen internal controls over the SF-269 Financial Status report (OMB No. 0505-0008) to ensure the propriety of the information reported. These reports are submitted on a quarterly basis to the Food and Nutrition Service (FNS) at the U.S. Department of Agriculture.

We noted that on the Final Federal Fiscal Year 2007 report, DHS over reported state match expenditures by $409,541 in comparison to state expenditures recorded in the State accounting system.

Questioned Costs: None

RECOMMENDATION

2008-47 Strengthen controls to ensure amounts included in the federal SF-269 reports are valid and supported by the State's accounting system.

Finding 2008-48

FOOD STAMPS (STATE ADMINISTRATIVE MATCHING GRANTS FOR FOOD STAMP PROGRAM) – CFDA 10.561
TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
CCDF CLUSTER:
Child Care and Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

ALLOWABLE COSTS/COST PRINCIPLES

Controls over the cost allocation process require strengthening. Our testing identified the following deficiencies regarding the cost allocation plan (CAP) process during state fiscal 2008:

- During the December 31, 2007 quarter, DHS claimed $856,635 in SSI (Supplemental Security Income) administrative costs as part of TANF Program Administration federal fiscal year 2007 MOE costs on both the ACF-196 (*TANF Financial Report*) and the ACF-204 (*Annual Report including the Annual Report on State Maintenance-of-Effort (MOE) Programs).* DHS could not provide evidence of federal approval to claim these costs as part of the cost allocation plan. These costs were not allocated through the federally approved DHS cost allocation plan as required by federal regulations. In addition, DHS could not identify federal regulations supporting the allowability of these costs as TANF MOE.
- Indirect costs were overcharged by $394,482 prior to program allocation due to inappropriate duplication of personnel payroll costs between two cost allocation reports. Major program overcharges after allocations to the programs were as follows:

	Total	Federal	State
Medical Assistance	$82,866	$43,462	$39,404
Temporary Assistance for Needy Families	$54,265	$39,540	$14,725
Food Stamps	$47,811	$23,906	$23,906
Child Care Development	$ 6,268	$ 3,285	$ 2,983
SSBG	$ 4,108	$ 4,108	$ 0

Cost allocation controls should be enhanced to assure federal approval is obtained prior to implementing any changes to the Department's CAP and to prevent inappropriate duplication of expenditures from being processed through the CAP.

Questioned Costs:	Federal:	$126,126 Indirect Administrative Costs
	State:	$ 69,193 Indirect Administrative Costs
	State:	$856,635 SSI Administrative Costs

RECOMMENDATIONS

2008-48a Seek federal approval to allocate SSI expenditures through the CAP and obtain approval for the CAP methodology used.

2008-48b Correct CAP programming to prevent the duplication of personnel costs.

2008-48c Correct applicable federal reports and resubmit to the federal government.

Finding 2008-49

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

FINANCIAL REPORTING

Financial reports for the WIA cluster are based on financial information from the Department of labor and Training's (DLT) cost allocation system, known as FARS. The FARS system establishes a ledger for each funding source. Expenditures are disbursed through the State's RIFANS accounting system and then charged to the appropriate FARS ledger. Due to the complex administration of the cluster, there were 43 accounts and 23 ledgers in all created to administer the cluster. Ledgers are established for each grant year, but do not contain all the activity of the particular grant award. The amount of expenditures reported by grant award is derived by totaling all active ledgers and applying expenditures to the oldest grants first until each is fully expended. When ledgers are closed, the total expenditures recorded may not match with the amount authorized. DLT staff informed us that when new ledgers were established in fiscal 2009, that they were established with authorizations equal to the grant awards and will remain open until fully expended.

The total amount charged to FARS is not reconciled to the State's RIFANS accounting system on a timely basis. Federal regulations state reports should be based on the same financial system used to prepare the State's financial statements. When we compared the total reported on all the reports with the total recorded in RIFANS, we had an unreconciled difference. The federal grants information schedule (FGIS) is another tool that would assist in the reconciliation, however, one was not prepared for the WIA cluster for fiscal 2008 until nearly six months after the close of the State's fiscal year.

Questioned Costs: None

RECOMMENDATIONS

2008- 49a Establish authorized balances within FARS ledgers consistent with grant award documentation.

2008- 49b Reconcile FARS ledger activity to the State's RIFANS accounting system on a timely basis.

Finding 2008-50

WIA CLUSTER:
WIA Adult Program – CFDA 17.258
WIA Dislocated Workers – CFDA 17.260
Administered by: Department of Labor and Training (DLT)

ELIGIBILITY

There are various eligibility requirements to receive services under the Dislocated Worker and Adult programs within the WIA Cluster. Eligibility for services is determined by case-workers at netWorkRI offices throughout the state. Workers utilize various questionnaires and forms and are required to obtain eligibility information. Some of the key eligibility determinants are that the client be "unlikely to return to a previous industry or occupation.", their selective service status on the case of male applicants, and receipt of completion of "intensive" services prior to enrollment in training for adult and dislocated workers.

Overall, we found that documentation of client eligibility could be improved. In 13 out of the 24 case files examined, we noted deficiencies that required correction. These deficiencies consisted primarily of improperly prepared checklists, missing selective service documents, missing proof of core and intensive services provided and various instances of inconsistent data. Missing or erroneous documentation regarding participants could impact the client's eligibility for program services.

Questioned Costs: None

RECOMMENDATION

2008- 50 Provide additional training to staff with regards to the appropriate completion of forms and documentation requirements.

Finding 2008-51

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

PAYMENTS TO SUBRECIPIENT

The WIA program is administered by the State Workforce Investment Office (SWIO) within the Department of Labor and Training. Funds are distributed to two local workforce investment boards - the Workforce Partnership of Greater Rhode Island, serving 37 out of the State's 39 municipalities, and Workforce Solutions of Providence/Cranston, serving those two communities. The Workforce Partnership of Greater Rhode Island is organizationally within the Department of Labor and Training.

The Workforce Partnership of Providence/Cranston request funds periodically from the SWIO. In two instances, the partnership was overpaid due to errors in the report that were not detected by program staff. In one instance, the overpayment corrected itself with the next payment request. The second time an error occurred, it was noted during review by program staff, but the payment request was not adjusted. This resulted in an overpayment of $159,333 that was not corrected until the subsequent fiscal year upon completion of a reconciliation. More effective monitoring and review of requests might have detected the overpayment sooner.

Questioned Costs: $159,333

RECOMMENDATION

2008- 51 Improve review of subrecipient payment requests and subrecipient payments by tracking payments and grant balances throughout the fiscal year, rather than relying solely on a year-end reconciliation.

Finding 2008-52

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

DAVIS-BACON ACT REQUIREMENTS

RIDOT should adhere to its internal procedure which requires that a labor compliance check be performed at least once a month to ensure compliance with Davis-Bacon Act requirements. Federal regulations (29 CFR 3 and 5) require that construction contracts subject to the Davis-Bacon Act contain certain contract provisions binding the contractor to applicable labor standards. These labor standard provisions include requiring contractors pay laborers and mechanics general prevailing wages and submit copies of payrolls and signed statements of compliance.

RIDOT has established various internal controls to monitor contractor compliance with Davis-Bacon requirements. These monitoring procedures, as documented in the Department's *"Procedures for Uniform Record Keeping"* (PURK) manual, require that each project's resident engineer ensure that a labor compliance check is performed at least once a month. Labor compliance checks should be prepared by two department representatives and include comparing and verifying the employee's classification hourly rate as reported with the hourly rate prescribed and the contractor's or subcontractor's payrolls for that period.

We tested 20 active construction contracts to determine whether the department's Davis-Bacon Act monitoring procedures were in place and operating effectively. We reviewed project files for evidence that the required labor compliance check had been performed for all months with contractor payroll activity. Our audit disclosed the following:

- 5 (25%) of the 20 projects tested had at least one labor compliance checklist missing, and
- 20 of 103 checklists were missing (19%).

Control procedures should be enhanced to ensure labor compliance monitoring is performed at regular intervals and documentation of the monitoring procedures is retained within project files.

Federal regulations require verification that the contractors and subcontractors submit weekly certified payrolls. As part of our review of contractor payroll supporting documentation, we noted RIDOT did not have 2 contractor or sub contractor certified payrolls on file and 9 payrolls on file were not certified by the contractor or sub contractor. RIDOT should strengthen controls to ensure contractor submission of certified payroll documentation is timely and complete.

Questioned Costs: None

RECOMMENDATION

2008-52 Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements. Enforce completion of labor compliance checklists and receipt of certified payrolls.

Finding 2008-53

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

SPECIAL TESTS AND PROVISIONS - MATERIALS TESTING

RIDOT should strengthen internal procedures to ensure that all required material testing is performed and documented in accordance with federal regulations and its departmental policy manual. Federal regulations (23 CFR 637.205) require that state transportation departments must have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications. RIDOT's policies, procedures

and employee responsibilities relating to material sampling and testing are outlined in its *Procedures for Uniform Recordkeeping* (PURK) manual.

RIDOT utilizes the Federal Highway Administration's (FHWA) approved *Master Schedule for Sampling, Testing and Certification of Materials* to develop a materials test book for each construction project. Materials test books are unique to each project based on the construction materials to be used, the types of tests required for each item and the minimum number of tests to be conducted.

We selected a sample of 60 items from 25 different progress payments, from 20 fiscal 2008 projects, to determine whether RIDOT completed the required materials testing as specified in each project's material test book. We noted exceptions for 8 (40%) of the 20 projects as follows:

- Contractors are required to provide a Certificate of Compliance to ensure that all materials used on a project meet standard specifications. Items requiring these certificates are detailed in the materials test book. RIDOT's PURK manual requires the resident engineer to obtain the appropriate Certificates of Compliance in duplicate from the contractor. One copy should be retained in the field records and one copy should be submitted immediately to the RIDOT's Materials Section. RIDOT could not provide 13 contractor Certificates of Compliance. Seven Certificates of Compliance were subsequently obtained by RIDOT's Construction Office from the vendor upon our request.

- Documentation of 7 test results for various types of required tests were not on file at either the project field office or RIDOT's materials laboratory.

- The RIDOT "Procedures for Uniform Record Keeping" (PURK) manual states, "The Construction Operations Section will prepare and provide the Project Materials Test Book for each project ... the Resident Engineer must insure that the required tests for each item are performed." In one instance the materials test book was not available at the worksite at the time of our field site inspection.

- RIDOT policy requires all materials test results to be documented in the materials test book and cross referenced to the test result documentation. In six instances the materials test book did not contain the required testing documentation. The materials lab was able to provide documentation that the tests were completed and three of the six tests results indicated that the material did not meet the required specification.

- RIDOT's PURK manual specifies procedures to be followed when materials are deemed unacceptable based on the testing performed. These procedures include documenting that corrective action has been taken or that a decision was made to leave the nonconforming materials in place. A decision to leave nonconforming materials in place should not be made solely by the resident engineer. If a joint decision is made to leave nonconforming materials in place the pertinent information must be documented and approved by the Administrator of Construction Operations. In three instances, RIDOT testing identified unacceptable materials. RIDOT was unable to provide documentation of the corrective action taken, or the decision and approval to leave the rejected materials in place.

RIDOT should improve its quality assurance program with respect to materials testing consistent with federal regulations and guidelines and the specific recommendations made by the

FHWA. FHWA reviewed RIDOT's materials handling policies and procedures and issued a report which cited the department for noncompliance with those procedures and applicable federal requirements related to materials testing.

Questioned Costs: $641,620

RECOMMENDATIONS

2008-53a Improve the RIDOT quality assurance program for materials testing consistent with federal regulations and guidelines and the specific recommendations made by the Federal Highway Administration.

2008-53b Ensure all required certificates of compliance have been received and recorded in the materials test book prior to contractor payment for the materials.

2008-53c Improve documentation for tests completed to comply with the FHWA approved *Master Schedule for Sampling, Testing and Certification of Materials.* Ensure that "unacceptable materials" test results are documented in accordance with PURK manual procedures and decisions to leave nonconforming materials in place are authorized consistent with those procedures.

2008-53d Ensure that all construction field offices have the required materials test book.

2008-53e Require all test results be document in the materials test book prior to vendor payment of the related materials.

Finding 2008-54

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

SUBRECIPIENT MONITORING

The Rhode Island Department of Transportation (RIDOT) did not have adequate policies or procedures in place during the fiscal year to monitor its subrecipients. In fiscal 2008, RIDOT passed-through approximately $8.8 million of Highway Planning and Construction funds to subrecipients (mostly local municipalities).

Subrecipients are required to submit a Single Audit Report to RIDOT if they meet certain criteria outlined in OMB Circular A-133 regarding total expenditures of federal awards. Federal regulations require the pass-through entity (RIDOT) to issue management decisions on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action. Timely review of subrecipient audit reports and appropriate follow-up is an important component of overall subrecipient monitoring designed to ensure compliance with federal requirements by subrecipients. RIDOT has not obtained or reviewed the Single Audit Reports of subrecipients required to have audits performed.

RIDOT is required to provide the subrecipient with federal award information (e.g., CFDA title and number, award name, name of federal agency) and applicable compliance requirements. RIDOT does not include the CFDA title and number, federal agency or applicable compliance requirements in its subrecipient agreements as required.

RIDOT is also required to monitor the subrecipient's use of federal awards through reporting, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws and regulations. RIDOT asserted that it performed site visits, reviewed contractor and sub-contractor billings and communicated regularly with its subrecipients; however, we found that these monitoring activities were not well documented.

Questioned Costs: None

RECOMMENDATIONS

2008-54a Establish written policies and procedures for subrecipient monitoring and establish a schedule of projects for review and document the monitoring performed.

2008-54b Identify all federal awards passed-through to subrecipients by project.

2008-54c Ensure subrecipients have had required single audits performed and review the audit reports on a timely basis including issuing management decisions within required timeframes.

2008-54d Provide required information to subrecipients in contracts such as CFDA number and title, federal agency and applicable compliance requirements.

2008-54e Evaluate the impact of subrecipient activities on RIDOT's ability to comply with applicable federal regulations.

Finding 2008-55

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Supplemental Educational Opportunity Grants – CFDA 84.007
Federal Family Education Loans – CFDA 84.032
Federal Pell Grant Program – CFDA 84.063
Administered by: Rhode Island College

VERIFICATION OF INCOME TAX PAID

Per 34 CFR 668.56(a)(1) a school is required to verify U.S. income tax paid. Per CFR 668.59(a)(1) "if the information on an application changes as a result of the verification process, the institution shall require the applicant to resubmit his or her application information to the Secretary for corrections if – (i) the institution recalculates the applicant's EFC, determines that the applicant's EFC changes, and determines that the change in the EFC changes the applicant's Federal Pell Grant, ACG, or National SMART Grant award."

During our test work, one (3%) of 30 randomly selected student's verification was completed incorrectly. Parent taxes paid reported on the ISIR did not agree to the tax returns. However, this error would not have changed the student's EFC, therefore, there are no questioned costs.

Questioned Costs: None

RECOMMENDATION

2008-55 We recommend that the College implement policies and procedures to ensure accurate reporting and verification of the ISIR.

Finding 2008-56

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Family Education Loans – CFDA 84.032
Administered by: Rhode Island College

INITIAL COUNSELING

Per 34 CFR 682.604(f), "a school must ensure that initial counseling is conducted with each Stafford loan borrower either in person, by audiovisual presentation, or by interactive electronic means prior to its release of the first disbursement, unless the student borrower has received a prior Federal Stafford, Federal SLS, or Direct subsidized or unsubsidized loan".

During our test work we noted one (4%) student of 25 randomly selected had signed the entrance counseling interview after the subsidized Stafford loan had been disbursed.

Questioned Costs: None

RECOMMENDATION

2008-56 We recommend the College implement policies and procedures to ensure timely entrance counseling.

Finding 2008-57

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Supplemental Educational Opportunity Grants – CFDA 84.007
Federal Family Education Loans – CFDA 84.032
Federal Pell Grant Program – CFDA 84.063
Administered by: Rhode Island College

REFUND CALCULATIONS

KPMG notes that the initial calculation of this refund was not in accordance with 34 CFR 668.22(e). During our test work, we noted four (13%) student refunds of 30 randomly selected were calculated incorrectly and not on time. Of the four exceptions noted, one was identified as a result of our audit procedures, and the remaining three were identified by the school and refunds were made, but were returned late.

Questioned Costs: None

RECOMMENDATION

2008-57 We recommend that the College implement policies and procedures to ensure accurate and timely calculation of refunds.

Finding 2008-58

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Family Education Loans – CFDA 84.032
Administered by: Rhode Island College

TIMELY REFUNDS

Per 34 CFR 668.173(b), "in accordance with procedures established by the Secretary of FFEL Program lender, an institution returns unearned title IV, HEA program funds timely if – 1) the institution deposits or transfers the funds into the bank account it maintains under Sec. 668.163 no later than 45 days after the date it determines that the student withdrew; 2) the institution initiates an electronic funds transfer (EFT) no later than 45 days after the date it determines that the student withdrew; 3) the institution initiates an electronic transaction, no later than 45 days after the date it determines that the student withdrew; or 4) the institution issues a check no later than 45 days after the date it determines that the student withdrew".

Per CFR 668.173(c), "compliance thresholds: an institution does not comply with the reserve standard under Sec. 668.173(a)(3) if, in a compliance audit conducted by the Office of the Inspector General, or a program review conducted by the Departments or guaranty agency, the auditor or review finds – (i) in the sample of student records audited or reviewed that the institution did not return unearned title IV, HEA program funds within the timeframes described in paragraph (b) of this section for 5% or more of the students in the sample".

Out of a random sample of 30 students, one (3%) student's refund was not returned within the 45 day compliance requirement but was returned 173 days late.

Questioned Costs: None

RECOMMENDATION

2008-58 We recommend that the College implement policies and procedures to ensure timely return of student refunds.

Finding 2008-59

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

TIMELY REPORTING

Per OMB No. 1845-0039, institutions must report student payment data within 30 calendar days after the school makes the payment or becomes aware of the need to make an adjustment to previously reported student payment data or expected student payment data.

During our test work, we noted that twelve of 30 students' Pell disbursements tested were not reported to the US Department of Education in a timely manner. The reporting occurred from 1 to 49 days past due.

There are limited manual controls in place to identify and correct incorrect coding errors in the system timely. The system was not set up correctly and critical fixes were not performed timely. This resulted in the system not automatically sending the Pell information to the Common Origination and Disbursement (COD) System.

Questioned Costs: None

RECOMMENDATION

2008-59 We recommend that the University implement policies and procedures to ensure student data is reported timely.

Finding 2008-60

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Family Education Loan Program CFDA – 84.032
Administered by: University of Rhode Island

DISBURSEMENT NOTIFICATIONS

Per CFR Section 668.165, "If an institution credits a student's account at the institution with Direct Loan, FPL, or FFEL funds, no earlier then 30 days before an no later than 30 days after the crediting the student's account at the institution, the institution must notify the student, or parent of (1) the date and amount of the disbursement, and (2) the student's right to cancel all or a portion of that loan or loan disbursement and have the loan proceeds returned to the holder of that loan. The requirement of FFEL funds applies only if the funds disbursed by electronic funds transfer payment or master check."

Out of the eligibility sample of 30 students, six students' disbursement notifications tested did not agree to the underlying student accounting records. We noted second disbursements were described in the student letters in cases where there was not a disbursement; variance between the subsidized and unsubsidized classifications stated in letters; incorrect dating of one letter; multiple incorrect letters being received by the same student; and incorrect numbers of loans communicated to students.

The University does not have a verification process in place to ensure accurate award letters are produced and distributed to students timely.

Questioned Costs: None

RECOMMENDATION

2008-60 We recommend that the University implement policies and procedures to ensure student disbursement notifications agree to underlying account disbursements and are provided timely.

Finding 2008-61

STUDENT FINANCIAL ASSISTANCE CLUSTER
Administered by: University of Rhode Island

COST OF ATTENDANCE CALCULATIONS

Out of a sample of 30 students, four students' Cost of Attendance (COA) tested was calculated incorrectly. In the exceptions noted, the students were not over-awarded aid.

The system allows for manual adjustments to student accounts and there is not an appropriate process in place to ensure these adjustments are appropriately authorized and recorded.

Questioned Costs: None

RECOMMENDATION

2008-61 We recommend that the University implement policies and procedures to ensure accurate COA calculations.

Finding 2008-62

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Work-Study Program CFDA – 84.033
Administered by: University of Rhode Island

WORK-STUDY AGREEMENTS

Per 34 CFR 675.20, "(a) Eligible FWS employers. A student may be employed under the FWS program by – (1) The institution in which the student is enrolled; (2) A federal, state, or local public agency; (3) A private nonprofit organization; or (4) A private for-profit organization. (b) Agreement between institution and organization. (1) If an institution wishes to have its students employed under this part by a federal, state, or local public agency, or a private nonprofit or for-profit organization, it shall enter into a written agreement with that agency or organization. The agreement must set forth the FWS work conditions. The agreement must indicate whether the institution or the agency or organization shall pay the students employed, except that the agreement between an institution and a for-profit organization must require the employer to pay the nonfederal share of the student".

Out of a sample of 30 off-campus federal work-study students, 15 of the students tested did not have written agreements with their employers.

The responsibility of managing certain grants is decentralized at URI. As a result, multiple departments must make significant effort to coordinate proper handling of grant information. In some circumstances it is not clear who has the responsibility over particular pieces of information.

Questioned Costs: None

RECOMMENDATION

2008-62 We recommend that the University implement policies and procedures to ensure federal work-study students have written agreements with their employers.

Finding 2008-63

IMMUNIZATION GRANTS – CFDA 93.268
Administered by: Rhode Island Department of Health

QUALITY ASSURANCE SITE VISITS - ELIGIBILITY AND IMMUNIZATION RECORDS

Federally donated vaccines are provided to eligible children through the Vaccine for Children program. An eligible child may be: (a) a Medicaid-eligible child, (b) an American Indian / Alaskan Native child (as defined in section 4 of the Indian Health Care Improvement Act), (c) a child who is not insured, or (d) a child who is administered a vaccine by a Federally Qualified Health Center (or Rural Health Clinic) and is not insured with respect to the vaccine.
Under the Section 317 program, certain high risk populations may receive vaccine including infants, children, adolescents, and adults based on guidelines issued by the federal Centers for Disease Control (CDC).

Eligibility for federal vaccine is determined by contract providers who administer the vaccine. The value of federally donated vaccines totaled $15,281,064 during state fiscal year 2008.

DOH has a quality assurance program to monitor providers. The monitoring involves site visits and completion of a questionnaire the focus of which is largely procedures for the storage and inventory of vaccine held by the provider. We found that the provider quality assurance program should be enhanced to ensure more comprehensive consideration of (1) eligibility for the federally donated vaccine and (2) evidence that administration of the vaccine is recorded in the patient's permanent medical record.

DOH does not test provider records to verify recipient eligibility for federal vaccines during provider site visits. DOH explained that Rhode Island is a universal state which provides all vaccines to all children through either the federal immunization program or a state financed immunization program. However, the provider's appropriate determination of eligibility affects the amount of vaccine purchased by the federal government (i.e., donated) or purchased through state funding. Quality assurance site visits should assess how the provider is determining eligibility (e.g., medical insurance coverage or lack thereof) and how that information is used to report the ordering and administration of federally donated or state purchased vaccine.

Federal law (42 USC 300aa-25) requires that a record of vaccine administered shall be made in each person's permanent medical record which includes:

- date of administration of the vaccine;
- vaccine manufacturer and lot number of the vaccine; and
- name and address and, if appropriate, the title of the health care provider administering the vaccine.

We reviewed DOH's documentation for 25 provider site visits preformed during state fiscal year 2008. We could not determine the number of records tested for compliance with the above vaccine documentation requirement or the results. DOH management advised us that a sample of one record was tested during a site visit and in some cases actually viewed more than one record. DOH has not implemented a policy requiring the reviewer to record the extent of the work

performed. DOH should improve its site visit documentation regarding vaccine records to include the number of records reviewed and the results of the testwork.

Questioned Costs: None

RECOMMENDATION

2008-63 Improve quality assurance site visit documentation to include specific procedures performed regarding eligibility and permanent record of immunization.

Finding 2008-64

IMMUNIZATION GRANTS – CFDA 93.268
Administered by: Rhode Island Department of Health

PAYROLL ADJUSTMENTS

During fiscal 2008, many DOH employees assigned to the federal Immunization Grants program also worked on other state and federal programs. The state payroll system allocated bi-weekly payroll costs to the various programs in accordance with pre-determined budget estimates. Employees prepared time sheets which reported actual allocations of time for each bi-weekly pay period. Federal program payroll expenditures for state fiscal year 2008 totaled $832,138.

We found that DOH has not prepared comparisons to identify the differences between budgeted and actual costs and has not prepared payroll adjustments to transfer payroll costs (salaries and benefits) between accounts for employees who allocated time between the federal Immunization Grants program and other state and federal programs during state fiscal year 2008. This occurred because DOH policy for this federal program is to prepare adjustments at the end of the federal grant year (December 31, annually) to coincide with the federal award closeout process and submission of the SF 269 expenditure report. As a result, because the net effect of potential adjustments is not known, there may be a misclassification of expenditures between federal and state in State accounting system and the Schedule of Expenditures of Federal Awards for the fiscal year ended June 30, 2008 because payroll adjustments will not likely be prepared and recorded in the state accounting system until the spring of 2009.

Federal regulations (OMB Circular A-87) require that 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. These reports must reflect an after the fact distribution of the actual activity, be prepared at least monthly, and be signed by the employee. The regulations allow for budgeted allocations, but the budgeted amounts must be compared to actual at least quarterly, and adjustments must be made if differences of more than ten percent are found. Otherwise, the adjustment may be recorded annually.

The State should implement the Human Resource module within the RIFANS accounting system to automate and standardize time reporting within State agencies. This would greatly facilitate documentation of payroll charges to federal programs and the allocation of such costs to multiple activities and programs.

Questioned Costs: Undetermined

RECOMMENDATION

2008-64 Perform quarterly comparisons between budgeted salary allocations to actual time and effort and prepare adjustments for variances greater than ten percent. Prepare final adjustments for any variances remaining at year-end.

Finding 2008-65

IMMUNIZATION GRANTS – CFDA 93.268
Administered by: Rhode Island Department of Health

ANNUAL EXPENDITURE REPORT

The federal Immunization Grants program has two segments: the Vaccine for Children (VFC) and the Section 317 programs. The terms and conditions of the 2007 federal grant award required the state to submit to the federal grantor agency a Financial Status Report (SF 269) for the year ended December 31, 2007 with an attachment that delineates separate VFC and Section 317 expenditures and obligations. The report was due no later than 90 days after the end of the budget period, i.e., March 31, 2008.

The state reported federal program expenditures totaling $1,691,872 for the 2007 award but did not prepare and submit the required supplementary schedule which identified the allocation of expenditures between the VFC and Section 317 programs. Expenditures for both programs are recorded in a single account, with no notation as to the specific program to which the expenditure applies. Reporting may be facilitated by establishing separate accounts within the State's accounting system for each program.

Questioned Costs: None

RECOMMENDATION

2008-65 Report the required supplementary expenditure information for the 2007 grant award. Establish separate accounts for each segment of the program to facilitate reporting.

Finding 2008-66

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

INCOME ELIGIBILITY AND VERIFICATION SYSTEM

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

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

The objective of our testing approach was to assess whether the Department was considering the information resulting from the required IEVS data matches in determining eligibility for TANF and the amounts of benefits. Specifically, we understand that case workers are prompted electronically through the Department's INRHODES computer system when new information resulting from the IEVS data matches is posted in the case record. Our testing involved randomly selecting 40 TANF cases from three quarters of state fiscal year 2008 in which IEVS data had been electronically posted to a case record. For each case, we assessed whether the IEVS data had been properly considered in the eligibility and benefit determination process.

We obtained a file from the Department's INRHODES system of all interface matches during three quarters of state fiscal year 2008. We compared this file to another file containing all TANF benefit payments made during the corresponding quarters in state fiscal years 2007 and 2008. 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:

- Fifteen (15) cases with discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, five (5) discrepancies could have been easily resolved by the caseworker and would not appear to have impacted eligibility or the household's benefit level. The remaining ten (10) cases had discrepancies that may have impacted eligibility or the household's benefits.

- Nine (9) cases where discrepancies were "cleared" by the caseworker by electronically entering an action code (e.g., no discrepancy exists); however, for six (6) of these cases no documentation or comments in the electronic case file were present supporting the propriety of this determination. In the other three (3) cases documentation or comments in the electronic case file were present supporting the determination to clear the discrepancy; however, the Department could not provide any written federal guidance or regulations supporting the propriety of the DHS policy (1022.10.20) which in effect allows a grace period in determining benefit overpayments and was used to clear these discrepancies. The application of this DHS policy resulted in the determination to not record the interface income in the appropriate case record period which would have yielded an overpayment(s) and collection action would have been initiated. Based on our evaluation, these discrepancies may impact the household's eligibility or benefit level. Since these data matches were "cleared", no modifications to the household's case record were initiated.

Failure to promptly investigate and resolve IEVS interface data weakens the Department's controls over the determination of eligibility and benefit levels for the TANF program. Management acknowledged that, due to various factors, IEVS interface discrepancies are not always resolved promptly and agreed that DHS Policy (1022.10.20) requires further research.

Questioned Costs: None

RECOMMENDATIONS

2008-66a Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.

2008-66b Maintain documentation supporting the resolution of data match discrepancies and initiate modifications when discrepancies impact eligibility and/or amount of benefits.

2008-66c Revisit the propriety and application of DHS policy (1022.10.20) and determine if it is supported by federal guidance or regulation.

Finding 2008-67

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
CHILD CARE CLUSTER:
Child Care Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
Administered by: Department of Human Services (DHS)

ELIGIBILITY - CASE FILE DOCUMENTATION

The Department provides cash assistance and other services to eligible families in an approved employment plan of the State's Family Independence Program (FIP). It also provides services to children of low-income families whose gross income is within established eligibility

limits. Department personnel from the Family Independence Program (FIP) Office accept applications and approve payments for FIP cash assistance and child care services. Families apply for FIP 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 FIP request for services or CCAP application form. All FIP and child care service applications are required to be submitted along with the documentation required to verify eligibility and the need for services. The Department's administrative rules require that the agency representative consider and verify the combined total of earned and unearned income, including child support in determining eligibility, as well as, other program specific eligibility factors such as the amount of resources, age of children, etc. as applicable.

We tested the case files of 57 families receiving FIP cash assistance and/or child care services to determine whether the proper eligibility determinations were made, and whether payments were calculated in accordance with program requirements, including obtaining any required documentation and performing required verifications. We noted the following issues concerning the Family Independence Program and Child Care Programs eligibility determination process:

- Three instances where the required hard copy documentation (e.g. application, income documentation, physician's verification, etc.) could not be located.

- One instance where a case file containing all hard copy documentation could not be located (e.g., application, income and resource documentation, referral forms etc.).

- One instance where the unearned income amount from child support, utilized in the eligibility calculation varied from the data reflected in the eligibility system's Child Support Enforcement module within INRHODES and the hard copy application contained in the case file. It does appear that it would affect income, the client's co-payment and the provider payment.

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

- In addition, we noted that the state plan indicates the individual job search activity is a "supervised individual job search". However, DHS policies and procedures do not identify the specific procedures workers are to follow in providing supervision for individual job search activities. As a result, in practice there is no demonstrable or documented supervision of individual job search activities.

- Supervisors perform routine case reviews on a sample basis to ensure that workers are determining eligibility appropriately. However, we found that child care cases are not specifically included in this case sample review process.

Controls should be strengthened to ensure that workers comply with established procedures thereby assuring the accuracy of eligibility determinations and calculations of benefits or provider payments. The Department should also consider scanning relevant documentation provided by the applicant and storing related documentation electronically to eliminate paper records and facilitate retrieval of critical eligibility documentation.

Questioned Costs: Unknown

RECOMMENDATIONS

2008-67a Strengthen controls to ensure adherence to procedures requiring agency personnel obtain and properly utilize required documentation to update electronic case file records prior to determining eligibility and payment amounts, as well as, determining compliance with work participation requirements.

2008-67b Identify policies and procedures regarding supervision of individual job search activities.

2008-67c Include child care cases in the sample case review process.

2008-67d Explore scanning relevant applicant eligibility documentation to eliminate paper records and facilitate retrieval of critical eligibility documentation.

Finding 2008-68

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Administered by: Department of Human Services (DHS)

PERFORMANCE REPORTING/WORK VERIFICATION PLAN

Controls over preparation of the ACF 199, TANF Data Report (OMB No. 0970-0199) and the ACF 209, SSP–MOE Data Report (OMB No. 0970-0199) require strengthening to ensure the accuracy of the data reported. These reports are submitted on a quarterly basis to the Administration for Children and Families, U.S. Department of Health and Human Services and contain various information on TANF cases, including the number of hours each adult recipient spent in activities that count towards meeting federal work participation requirements.

Federal regulations 45 CFR Part 261 requires States to develop internal controls and procedures that are sufficient to verify and validate the accuracy of the work participation rates and underlying data.

While DHS has implemented the procedures required by its Work Verification Plan, our testing of a sample of 32 cases included in the December 2007 QuarterACF199 TANF Data Report and another 25 cases from the December 2007 Quarter ACF 209, SSP–MOE Data Report resulted in the following exceptions:

- In one case, the hours reported for employment activities did not agree to the electronic case file documentation (INRHODES). In this case 20 hours per the unapproved version of eligibility were erroneously reported rather than zero hours per the approved version of eligibility. It appears this could involve a programming deficiency where the latest version of eligibility is being reported rather than properly reporting the latest approved version of eligibility.

- In another case the recipient reported a range of 15 - 20 hours worked per week. The worker recorded the lower limit of the range at 15 hours rather than the average hours per the range of 18 in accordance with DHS practice.

The department should enhance controls to ensure the accuracy and reliability of the information it reports to the federal government with the ACF199 TANF Data Report and ACF 209, SSP–MOE Data Report.

Questioned Costs: None

RECOMMENDATIONS

2008-68a Enhance controls to ensure the accuracy and reliability of the information included in the ACF 199 TANF Data Report and the ACF 209 SSP-MOE Date Report.

2008-68b Determine if the reporting of unapproved eligibility data is systemic. If so, determine the impact on data previously reported and correct the programming, if required.

2008-68c Correct reporting errors on the ACF 199 TANF Data Report and resubmit to the federal government.

Finding 2008-69

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Administered by: Department of Human Services (DHS)

SPECIAL REPORTING AND TANF FINANCIAL REPORTS

The Department's internal control procedures require further strengthening to ensure the reliability of data reported on the ACF-204 (*Annual Report including the Annual Report on State Maintenance-of-Effort (MOE) Programs – OMB No. 0970-0248*). This annual report is submitted to the Administration for Children and Families, U.S. Department of Health and Human Services and contains information on the TANF program and the State Maintenance of Effort program(s). The same expenditure information is also reported on the ACF-196, TANF Financial Report.

Data needed to prepare these reports is accumulated from a variety of sources including other departments and agencies of state government. In general, DHS needs to improve its documentation of such data and ensure that relevant source documentation is consistently retained or referenced to support amounts claimed. Further, documentation to support both the ACF-196 and ACF-204 reports, particularly in the case of MOE claimed expenditures, should reference qualifying regulations or other federal guidance for such expenditures.

Specific variances noted during our review of these reports are summarized below:

- The ACF-204 and ACF-196 reports should include the same expenditure amounts for each MOE program; however, we found several inconsistencies in the expenditures reported.

- DHS overstated amounts claimed for Cash Assistance for FIP (Two Parents, Minor Teens, etc) on the ACF-204. The description indicated that it included Two Parent Families not meeting work requirements when in fact the amounts reported per the ACF-196 properly do not include this category of assistance. The amounts claimed were $2,204,368 instead of $720,520 per the ACF-196 and supporting documentation, an overstatement of $1,483,848.

- In the December 31, 2007 quarter, DHS claimed $856,635 in SSI (Supplemental Security Income) administrative costs as part of TANF Program Administration MOE costs on both the ACF-196 and the ACF-204, but could not demonstrate the allowability of these costs as TANF MOE. Further, these costs were not allocated through the DHS cost allocation plan (CAP), and federal approval was not obtained to claim these costs as part of the CAP.

- The amount reported for DLT Youth on the ACF-196 does not agree to the State accounting system nor to a DLT memo summarizing DLT youth expenditures. The DLT summary memo indicates an amount $96,451 lower than the amount reported on the ACF-196.

- DHS reported 10,281 or 1/3 of the number of families receiving LIHEAP assistance when 50% of the LIHEAP expenditures were claimed. DHS should have reported 50% or 15,094 families served to be consistent with expenditures reported.

- We noted differences in the reported number of families served for various programs included in the ACF-204 report when compared to supporting documentation. The differences resulted from computational errors and inaccurate or incomplete information. For example:

  - The average monthly number of children was reported on the ACF-204 for the Child Care Assistance Program rather than the average monthly number of families as required, resulting in an overstatement of 1,320 for the average monthly number of families served.

  - The average monthly number of families served was overstated by 523 on the ACF-204 report for the State Funded Medical Program for Legal Non-Citizen Children and Pregnant Women Eligible for Medical Assistance Due to PRWORA Restrictions (MA Undocumented).

  - The average monthly families served for Cash Assistance for FIP (Two Parents, Minor Teens, etc) on the ACF-204 was 436 which was overstated by 287 families.

Supervisory and "quality control" procedures over the preparation and review of the ACF-196 and ACF-204 reports should be enhanced to ensure that all necessary information is included in the report and the information is accurate and is supported by appropriate data and calculations. A standardized documentation format should be implemented to ensure the completeness and reliability of data obtained from other departments.

Questioned Costs: None

RECOMMENDATIONS

2008-69a Strengthen supervisory and "quality control" procedures over the preparation of the ACF-196 and ACF-204 reports to ensure that all necessary information is included in the report and the information is accurate and is supported by appropriate data and calculations.

2008-69b Correct the federal fiscal year 2007 ACF-204 and ACF-196 reports and resubmit them to the federal government.

Finding 2008-70

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Administered by: Department of Human Services (DHS)

REPORTING – ACF-196, TANF FINANCIAL REPORT

We found that expenditures identified on the ACF-196 TANF financial report are not consistently supported by the State's accounting records. For example, for the period October 1, 2007 to June 30, 2008 expenditures recorded in the state accounting system were approximately $5.1 million less than reported on the TANF ACF-196 Financial Reports for the same period. This appears primarily due to timing differences.

RECOMMENDATION

2008-70a Reconcile and document timing differences which result in variances between the reported total expenditures on the quarterly ACF-196 TANF Financial Report and amounts reflected in the State accounting system.

In addition, we noted various errors in the reporting of TANF contract and administrative costs on the federal fiscal year (FFY) 2007 ACF-196 report as follows:

- The federal portion of the contract charges reported on the ACF 196 were understated by $33,897 for the December 2006 quarter and were understated by $17,999 for the June 2007 quarter. The total under charge of the federal portion of contract costs for FFY 2007 is $51,896.

- The federal portion of administrative costs reported on the ACF-196 was overstated by $74,241 for the September 2007 quarter.

We also determined that the Federal Child Care Assistance and Child Care Non-Assistance was overstated on the FFY 2008 ACF-196 Report by $ 2,116,932 for the June 2008 quarter as it had been previously been reported on the ACF-196 for FFY 2007.

Questioned Costs: None

RECOMMENDATION

2008-70b Adjust the ACF-196 TANF Financial Reports to charge the proper amounts for contract, administrative and child care costs.

Finding 2008-71

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
CHILD CARE CLUSTER:
Child Care Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
Administered by: Department of Human Services (DHS)

LEVEL OF EFFORT - MAINTENANCE OF EFFORT

The Department should strengthen controls to ensure that TANF Maintenance of Effort (MOE) costs are properly recorded within the State accounting system and agree to amounts reported to the federal government on the ACF-196 Financial and ACF-204 Annual Reports.

In accordance with federal regulations (45 CFR section 263.2) every fiscal year the State is required to provide a required minimum level of MOE expenditures. We noted that the MOE amount reported on the federal fiscal year 2007 ACF-196 and the ACF-204 reports did not agree to the State accounting system. These two federal reports each indicated approximately $5.3 more in State MOE expenditures than were recorded in the State accounting system. In addition, we noted that the amount of funds reported on the federal fiscal year 2008 ACF-196 for Transfers to the Child Care Development Block Grant (CCDF Discretionary) was $5.7 million less than recorded in the State accounting system or on the ACF-696 (Child Care Development Fund Financial Report) as of June 30, 2008.

It appears the department neglected to adjust $5.7 million from the transfer account for the Child Care Development Block Grant to the state MOE account during the first quarter of SFY 2008.

Questioned Costs: None

RECOMMENDATIONS

2008-71a Strengthen supervisory review and approval procedures to ensure amounts reported on the ACF-196 and ACF-204 are properly supported by information recorded in the State accounting system and that necessary accounting adjustments are recorded by year end.

2008-71b Adjust the state accounts appropriately.

Finding 2008-72

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
CCDF CLUSTER:
Child Care and Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

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

Federal regulation (45 CFR section 95.621) mandates that States are responsible for the security of all ADP operational systems involved in the administration of U.S. Department of Health and Human Services (DHHS) programs. State agencies are required to determine appropriate ADP security requirements based on recognized industry standards governing security of federal ADP systems and information processing.

45 CFR section 95.621 requires State agencies to review the ADP system security of installations involved in the administration of DHHS programs on a biennial basis. At a minimum, the reviews shall include documentation and testing of critical system controls such as those relating to system access, application software development and modifications, service continuity, and incident response capability. Federal regulations also require states to establish and maintain a program for conducting periodic risk assessments to ensure that appropriate safeguards are operational within new and existing systems. State agencies also must perform risk assessments whenever significant system changes occur.

DHS utilizes two primary systems, INRHODES and the Medicaid Management Information System (MMIS), to administer DHHS federal programs. Benefit payments disbursed (or determined) through these two systems during fiscal year 2008 totaled over $2 billion. These systems interface due to the interrelated aspects of the federal programs. For example, Medicaid eligibility is determined within INRHODES and then transmitted to the MMIS where Medicaid claims are paid. In addition to its eligibility determination functions, INRHODES also determines benefit amounts for federal programs such as TANF and Food Stamps.

DHS did not perform adequate ADP biennial reviews on the INRHODES and MMIS systems for fiscal 2008 as required by federal regulations. Additionally, DHS does not have a process in place to update and reassess risks to information systems security when significant system changes occur. Further, DHS has not developed policies and procedures to identify unauthorized modifications to these critical systems.

We updated our understanding of the operation of specific general and application controls relating to the MMIS. Our review noted some deficiencies in internal control relating to IT security over the MMIS. We have communicated the specific deficiencies that we believed collectively represented moderate risks to the overall IT security of the MMIS confidentially to DHS as permitted by General Law section 22-13-10. These deficiencies continue to support DHS's need for more

resources relating to IT security over all information system resources administered by the department.

DHS can best comply with the above federal requirements by implementing a comprehensive system security review process to assess and manage the risks of both systems as well as other ADP issues impacting the administration of HHS programs. DHS should coordinate its efforts with the State's Division of Information Technology (DoIT), the division responsible for the coordinated security of all mission critical systems of the State. DoIT has promulgated information system security policies and procedures that reflect accepted industry standards and additionally could provide experienced information systems security staff to be part of the periodic ADP risk analysis team. By coordinating its efforts with DoIT, DHS could better ensure that the MMIS and INRHODES systems meet the federally mandated ADP risk analysis requirements as well as the system security policies promulgated by the State.

Questioned Costs: None

RECOMMENDATIONS

2008-72a Develop an enterprise-wide comprehensive ADP risk analysis and system security review process to ensure a coordinated approach to identifying and addressing security risks related to information systems used to administer federal programs.

2008-72b Implement procedures and dedicate information systems security resources to ensure that ADP risk assessments are conducted at required intervals and when significant system changes occur in accordance with federal regulation 45 CFR 95.621.

2008-72c Coordinate information system security activities for the MMIS and INRHODES systems with the State's Division of Information Technology to ensure compliance with the State's newly mandated information systems security policies and procedures.

Finding 2008-73

CHILD SUPPORT ENFORCEMENT – CFDA 93.563
Administered by: Department of Human Services (DHS)

CHILD SUPPORT COLLECTIONS AND DISTRIBUTIONS

DHS does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system. This is an important control over program receipts and disbursements that approximate $80 million annually. Accountability for child support collections is also important because these collections affect awards from the federal government, which reduce the State share of program costs.

At June 30, 2008, the balance of undistributed collections reported by the DHS computer system exceeded the amounts reported in the State accounting system by $178,999. Variances also

existed in the amounts reported for total collections and total distributions. All the detail collections and distributions are first processed through the DHS computer system and the summary information is subsequently posted to the State accounting system. Reports are not available from the DHS system which include all collections and distributions so that routine reconciliations could be performed between the amounts reported by the two systems.

As previously reported in our audit reports since 1992, DHS should report all child support collections and distributions in its accounting system and reconcile these amounts with those recorded in the State accounting system. This would provide further assurances that these collections and distributions are properly controlled and reported.

Questioned Costs: None

RECOMMENDATIONS

2008-73a Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.

2008-73b Investigate and resolve the difference regarding child support collections pending distribution reported by the DHS and State accounting systems.

Finding 2008-74

CHILD SUPPORT ENFORCEMENT – CFDA 93.563
Administered by: Department of Human Services (DHS)

REPORTING – FEDERAL CASH TRANSACTIONS REPORT

The Federal payment management system (PMS), operated by the Division of Payment Management (DPM), serves as a fiscal intermediary between recipients of federal funds and the federal awarding agencies for cash management purposes. The DPM reporting system utilizes quarterly status reports that are furnished to recipients with active accounts to monitor recipients' accountability for funds received through the DPM.

On a quarterly basis, the DPM generates the PSC-272 report, Federal Cash Transaction Report, and the applicable supporting schedules. Although certain data on the report is provided by DPM, DHS is still responsible for verifying that the amounts reported agree with their own records. DHS completes the required sections of the PSC-272 and submits the report to the DPM, but it is not verifying that the DPM supplied data agrees with the department's records. The cash on hand at the end of the quarter should be reconciled to DHS's actual federal cash balance reported in its accounting records. DHS needs to reconcile the two amounts in order to determine if the federal report is in error or the State's accounting system requires further adjustments.

Questioned Costs: None

RECOMMENDATION

2008-74 Reconcile the cash balance reported on the PSC-272 report with the State accounting system.

Finding 2008-75

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

SUBRECIPIENT CASH MANAGEMENT

The Office of Energy Resources (OER) should continue to improve its procedures to ensure that payments of LIHEAP program funds to subrecipients are limited to their immediate cash needs, as required by federal regulations. We found that the Office of Energy Resources is not always sufficiently restricting subrecipient cash balances when determining the need for program fund distributions. Some subrecipients reported excessive cash balances at various points during the year.

The Office of Energy Resources uses various non-profit agencies to carry out LIHEAP activities designed to assist low-income individuals with home energy costs. These non-profit agencies submit weekly LIHEAP funding reports to the Office of Energy Resources which identify the balance of program funds agencies have on hand each week. The Office of Energy Resources uses these reports to monitor agency cash balances and to determine if agencies require additional program funds.

We were informed that the amounts paid to subrecipients are based on the weekly LIHEAP fund reports submitted to the OER, program data from the OER's computer system, and other factors including state disbursement processing time and weather severity. However, program management was only able to provide supporting documentation for 26 of 133 payments to subrecipients. The reports used to determine the estimated cash needs of the subrecipients were not included in the payment documentation thereby making it difficult to match supporting documentation to a specific subrecipient payment.

The Office of Energy Resources should continue to strengthen its procedures to ensure that it properly monitors subrecipient cash balances and distributes program funds in amounts designed to cover only the immediate cash needs of LIHEAP program subrecipients.

Questioned Costs: None

RECOMMENDATIONS

2008-75a Document the data used to support payments to subrecipients which reflect their estimated cash needs.

2008-75b Restrict subrecipient funding to their immediate cash needs.

Finding 2008-76

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

PERIOD OF AVAILABILITY

The period of availability for LIHEAP requires that at least 90 percent of the block grant funds be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or "carried over") for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to Administration for Children and Families (ACF) – Department of Health and Human Services. There are no limits on the time period for expenditure of funds (42 USC 8626).

OER's procedures to demonstrate compliance with the period of availability requirements applicable need to be improved. Accounts have not been established within the State accounting system to segregate expenditures and obligations by specific federal grant award. Additionally, subsidiary accounting records are not maintained to achieve this objective.

To monitor compliance with period of availability requirements, OER uses grant award expenditure data and obligations; however, we found both sources of data to be unreliable as detailed below:

- Total program expenditures are adequately reported in the State's accounting system; however, expenditures are not segregated by federal grant award. Instead, grant drawdowns applied to a specific grant award are used as the basis for actual expenditures. Program personnel contend that drawdowns are a good indicator of expenditures because the federal funds are drawn on a reimbursement basis.

- The OER creates purchase orders to subrecipients to obligate program funds. The purchase orders processed to increase an obligation to a subrecipient does not identify the grant year being obligated.

Because these data sources are imprecise for the intended purpose, OER can improve its overall control process to ensure compliance with both earmarking and period of availability requirements.

Questioned Costs: None

RECOMMENDATIONS

2008-76a Maintain documentation to support the calculation of funds expended and obligated by grant award.

2008-76b Track expenditures by federal fiscal year grant award within the State accounting system.

2008-76c Identify the federal grant award year when obligating program funds by purchase orders with subrecipients.

Finding 2008-77

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

EARMARKING

The LIHEAP block grants have several earmarking requirements which include:

- Not more than 10 percent of the LIHEAP funds payable to the State for a federal fiscal year may be used for planning and administrative costs, including both direct and indirect costs. This limitation applies, in the aggregate, to planning and administrative costs at both the State and subrecipient levels (42 USC 8624(b)(9)(A); 45 CFR section 96.88(a)).

- Not more than 15 percent of the greater of the funds allotted or the funds available to the grantee for a federal fiscal year may be used for low-cost residential weatherization or other energy-related home repairs. The Secretary may grant a waiver, and the grantee may then spend up to 25 percent for residential weatherization or energy-related home repairs (42 USC 8624(k)).

- Not more than five percent of the LIHEAP funds payable to the State may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance. Such services may include needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).

These earmarking requirements are based on total program expenditures including expenditures made by subrecipients for administration, energy need reduction services and weatherization. OER identifies the specific purpose on purchase orders (e.g., administration, weatherization, etc.) for funds awarded to subrecipients. Program management maintains off-line spreadsheets allocating payments to subrecipients into the appropriate category.

OER does not perform any review or analysis to ensure compliance with the earmarking requirement during the federal fiscal year to assess the accuracy and allowability of transactions. OER relies on the specific category identified when the award (purchase order) is made to the subrecipient. Control procedures should be enhanced to ensure compliance with overall earmarking requirements including amounts expended by subrecipients and the State.

Questioned Costs: None

RECOMMENDATION

2008-77 Improve procedures and documentation to ensure compliance with the LIHEAP earmarking requirements.

Finding 2008-78

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

ADMINISTRATIVE COSTS – PAYROLL CHARGES

OER can improve controls and recordkeeping to ensure that payroll allocations to LIHEAP are adequately supported.

The majority of administrative functions relative to LIHEAP are performed by the OER; however, individuals within the State's Central Business Office also administer aspects of the program. We noted the following regarding administrative costs charged to the program:

- *Office of Energy Resources (OER):* Staff completed random time studies for three weeks during the fiscal year indicating the hours worked on the various programs and activities within the Office of Energy Resources. Payroll was charged based on estimated allocation percentages; however, no adjustments were made to reflect the results of the random time studies. The random time studies were also not used as the basis for the initial estimated allocation percentages used in the State's payroll system. Further, ten employees of the OER did not complete the required three time studies during the fiscal year. Personnel costs allocated to LIHEAP by OER staff totaled $698,512.

- *Central Business Office:* We found that the distribution of salary and fringe benefit costs to the program were not supported by personnel activity reports or equivalent documentation. These amounts, totaling $51,219 are questioned due to insufficient supporting documentation.

Questioned Costs: $51,219

RECOMMENDATIONS

2008-78a Allocate employee salary and fringe benefit costs to LIHEAP based upon personnel activity reports or equivalent documentation. Adjust estimated allocations on a timely basis after the completion of periodic time studies.

2008-78b Monitor the allocation of personnel costs to LIHEAP to ensure that only appropriate charges are made to the program.

Finding 2008-79

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

REPORTING

Financial Status Report (SF-269A)

The State is required to prepare the Financial Status Report (SF-269A) for the LIHEAP block grant. We noted the following regarding the preparation of the SF-269A report:

- OER reports the funds not obligated on the SF-269A report for purposes of demonstrating compliance with the period of availability requirement. As discussed in Finding 2008-76, we could not verify the amounts reported as expended or obligated at September 30, 2007 for the FFY 2007 LIHEAP grant award due to insufficient supporting documentation.

- OER did not submit separate SF-269A reports for "regular" block grants and emergency contingency funds as directed by guidance included in *Action Transmittal No. LIHEAP-AT-2001-1,* dated 10/18/00 issued by Administration for Children and Families, Department of Health and Human Services.

Semi-annual Financial Status Reports for
Residential Energy Assistance Challenge Option (REACH) Funds

Semi-annual financial status reports are required for REACH funds. We found that expenditures were overstated by $9,139 related to the 2004 REACH administrative grant award of $25,000 and overstated by $6,281 relating to the 2005 REACH grant award. These errors were caused by OER's failure to segregate expenditures related to various components of the program either through the State accounting system or through subsidiary records.

RECOMMENDATIONS

2008-79a Comply with LIHEAP Action Transmittal No. LIHEAP-AT-2001-1 and submit separate SF-269A reports for Block Grant funds and Emergency Contingency Grants funds. Implement revised reporting guidance for federal fiscal 2008 as provided in LIHEAP AT-2008-1.

2008-79b Complete a revised final SF-269A financial report for both "Regular" block grants and Emergency Contingency funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2001-1, dated 10/18/00.

2008-79c Submit corrected REACH SF-269A financial status reports related to the federal fiscal year 2004 and 2005 grant awards that are supported by expenditures as recorded in the State's accounting system.

Carryover and Reallotment Report

Grantees must submit a report no later then August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must also be reported (42 USC 8626).

Section 2607(b)(2)(B) of the LIHEAP statute requires that at least 90% of funds available must be obligated in the year in which they are appropriated. Not more than 10 percent of the amount payable for a fiscal year may be held for obligation in the succeeding fiscal year.

Since this report is due August 1, which is two months prior to the end of the grant period, it is allowed to report an estimated amount. Program personnel did maintain documentation supporting the amounts reported. However, we determined that the amounts reported on the amended Carryover and Reallotment report did not agree to the supporting documentation or the RIFANS accounting system.

Line 1 of the report should include "Regular" block grant, Contingency funds and oil overcharge funds, if applicable. We found that the 2007 report did not include the Contingency funds grant on Line 1 causing an understatement of that line item by $1,992,191.

Questioned Costs: None

RECOMMENDATIONS

2008-79d Ensure that the Carryover and Reallotment report is supported by sufficient documentation.

2008-79e Submit a revised Carryover and Reallotment Report for the 2007 grant awards as required.

Finding 2008-80

CHILD CARE CLUSTER:
Child Care and Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
Administered by: Department of Human Services (DHS)

PROVIDER CONTRACTS

The Department did not have a contract covering fiscal 2008 for one of the seven child care vendors we reviewed. This multi-site vendor was paid $578,000. We were informed that approximately 400 center based contracts were due for renewal simultaneously starting in fiscal 2006. Due to this large volume of contracts requiring renewal, the Department was unable to process all of the multi-site center based contract renewals during fiscal years 2006 and 2007, but did

complete them during fiscal 2008. A portion of this Child Care vendor contract expenditures were charged to the SSBG Social Services Block Grant program.

The Department should strengthen its control procedures to ensure that all contracts are renewed on a timely basis. This is important to ensure that providers are cognizant of all specific program requirements to which they must comply and to enable the Department to legally enforce contract provisions as required.

Questioned Costs: None

RECOMMENDATION

2008-80 Strengthen internal controls to ensure that all contracts are renewed on a timely basis.

Finding 2008-81

CHILD CARE CLUSTER:
Child Care Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
Administered by: Department of Human Services (DHS)

EARMARKING / PERIOD OF AVAILABILITY

The Department over claimed federal fiscal year (FFY) 2007 earmarks by a total of $305,125, which represents expenditures that were incurred prior to the inception of FFY 2007. The individual earmarking over claims were as follows:

- overclaimed Infant Toddler earmarks by $99,413; and
- overclaimed Quality Expansion earmarks by $205,712.

Controls should be strengthened to ensure that only expenditures meeting period of availability are claimed on the ACF 696 Child Care and Development Fund Financial Report (OMB No. 0970-0163) to meet earmarking requirements.

Questioned Costs: $305,125

RECOMMENDATION

2008-81 Strengthen controls to ensure expenditures claimed for earmarking requirements meet applicable period of availability requirements.

Finding 2008-82

FOSTER CARE – TITLE IV-E - CFDA 93.658
Administered by: Department of Children, Youth, and Families (DCYF)

ELIGIBILITY

DCYF can obtain federal funding for certain costs of caring for children in foster care such as room and board, day care and clothing allowances (known as maintenance costs). Federal participation is allowable for those cases that meet specific eligibility criteria, including whether the foster child was removed from his or her home by means of a judicial determination or pursuant to a voluntary placement agreement {42 USC 672 (f), 42 USC 672 (a), 45 CFR 1356.21, and 45 CFR 1356.22}.

We selected a sample of 25 maintenance payments and tested them for applicable eligibility requirements. The federal share of these costs totaled $5.1 million in fiscal year 2008, and the universe of payments in our sample was $5,266.

We found that one of the 25 payments in our sample was not eligible for federal funding. The payment was made on behalf of a child for whom DCYF did not have evidence that the child was residing in a licensed foster home or facility. The federal share of these unallowable costs totaled $92.

Questioned Costs: $92

RECOMMENDATION

2008-82 Adjust federal reports to reimburse the federal government for the unallowable maintenance costs.

Finding 2008-83

FOSTER CARE – TITLE IV-E - CFDA 93.658
Administered by: Department of Children, Youth, and Families (DCYF)

ALLOWABLE COSTS/COST PRINCIPLES

The Department of Children Youth and Families (DCYF) provides day care assistance to families with foster children. Foster care families make requests to the department for day care assistance and the department records the authorized number of day care hours into the RICHIST system at DCYF.

Day care provider payments are made through the Department of Human Services (DHS) INRHODES system based upon authorized service levels and census attendance reporting. On a monthly basis, DCYF reimburses DHS for day care payments made on behalf of children in foster care.

In four of the twenty-five cases tested, we found that the day care authorization in the RICHIST database provided for fewer day care hours than DHS paid the day care provider. However, the census reports from the day care provider agreed to the number of hours paid by DHS. DCYF was able to identify each of these exceptions as an adjustment to the initial day care authorization.

When foster parents request an increase in day care hours, the change in authorized hours is entered directly by a DCYF employee granted access to the INRHODES system. DCYF is unable to make the corresponding changes in RICHIST, due to software limitations, resulting in the differences we noted between the two databases. RICHIST contains all the case specific documentation and service authorizations for children in foster care. The inability to reflect current day care service authorizations in the RICHIST system constitutes a control weakness over this category of program payments.

Questioned Costs: Unknown

RECOMMENDATION

2008-83 Enhance control procedures over day care program expenditures by modifying the RICHIST system to reflect current service level authorizations. Alternatively, develop a standardized process for requesting, approving, and tracking changes to day care service levels entered to the INRHODES system.

Finding 2008-84

ADOPTION ASSISTANCE - CFDA 93.659
Administered by: Department of Children, Youth, and Families (DCYF)

ELIGIBILITY

DCYF can obtain federal funding for an adoption subsidy payment if the case meets certain eligibility requirements. For example:

- the child must meet the requirements of 1) the former Aid to Families with Dependent Children program (i.e., meet the State-established standard of need as of July 16, 1996); 2) the Title XVI Supplemental Security Income program {42 USC 673 (a); or 3) is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his or her minor parent {42 USC 673(a)};

- DCYF must determine that the child has special needs as defined by 42 USC 673 (c);

- a subsidy agreement must be prepared and signed before the final decree of adoption {45 CFR 1356.40 (b) (1)}; and

- DCYF must conduct a criminal records check on the prospective adoptive parent(s) {45 CFR 1356.30}.

We selected a sample of 25 adoption subsidy payments and tested them for applicable eligibility requirements. The federal share of these adoption subsidy payments totaled $6,525,104 in fiscal year 2008, and the universe of payments in our sample was $3,555.

We questioned the eligibility for federal funding of seven of the 25 payments in our sample. In six of the seven cases, certain records supporting the payments were not available for our review and, as a result, we were unable to substantiate that these payments met all eligibility requirements. Many of the records supporting the federal funding of subsidy payments were maintained in various locations and, in some cases, the records could not be located. DCYF should develop policies to centralize and retain all such records. This is particularly important because the claims for reimbursement could span up to a 21-year period. DCYF should consider electronic imaging of these critical documents to facilitate storage and retrieval. The federal share of the seven unsupported payments totaled $667. In the seventh case, the subsidy agreement was not signed prior to the final decree of adoption. The federal share of this payment was $168.

DCYF can improve its policies, procedures, and documentation to ensure that it obtains the full amount of federal funding available for adoption subsidy payments in accordance with applicable laws and regulations. We found various inconsistencies in documentation supporting eligibility for the program. For example, the State must determine that a specific factor or condition exists in order for a child to be considered one with special needs. In some cases, DCYF indicated on the adoption subsidy agreements that a specific factor or condition existed, but neither the department's computer system nor other records indicated that such a factor or condition was present. In other cases, conversely, the factor or condition was indicated in the department's computer system but not in the subsidy agreements or other records.

Questioned Costs: $835

RECOMMENDATIONS

2008-84a Adjust federal reports to reimburse the federal government for the unallowable adoption subsidy charges.

2008-84b Develop written policies and procedures regarding Title IV-E adoption assistance eligibility determinations and record retention practices to ensure consistent application.

2008-84c Create a central repository for all records that support the Adoption Assistance eligibility determination. Consider electronic imaging of these critical documents to facilitate storage and retrieval.

2008-84d Conduct random reviews of Adoption Assistance eligibility determinations as part of an appropriate quality control system to ensure that all claims meet federal eligibility requirements.

Finding 2008-85

SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
Administered by: Department of Human Services (DHS)

REPORTING

The Department has not filed the Financial Status Report (SF-269 A, OMB No. 0348-0038) as required by 45 CFR 92.41 and the grant award terms and conditions.

Questioned Costs: None

RECOMMENDATION

2008-85 Prepare the SF-269 Financial Status Report for federal fiscal 2008.

Finding 2008-86

SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER HOME HEALTH SERVICES BILLINGS

Payments for a variety of services provided by home health agencies are processed through the State's Medicaid Management Information System (MMIS) for both Medicaid and non-Medicaid sources of funding. Home health agencies provide comprehensive community support services, such as homemaker services, nursing services, meal preparation services, etc., to elderly and disabled individuals living in the community. Approximately $25 million (state and federal share) was charged to the Medicaid program and $1.2 million was charged to the Social Services Block Grant (SSBG) program. Our review of the controls over these expenditures found that only certain homemaker services required prior authorization. We also noted that there was little distinction in many cases between the services billed that required prior authorization and those that did not.

For home health services provided to Medicaid recipients, prior authorization of services requires the completion of a Provider Authorization Panel in INRHODES by a DHS case worker. The Provider Authorization Panel includes general client information, the service provider's name, a description of approved services, the allowed hours of service per day, the authorized days of service per week, and the maximum number of units of service approved per month. Once completed, DHS forwards a copy of the Provider Authorization Panel to the home health agency provider as authorization for services. DHS, however, does not provide this form (either manually or electronically) to its fiscal agent to ensure that payments are only made for authorized home health services.

For services provided to eligible individuals under SSBG, prior authorization of services includes department personnel completing an HS-3 *Authorization of Homemaker / Home Health Aide*

Services Adult Day Care form for each client. This form is also not communicated to the fiscal agent to improve overall control over the processing of home health services through the MMIS.

Controls over home health services paid through the MMIS should be improved to ensure that payments are only made for authorized services. Systemic controls within the MMIS that review the frequency and duration of specifically authorized services would be the most effective control over this service group.

Questioned Costs: None

RECOMMENDATION

2008-86 Strengthen procedures to ensure that vendor billings for homemaker services are verified as to authorized recipient, funding source, authorization period and authorized hours prior to payment.

Finding 2008-87

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767
Administered by: Department of Human Services (DHS)

COST RECOVERIES - PROGRAM PARTICIPANT COST-SHARING COLLECTIONS

Some SCHIP eligible individuals participate in a managed care cost-sharing component of the State's Medicaid program. The State pays a monthly capitation amount to a managed care provider and then seeks reimbursement from the individuals for their "co-pay" amount. The Department bills family units for applicable co-pay amounts based upon family income and other program criteria. During fiscal 2008, DHS reduced the federal and state share of Medicaid program expenditures by the amount of cost-sharing collections.

During fiscal 2008, DHS agreed upon a methodology with the Centers for Medicaid and Medicare Services (CMS) to allocate cost-sharing collections between Medicaid and SCHIP based on the percentage of collections relating to the two programs. Based on this methodology, DHS agreed to determine the percentage of Medicaid and SCHIP eligible individuals on a monthly basis subject to cost sharing and allocate the monthly collections between the two programs in accordance with those percentages. Subsequent to fiscal 2008, DHS utilized the above methodology and determined that $2,018,269 of the nearly $3.8 million in cost sharing collections received in fiscal 2008 related to SCHIP eligible individuals.

DHS recently made the necessary adjustments in fiscal 2009 to credit the $2,018,269 in cost-sharing collections to SCHIP for fiscal 2008. The required adjustment will result in a decrease in reported SCHIP federal expenditures by $1,347,396 (FFP - 66.76%) and an increase in Medicaid federal expenditures of $1,059,793 (FFP – 52.51%), resulting in a net credit to the federal government of $287,603.

Questioned Costs: $287,603

RECOMMENDATIONS

2008-87a Ensure that federal reports properly credit the federal government, on a timely basis, for cost-sharing collections attributed to the SCHIP program.

2008-87b Ensure that cost-collections are allocated based on the approved CMS methodology and properly reflected on quarterly federal reports.

Finding 2008-88

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

FISCAL AGENT OVERSIGHT

DHS is highly dependent on the Medicaid Management Information System (MMIS) operated by its fiscal agent to process claims on behalf of eligible Medicaid beneficiaries and provide controls over disbursing state and federal funds and other aspects of Medicaid program administration. DHS has delegated many critical program operations to its fiscal agent such as billing for third party recoveries and drug rebates, administering provider enrollment and eligibility, and conducting surveillance and utilization reviews over paid claims activity. Oversight of these operations by DHS is essential to ensure that the fiscal agent complies with program regulations, and that related controls are in place and operating as designed. This is critically important considering the authority delegated to and dollar value of disbursements processed by the fiscal agent.

We have recommended in prior audit reports that DHS improve its oversight by monitoring the internal control procedures and financial activities employed by the fiscal agent. Monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State's financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated. DHS may need additional resources to fully accomplish these objectives.

We noted the following matters:

- *DHS should ensure that the fiscal agent has adequate internal control policies and procedures in place to pay claims in accordance with program regulations and to control cash disbursements made on behalf of the State.* The internal control structure through which the fiscal agent processes Medicaid claims is totally separate and distinct from the State's accounting system and related control procedures used to disburse other state expenditures. During fiscal 2008, the State's fiscal agent contracted for and completed a Type I "SAS 70" review. This review documented the design and operation of key internal controls utilized by the fiscal agent. A Type II "SAS 70" review, which includes testing the operating effectiveness of the fiscal agent's documented controls over Medicaid claims processing, should be performed annually.

- *DHS has not developed procedures to effectively monitor the financial activities of the fiscal agent*. For example, DHS has not implemented sufficient procedures to verify MMIS financial data used to record program activity and prepare federal reports. Additionally, procedures are not in place to ensure all prescription drug rebates are billed and collected, provider accounts receivable balances are accurately reported, and third party liabilities have been identified and collected. Most importantly, the fiscal agent performs incompatible functions of billing, recording, and receiving drug rebates, third party liability collections, and provider refunds. DHS performs no oversight procedures to ensure receipt of all collections by its fiscal agent.

The above issues in conjunction with control deficiencies noted in Finding 2008-72 relating to DHS's overall IT security over the MMIS and Finding 2008-96 relating to fiscal agent procedures relating to provider eligibility must be addressed to better safeguard Medicaid operations delegated to the State's fiscal agent. Performance of an annual Type II "SAS 70" examination of the fiscal agent's internal control would provide the State with additional assurance regarding the effectiveness of control procedures over Medicaid program expenditures which approximated $1.9 billion in fiscal 2008. Such assurance is particularly important considering that the operations of the State's fiscal agent are completely separate and distinct from any of the State's other centralized control processes.

Questioned Costs: None

RECOMMENDATIONS

2008-88a Obtain an annual Type II "SAS 70" examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.

2008-88b Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected.

Finding 2008-89

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767
Administered by: Department of Human Services (DHS)

CONTROLS OVER THE DETERMINATION OF SCHIP ELIGIBILITY

The basic objective of the State Children's Health Insurance Program (SCHIP) as authorized by Title XXI of the Social Security Act is to initiate or expand health insurance programs for low-income, uninsured children. States are afforded flexibility in the implementation of programs to meet this objective. In Rhode Island, the State has obtained waivers from the federal government that allow reimbursement of medical insurance coverage provided to certain individuals previously eligible under the Medicaid program at the enhanced SCHIP federal financial participation rate. SCHIP expenditures for fiscal 2008 approximated $80 million (federal share - $53 million).

Eligibility for both the Medicaid and the SCHIP programs is determined through the Department's INRHODES computer system; however, specific SCHIP eligibility criteria have not been programmed into that system. Instead, all individuals first become Medicaid eligible. The Department's procedures to identify and claim amounts eligible under SCHIP consist primarily of disbursing capitation or fee-for-service payments initially as Medicaid eligible expenditures and then, using queries (designed by the State's contracted fiscal agent) against the Medicaid Management Information System (MMIS), identify claims paid on behalf of individuals that also meet the eligibility criteria for SCHIP. These queries are designed to identify claims (both capitation and fee-for-service) for individuals that meet the specific age and income criteria deemed eligible for SCHIP and also to determine whether the Medicaid recipient has verified third party insurance coverage, a characteristic that would disqualify them from meeting SCHIP eligibility requirements. This process is normally done monthly to isolate individuals meeting the SCHIP eligibility criteria so that the related expenditures (both fee-for-service and capitation payments) can be shifted to SCHIP and the additional federal match can be claimed.

The Department uses queries rather than programming its systems to identify SCHIP eligible individuals because of existing system design constraints, continual changes regarding eligibility for SCHIP, and federal limits on funding for the SCHIP program. Accordingly, DHS's current process of determining SCHIP eligibility through queries of MMIS data on a monthly basis appears to be the most cost-effective manner in which to conduct SCHIP claiming.

The fact that the State's SCHIP eligibility determination process is entirely performed by consultants places more importance on the need for a quality control review process over SCHIP claiming. Controls over this process, could 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.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: None

RECOMMENDATION

2008-89 Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure that eligibility and allowable cost program criteria are met.

Finding 2008-90

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING

Federal regulations require DHS to report expenditures for the Medical Assistance Program (Medicaid) on Form CMS-64. Expenditures for the State Children's Health Insurance Program (SCHIP) are also reported on Form CMS-64 for the basic children's population with all other eligible SCHIP populations reported on the CMS-21 report. While most of the information regarding claims paid is provided through the MMIS operated by the State's fiscal agent, the State's accounting system, RIFANS, is the official record for reported federal expenditures.

Quarterly Statements of Expenditures- Program Expenditures

Controls should be improved over the preparation of the quarterly reporting of Medicaid and SCHIP expenditures. We found that the process to accumulate information needed to prepare the CMS-64 report is complex and requires extensive manual effort. Although we were able to reconcile total program expenditures reported for both federal programs to RIFANS for fiscal 2008, RIFANS does not include the same level of Medicaid service detail that is available in the MMIS. This requires DHS financial management to conduct significant amounts of manual computation to derive the amounts required for the preparation of the CMS-64 and CMS-21 reports. The additional time and effort required in the current reporting process often delays the finalization of the CMS-64 report. This delay often results in estimated federal expenditures being reported on the federal cash transaction report, Form PMS-272, which is required to be filed within 45 days after the end of each quarter.

Although the reconciliation and reporting of Medicaid program expenditures has improved in recent years, the overall process could be streamlined by better aligning the account structure within the State's accounting system with the categories of expenditure data generated by the MMIS and required for preparation of the CMS-64. Better alignment of accounts and coding would facilitate preparation of the CMS-64 as well as the reconciliation of data reported by the fiscal agent which ultimately is recorded in the State's accounting system.

Quarterly Statements of Expenditures- Administrative Expenditures

DHS currently reports administrative expenditures claimed by other State agencies (DEA, DOH, MHRH, DCYF) based on cost certifications filed by these departments or transactions recorded in the State's accounting system. For certain administrative expenditure categories, DHS imputes State matches for federal expenditures certified by other State agencies to derive total costs reported on the CMS-64. Based on interagency agreements between DHS and other State agencies, all Medicaid claiming initiated by other departments should be recorded in authorized accounts within the State accounting system demonstrating the appropriate State/Federal shares of the expenditures. Agency compliance with this mandated accounting would allow DHS to completely reconcile administrative expenditures reported in the State's accounting system with those reported on cost certifications filed by those agencies and ultimately Form CMS-64.

During fiscal year 2008, Medicaid administrative expenditures reported on Form CMS-64 totaled $54,531,151 (federal share) while expenditures reported in the State accounting system totaled $50,038,073. Most of the difference was attributable to administrative expenditures for other State agencies. Expenditures reported on the State's SEFA, which is prepared from data reported by the State's accounting system, should be reconciled with amounts claimed on federal reports to explain reporting differences. Although DHS reconciles reported program expenditures to amounts recorded in the State's accounting system, no such reconciliation is performed for reported administrative expenditures.

Federal Cash Transaction Report

DHS is also required to complete Form PMS-272 Report for the Medical Assistance and SCHIP Programs. The main function of the PMS-272 is to detail both administrative and program grants authorized for the programs and actual expenditures reported on the related federal expenditure reports (Forms CMS-64 and CMS-21). For most quarters, DHS estimates federal expenditure amounts when Form CMS-64 is not completed in time to determine the actual amount of federal expenditures for the quarter. Our analysis of expenditure amounts reported on quarterly PMS-272 reports concluded that, for most quarters, the reported amounts varied significantly from those reported on federal expenditure reports. For several quarters, expenditures reported on the PMS-272 reports differed from amounts reported on the federal expenditure reports by significant amounts ($2- $5 million) and the differences were not caused by limits in authorized grant funding or from unreported expenditures from prior quarters. DHS should improve its federal reporting process to ensure that accurate Medicaid and SCHIP expenditure amounts are reported on the PMS-272 report.

Questioned Costs: None

RECOMMENDATIONS

2008-90a Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.

2008-90b Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system.

2008-90c Report cumulative disbursements accurately on the PMS-272 based on actual expenditures in accordance with report guidelines.

2008-90d Improve tracking of Medicaid and SCHIP expenditures reported on the PMS-272 reports to better document the collective reporting of program and administrative expenditures by grant period.

2008-90e Improve controls over federal reporting by consistently reporting expenditure amounts that have been recorded in the State's accounting system.

Finding 2008-91

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767
Administered by: Department of Human Services (DHS)

NON-EMERGENCY TRANSPORTATION SERVICES

Individuals eligible for Medical Assistance in Rhode Island are covered for appropriate transportation services required to access medical care. These services include emergency services such as ambulance transportation and non-emergency transportation such as routine and planned medical treatment for services covered under Medicaid. Transportation for non-emergency services under Medicaid are provided through the Rhode Island Public Transit Authority (RIPTA).

The Office of Inspector General (OIG), Department of Health and Human Services (DHHS) reviewed certain transportation expenditures charged by DHS for the period from March 1, 2004 through May 31, 2005 and provided a draft audit report to DHS on November 26, 2007. The OIG found that DHS had overcharged the federal government by charging transportation expenditures relating to non-Medicaid eligible individuals. The OIG also concluded that DHS had not provided medical related transportation services to Medicaid eligible individuals in a cost effective manner. The OIG took exception to DHS's purchase of monthly public transportation passes for Medicaid eligible individuals when most individuals required Medical transportation only a few times each month. The OIG concluded that DHS could have more cost effectively provided these services through the purchase of a smaller booklet of public transportation passes.

Our analysis of transportation reimbursements to the RIPTA found DHS's practice of purchasing monthly passes continued during fiscal 2008. DHS reimbursed RIPTA for 311,230 passes totaling $13.7 million during fiscal 2008. DHS charged and reported transportation reimbursements to RIPTA as Medicaid and SCHIP administrative costs totaling $11,006,184 and $2,687,936, respectively, during fiscal 2008. Using the same methodology outlined in the OIG's draft report, DHS's purchase of these monthly passes at a cost of $44 per pass as compared to a more limited pass (including 10 bus tickets) costing $17.50 per month resulted in federal questioned costs of $3,314,362 and $1,080,758 for Medicaid and SCHIP, respectively for fiscal 2008.

As is also noted in Finding 2008-94, we noted that the Department of Elderly Affairs was also reimbursed through Medicaid for specialized transportation services provided to the elderly and disabled through the State's accounting system. Allowing transportation reimbursements to RIPTA to be processed through two different billing mechanisms increases the risk that duplicate payments could be made for the same service. DHS should require all transportation claims to be processed through the MMIS to enhance controls over this area of claiming.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: $3,314,362 – Medical Assistance
$1,080,758 – SCHIP

RECOMMENDATIONS

2008-91a Reimburse the federal government for all costs deemed to be unallowable by CMS.

2008-91b Ensure that all claim reimbursements for non-emergency transportation services are processed through the MMIS.

Finding 2008-92

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER MEDICAID PAYMENTS TO PRIVATELY OPERATED COMMUNITY PROVIDER AGENCIES - SERVICES AND SUPPORTS FOR ADULTS WITH DEVELOPMENTAL DISABILITIES

The Division of Developmental Disabilities within the Department of Mental Health, Retardation, and Hospitals (MHRH) is responsible for planning and administering a system of community-based services and supports for adults with developmental disabilities in Rhode Island. The Division contracts with a variety of provider agencies for service delivery with funding mostly provided through the State's Medicaid program. Services can be broadly categorized into: residential support services, day/employment services, and family support services (respite, homemaker, etc.). Total costs for community based services to developmentally disabled individuals approximated $200 million in fiscal 2008.

The Department of Human Services (DHS), the agency responsible for the administration of the Medical Assistance Program, has entered into an interagency agreement with MHRH that delegates responsibility and authority for administering certain elements of the Medicaid program to MHRH. Included within that delegated authority is oversight of service providers to adults with developmental disabilities and establishment of appropriate reimbursement rates. MHRH is responsible for licensing these providers and for administering the provisions of the State's 1915(c) waiver which details the scope of services to be provided to this segment of the Medicaid population. The 1915(c) waiver specifically provides for home and community based services designed to allow individuals with developmental disabilities to remain in the community rather than permanently residing at an intermediate care facility.

MHRH currently employs two different funding methods and payment systems to administer reimbursements for services provided to adults with developmental disabilities:

- The first method requires providers to bill for services directly to the State's Medicaid Management Information System (MMIS) based on per diem rates or monthly reimbursement rates established on an individual provider basis by MHRH. Residential support, day program, and homemaker services are reimbursed each month based on provider specific rates that assume a certain level of required service for the client.

- The second funding method determines provider reimbursements based on each individual's assessed level of supports and services. Providers are reimbursed for

services required over the period of authorization (usually six months to a year). MHRH processes provider payments monthly through their departmental Waiver Payment System (WPS) which validates that the provider has not exceeded their service authorization for the period billed. Once validated through the WPS, MHRH transmits payment data to the MMIS to allow all provider payments to be made through the one system.

Neither claim group is subjected to extensive claim edits within the MMIS and the claims transmitted from the WPS are paid based solely on the requested billing amount.

We sampled 70 claim payments approximating $370,000 processed through MHRH's Waiver Payment System and reviewed the related DD claiming activity processed directly through the MMIS. These procedures had multiple objectives:

- evaluate the effectiveness of controls over the processing and payment of claims submitted through the MMIS and WPS;

- ensure that providers were only reimbursed for allowable services defined within the State's 1915(c) waiver; and

- determine whether the individuals were in attendance on the service dates being reimbursed to the providers, a requirement clearly outlined in the State's 1915(c) waiver.

We had the following findings relating to claims payments to privately-operated providers for services provided to adults with developmental disabilities:

- Departmental authorizations (dollar authorizations for specific services that cover several months to a year) allotted to providers for services provided to individuals under the 1915(c) waiver lack the necessary unit specificity to determine if all authorized services were performed. Since the 1915(c) waiver is designed to provide for specific services to allow individuals to remain at home or in the community, smaller units of service would allow for more precise control and identification of the services being billed. A reimbursement structure that more precisely identifies the specific dates and units of service provided could allow all 1915(c) waiver services to bill directly through the MMIS and allow for more enhanced control edits to be applied to these claims.

- Five duplicate payments were identified by our testing. In all five instances, residential support services were billed directly through the MMIS and WPS for the same service and period. Although four payments were repaid by the providers upon subsequent identification by MHRH, controls would not prevent providers from billing for identical services through the MMIS and WPS. (Federal questioned costs - $1,940)

- Numerous examples were identified where providers were reimbursed for dates of services when individuals were not present. Several examples represented clear cases where individuals were either in a hospital or rehabilitation center for almost the entire month and the provider still billed for a complete month of services. (Federal questioned costs - $37,660)

- Direct reimbursements for fire code upgrades at privately-operated facilities totaling $300,357 (federal share) were made during fiscal 2008. Because these reimbursements

were not identified as allowable services under the State's 1915(c) waiver, we believe that the State must obtain specific authorization from CMS to make these reimbursements allowable under Medicaid. MHRH also directly reimbursed providers for provider tax amounts calculated on the fire code reimbursements which does not appear to meet federal regulations or State general laws relating to the healthcare taxes on this provider group. (Federal questioned costs - $300,357)

- The State's 1915 (c) waiver specifically prohibits costs for room and board from being reimbursed through Medicaid. MHRH performs certain financial oversight procedures designed to evaluate the amount of annual reimbursements paid to individual provider agencies under the State's 1915(c) waiver. These oversight procedures were developed to ensure that Medicaid was not reimbursing providers for room and board costs associated with operating group home facilities. These financial monitoring procedures involve obtaining certain required schedules from the provider (in addition to audited financial statements) designed to provide a detailed accounting of the provider's financial operations by program. These oversight procedures however do not require the mandated schedules to be audited and MHRH does not conduct any procedures to evaluate the accuracy of these provider filings. In our opinion, MHRH's financial oversight procedures, as currently designed, do not provide adequate control over this aspect of waiver compliance.

Based on the above findings, we have concluded that controls are not in place and operating effectively over this provider group to ensure that Medicaid payments are made in compliance with the federal regulations mandated under the State's 1915(c) waiver. Both DHS and MHRH should work collectively to enhance controls over Medicaid payments to these providers by ensuring that all claims are processed through the MMIS and subjected to all of the claim edits and control features available in the system.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: $339,957

RECOMMENDATIONS

2008-92a Implement the necessary system modifications that will allow all claims for services provided to adults with developmental disabilities to be processed through the MMIS.

2008-92b Consider authorizing waiver services for individuals based on smaller units of service (i.e., hourly or daily, instead of monthly) to allow for more precise claim editing to be performed in the MMIS.

Finding 2008-93

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID SERVICES PROVIDED BY LOCAL EDUCATION AGENCIES

Certain school-based health services are reimbursable under the Medicaid program when provided by Local Education Agencies (LEAs) to Medicaid eligible students pursuant to an Individualized Education Plan (IEP). These services include speech therapy, physical therapy, occupational therapy, audiological services, counseling, and other medical services.

DHS has developed and communicated formal policies and procedures in the form of a special education services guidebook designed to improve overall LEA compliance with Medicaid regulations. The guidebook established the specific medical service and record keeping requirements for special education services provided by LEAs. In recent years, DHS has refined these policies and procedures to clarify certain compliance requirements outlined in the special education services guidebook. DHS also improved its monitoring of LEA compliance in recent years by conducting several claiming reviews at local education agencies across the State.

The focus of our audit work for fiscal 2008 was to evaluate LEA compliance to determine the effectiveness of the policies and monitoring procedures implemented by DHS. We tested 50 claims for special education services provided by two local education agencies that were reimbursed by the Medicaid program during fiscal 2008. We made site visits to the LEAs and evaluated each claim for compliance with policies mandated within DHS's special education guidebook. Our testing found 9 out of 50 claims (18%) with one or more missing compliance features. The federal share of questioned costs identified in our sample totaled $1,455 (27.9%) out of total federal claims of $5,231 included in our sample. When projected to the $1.6 million (federal share) of claims paid for the two LEA's reviewed and the $16.4 million (federal share) for all services provided by LEA's to Medicaid eligible children statewide, estimates of likely questioned costs totaled $448,629 and $4,559,828, respectively. Most instances of non-compliance related to:

- services provided that were not documented in the student's IEP;
- discrepancies with reported student attendance on the date(s) of service; and
- improper service codes being billed by the LEA.

Local education agencies are also reimbursed by Medicaid for certain administrative costs associated with school-based health services. Most LEAs utilize a third-party contractor to determine the amount of administrative reimbursement the agencies are due from the Medicaid program on a quarterly basis. The LEAs provide the third party contractor with employee time sheets, salary related data, and expenditure reports on a quarterly basis and additional budget and capital asset data on an annual basis. The contractor utilizes a random moment time study analysis to determine costs allocable to school-based health services that are ultimately reimbursable through Medicaid. The contractor reports the amounts to be reimbursed through Medicaid to DHS and the LEA each quarter. DHS reimburses LEAs for administrative costs as determined by the contractor and the contractor is paid a rate contingent on the amount reimbursed by Medicaid from the LEA. Although DHS has included policies outlining allowable administrative claiming in the special education services guidebook, no specific procedures have been implemented to ensure that

administrative claiming determined by the LEA's contractor are accurate and in compliance with these policies.

DHS needs to supplement the implementation of the policies and procedures outlined in the special education services guidebook with enhanced monitoring and controls to evaluate compliance by LEAs and to ensure that only services meeting Medicaid regulations are being reimbursed. DHS should also consider requiring the pre-authorization of Medicaid eligible special education services based on a child's IEP. The Medicaid Management Information System (MMIS) could then apply edits to ensure that submitted claims are consistent with services outlined within the IEP.

Questioned Costs: $1,455

RECOMMENDATIONS

2008-93a Consider pre-authorization within the MMIS for special education services specified in student's individualized education plans. Subject special education claims to edits for pre-authorization as a requirement for payment approval.

2008-93b Expand post audit/monitoring procedures of special education claims to ensure compliance with DHS's "Medicaid Direct Services Guidebook for Local Education Agencies".

2008-93c Implement review procedures for administrative claiming determinations being conducted by a third party contractor on behalf of local education agencies.

Finding 2008-94

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER MEDICAID EXPENDITURES ADMINISTERED BY OTHER STATE AGENCIES

In addition to the DHS, the Medicaid program is administered through several other State departments, the Departments of Mental Health, Retardation, and Hospitals (MHRH), Elderly Affairs (DEA), Health (DOH), and Children, Youth, and Families (DCYF). Medicaid administrative and benefit expenditures administered by other State agencies during fiscal year 2008 exceeded $530 million. DHS, the single State Medicaid agency, maintains interagency agreements with all other state agencies administering portions of the program. These new agreements were designed to improve controls over Medicaid expenditures administered by other State agencies by outlining specific allowable Medicaid activities. The interagency agreements required the other State agencies to:

- seek approval of any contract or subcontract, including any purchase of goods, software, or equipment, with a value of $25,000 or greater in advance by DHS;

- seek approval of any contract or subcontract involving the transfer or use of data concerning Medicaid expenditures or eligibility in advance by DHS;

- obtain a benefit and administrative claiming review certifying that all agency Medicaid claiming complies with the terms of the interagency agreement, the Medicaid State Plan, and applicable federal requirements;

- develop and submit a provider contract rate setting and cost assignment methodology for DHS approval if applicable to any allowable service (e.g., MHRH hospital per diem rate, group home per diem rates, DCYF contracted placement per diem rates); and

- submit plans for the transition of any Medicaid benefit claims to the MMIS from their current process (if applicable).

We evaluated significant Medicaid activities performed by other State agencies in conjunction with current interagency agreements and noted the following:

- Several agencies had not complied with interagency agreement requirements to have benefit and claiming reviews conducted for purposes of providing assurance to DHS that agency claiming was allowable under Medicaid.

- Our review of MHRH's Medicaid benefit claiming noted issues relating to the allowability of certain payments made to providers of services to adults with developmental disabilities. See Finding 2008-92 for complete details of the issues noted. We also noted that MHRH charged the Medical Assistance program for eligible individuals that resided at two State-operated substance abuse facilities. The total reimbursement for the four-month period approximated $355,000 (federal share - $187,000). While these costs appear to be allowable under Medicaid, MHRH should have processed the claims through the MMIS subject to all the controls and edits designed within the system. We also found that MHRH overbilled for these services resulting in total questioned costs of $4,263 (federal share - $2,239).

- Our review of DCYF's Medicaid benefit claiming also noted several issues relating to the allowability of certain aspects of their claiming for contracted residential placements. See Finding 2008-98 for complete details of the issues noted. In addition, we noted that DCYF is processing adjustments in the state accounting system for Medicaid reimbursements associated with Children's Emergency Services ($1.4 million), outreach and tracking services provided in conjunction with the department's Aftercare program ($3.3 million), and day treatment program services ($1 million). Controls over these Medicaid payments should be improved by having vendors bill directly through the MMIS.

- The Department of Elderly Affairs was reimbursed $418,520 (federal share - $209,260) in fiscal 2008 for specialized transportation services provided to the elderly and disabled. The only supporting documentation for this reimbursement was a payment request from the Rhode Island Public Transit Authority (RIPTA). The Department of Elderly Affairs indicated that no due diligence or review of support for these payments was conducted to ensure that the underlying transportation services were provided for Medicaid eligible individuals. DHS should require RIPTA to submit claims for transportation reimbursement directly to the MMIS to enhance eligibility controls over these Medicaid payments and to ensure that these claims are subjected to the surveillance and utilization control procedures performed by the State's fiscal agent.

Medicaid interagency agreements were designed to improve overall oversight and monitoring of substantial Medicaid activities administered by other State agencies. Compliance with these agreements would provide additional controls over the allowability and eligibility of significant Medicaid operations administered by other State agencies. In addition, it would document established rate-setting methodologies for long-term care and group home facilities administered by other state agencies that, once approved, will require evaluation and monitoring for compliance.

DHS should ensure that other State agencies contract for administrative and benefit claiming reviews that provide a written certification to DHS that the agency has complied with both the interagency agreements and Medicaid program requirements. These reviews should be performed by DHS or DHS approved contractors to ensure that both administrative and benefit claiming reviews are conducted by professionals with the necessary knowledge and experience with the Medical Assistance program to conclude that all charges meet program regulations.

Ultimately, controls should be enhanced by requiring all Medicaid claim payments be processed and disbursed through the same controls within the MMIS. This assures uniform and consistent controls over payments, significantly reduces the risk of duplicate payments and streamlines overall program administration. DHS should continue efforts to have all Medicaid benefit claims processed through the MMIS.

Questioned Costs: $2,239

RECOMMENDATIONS

2008-94a Ensure that other state agencies responsible for administering Medicaid services comply with the terms of the interagency agreements and provide DHS with all required mandates.

2008-94b Once approved, develop a review process to ensure compliance with authorized rate setting procedures for 1915(c) waiver services, adolescent residential placements and group home facilities administered by other State agencies.

2008-94c Process all benefit claiming for Medicaid eligible individuals through the MMIS to ensure proper controls over these Medicaid payments.

Finding 2008-95

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER MEDICAID ELIGIBILITY

DHS utilizes an integrated computer system (INRHODES) as the official database used to determine and track eligibility for Medicaid. Transactions affecting eligibility are transmitted daily from INRHODES to update the MMIS recipient subsystem. As designed, Medicaid eligibility data

from INRHODES should be replicated in the MMIS. In a limited number of instances, differences occur between the two databases. These differences can be summarized into three categories:

- cases active in INRHODES, but inactive in the MMIS;
- cases active in the MMIS, but closed in INRHODES; and
- other differences, such as personal data, recipient income, category codes, etc.

A monthly variance report identifying the differences between the two systems is generated by the MMIS, and forwarded to DHS for review. DHS is responsible for making the appropriate corrections to ensure the accuracy and reliability of the two systems. Variances occur in about 1,000 cases each month. During fiscal year 2008, staff turnover at DHS caused the department to be unable to research variances reported on the monthly report and make the necessary corrections to either the INRHODES or MMIS systems. This resulted in a weakness in internal control over eligibility and likely resulted in ineligible individuals receiving benefits under the Medicaid program.

DHS believes that these eligibility variances will continue to occur due to the design of both INRHODES and the MMIS and further, any solution to eliminate these variances would require substantial and costly redesign of either or both systems. Because redesign of one or both systems is unlikely, DHS should consider the following to ensure that reasonable controls are in place over Medicaid eligibility:

- additional personnel may be needed to resolve eligibility variances reported between the two systems;
- more advanced reporting capabilities should be applied to the variance report to identify those variances that are most critical to recipient eligibility so that those variances can be resolved first; and
- often variances result from the incorrect entry of recipient eligibility information into INRHODES by eligibility technicians. Better training of INRHODES eligibility technicians in the use of the system would reduce the number of variances reported each month.

DHS must investigate eligibility variances in a timely manner to minimize the likelihood and effect of payments made on behalf of ineligible individuals. Additionally, a complete resolution of eligibility variances must include determination of claims paid for ineligible individuals. DHS should maintain adequate documentation to support the complete investigation of cases determined to be ineligible and any quantification of claims paid during the period of ineligibility. Once identified, these amounts should be credited to the federal grantor.

We identified one recipient whose eligibility ended during August 2007 according to the INRHODES System, however Medicaid managed care payments under the RIte Care program continued until April 2008. Monthly capitation payments for this recipient continued for an 8-month period resulting in questioned costs of $1,632 (federal share - $857) for the period of ineligibility. Our follow-up with DHS officials concluded that the error was due to either a caseworker error or an error in the transfer of information from INRHODES to the MMIS. Timely resolution of variances reported between the two systems could have limited the amount of unallowable program costs in this instance.

In addition, we reviewed 206 cases that were identified in the department's variance report described above. These 206 cases represent instances where DHS had resolved the discrepancies between the two systems but did not determine if any claims were paid on behalf of ineligible

individuals. Our analysis of these cases determined that $214,339 (federal share - $112,549) in fee for service and capitation payments were made during periods of ineligibility.

Questioned Costs: $113,406

RECOMMENDATIONS

2008-95a Ensure the timely resolution of eligibility variances reported between INRHODES and MMIS to ensure that only eligible recipients receive Medicaid benefits.

2008-95b Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.

Finding 2008-96

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

PROVIDER ELIGIBILITY

Federal regulations relating to provider eligibility require that all providers, as a condition of enrollment in the Medicaid Program, complete the following documentation:

- Provider Enrollment Form – Includes all identifying provider information such as name, address, licensure information, ownership information, etc.
- Provider Agreement Form – Provider contract that outlines the duties of each participating provider to inform the RI Medicaid Program of changes in licensure or ownership.
- Provider Agreement Form Addendum I – Certification Regarding Suspension and Debarment From Participation in the Medicaid Program.
- W-9 Form – Internal Revenue Form delineating the providers Taxpayer Identification Number (TIN).
- Documentation of Current Licensure – Medical licensure by the RI Department of Health is mandatory for most provider groups.

DHS has delegated, to its fiscal agent, the responsibility for ensuring that the above mandatory documentation is maintained for each provider participating in the Medicaid Program, a key control over provider eligibility. Our review of 111 provider files maintained by the State's fiscal agent noted the following documentation deficiencies:

- 73 provider files included in our sample contained one or more deficiencies.
- 57 instances where documentation of provider licensure was not included in the file.

- 37 instances where Addendum I of the provider agreement had been obtained from the provider after our request for documentation was provided to the fiscal agent.

- Five instances where W-9 forms were not included in the provider files.

- One provider agreement was not included in the provider file.

Follow-up on deficiencies relating to licensure documentation resulted in all Medicaid providers in our sample being properly licensed by the RI Department of Health (DOH); however, controls were not adequate to ensure compliance with provider licensing requirements. Controls over provider licensing should be improved by electronically matching DOH licensure information to MMIS provider data.

Other deficiencies noted relating to the documentation of provider enrollment including suspension and debarment certifications are indicative of inadequate controls to ensure that updated provider information is maintained. DHS needs to better monitor the fiscal agent's policies and procedures relating to provider eligibility and should require its fiscal agent to re-enroll all medical providers periodically to ensure that current and accurate information is maintained on file.

Provider Licensing – Privately-operated Group Homes and Service Agencies Providing Contracted Placements for Children Placed in the State's Custody

Privately-operated group homes and service agencies providing contracted placements for children placed in the State's custody constitute two of the larger provider groups reimbursed through the Medicaid program. These unique provider groups are not licensed by the Department of Health as are most providers reimbursed through the Medical Assistance Program. Instead, licensing authority for these providers is established through State law. The Department of Mental Health, Retardation, and Hospitals (MHRH) is the State agency responsible for licensing providers of services to developmentally disabled adults and the Department of Children, Youth, and Families (DCYF) is responsible for licensing providers of children's behavioral health services which includes the contracted services provider group.

In conjunction with our review of benefit claiming by MHRH and DCYF, we requested documentation of provider licensing, each department's licensing procedures and requirements, especially those designed to ensure Medicaid eligibility for services rendered (i.e., inclusion of licensed medical professionals on staff, adequacy of clinical documentation for medical services provided at each facility, etc.). While both departments require their providers to meet provider eligibility requirements under Medicaid, adequate controls to ensure the monitoring of these requirements do not appear to be in place and operating effectively over these provider groups. For example, the departments do not appear to require providers to identify the licensed professionals providing treatment to Medicaid eligible individuals. Further, documentation of current provider licensure by both departments was lacking in some instances.

DHS, as the Single State Medicaid Agency, should ensure that licensing procedures conducted by other State agencies comply with federal requirements for provider eligibility within the Medical Assistance Program. DHS should also implement monitoring procedures to ensure that current provider licensing by these other State agencies is maintained on an on-going basis.

Questioned Costs: None

RECOMMENDATIONS

2008-96a Improve fiscal agent oversight of provider enrollment and licensing to ensure that all providers enrolled in the Medical Assistance program are eligible to participate.

2008-96b Develop procedures to electronically match DOH licensure data with active Medicaid providers to periodically update licensure status.

2008-96c Provide specific guidance to other State agencies with responsibility for licensing provider groups to ensure the eligibility of all providers being reimbursed through the Medical Assistance Program.

2008-96d Consider centralizing all medical licensure responsibility within one department to ensure consistent application of Medicaid licensing requirements.

Finding 2008-97

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

FEDERAL MATCHING REQUIREMENTS - FISCAL AGENT CONTRACT

Section 433.15(b)(4) of Title 42 of the Code of Federal Regulations allows federal reimbursement of 75% of certain costs associated with the operation of mechanized claims processing and information retrieval systems. In conjunction with this federal requirement, DHS charges the majority of costs associated with its fiscal agent contract at the 75% FFP rate within the Medical Assistance program.

DHS's fiscal agent contract includes several support services where DHS has delegated certain program operations to its fiscal agent. Examples of these services include the verification of third party coverage, various prior authorization (PA) services, and hotline operations to arrange transportation for Medicaid eligible individuals. While most of these services do support aspects of the claims processing function, they do not specifically represent the costs associated with processing medical claims. One service included in the contract relates to clinical PA consultants which were originally DHS contract employees that were subsequently transferred to a staffing firm retained by the fiscal agent. These costs are now paid through the fiscal agent contract and claimed at the enhanced 75% rate.

Based on our review of DHS's current fiscal agent contract, we recommend that the services outlined in this contract be reviewed to ensure that they meet the requirement for enhanced federal participation in the Medical Assistance program. In conjunction with this review, DHS should obtain specific guidance from CMS regarding the allowability of services outlined in the contract for enhanced federal participation.

Questioned Costs: Not determinable/unknown

RECOMMENDATION

2008-97 Review fiscal agent contract services to ensure their allowability for reimbursement at federally enhanced rates. Obtain specific guidance from CMS outlining the allowability of enhanced federal participation for services performed by the fiscal agent.

Finding 2008-98

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID CLAIMS FOR CHILDREN IN FOSTER CARE

The Department of Children, Youth, and Families (DCYF) is responsible for providing 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 all or a portion of these placement costs as specialized rehabilitation services under the Medicaid program.

42 CFR section 483.45 requires specialized rehabilitation services such as mental health rehabilitation services to be performed by or under the supervision of a qualified medical professional. Section 483.45 also requires specialized rehabilitation services to be provided under the written order of a physician. Although most 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, no specific or formalized monitoring of provider licensure and/or documentation of medical services within these provider agencies is currently being performed to ensure that Medicaid requirements are being met.

DCYF uses its RICHIST computer system to administer services provided to children in foster care. RICHIST 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 whole or 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 more limited edit and control process than most provider claims paid through the system.

During fiscal 2008, contracted residential placements totaling $90 million were billed from the RICHIST system to the MMIS. In conjunction with our audit, we identified the following control and compliance issues relating to the allowability of certain aspects of DCYF's claiming to the Medicaid program:

- Although DCYF is responsible for licensing providers in accordance with Title IV-E requirements, the department did not have any specific policies and procedures designed to ensure that all services billed were performed by adequately licensed professionals as required by Medical Assistance.

- DCYF allocated portions of foster care and adoption assistance placements to the Medical Assistance program in fiscal 2008. In most instances, the Medicaid eligible individuals also received managed care coverage through the State's RIte Care program. We consider the reimbursement of these services through the Medical Assistance program to be questionable based on a lack of evidence demonstrating that these services were performed by licensed medical providers. We identified $23,514 in expenditures charged to Medicaid for these services in fiscal 2008 (federal share - $12,347).

- Accredited residential placement facilities were allocated 100% to Medical Assistance during fiscal 2008. For these facilities, the all-inclusive per diem rate was charged to Medicaid without any adjustment being made for the room and board portion of the rate.

- Unaccredited facilities were partially allocated to Medicaid during fiscal 2008. DCYF did not maintain any documentation supporting the determination of the percentage of the facility's all-inclusive per diem rate into its components (e.g., treatment and assessment, room and board, case management and personal care). In most of these instances, all components excluding room and board were billed to Medicaid.

- DCYF enters into annual contracts with contracted placement providers for a certain number of placements at a fixed contract cost. DCYF initially submits claiming to Medicaid based on a per diem rate that assumes full occupancy of contracted placements. Once the year closes, RICHIST recalculates the per-diem rate based on actual occupancy and retransmits the claims to the MMIS for readjudication often resulting in a significant increase in the amount paid by Medicaid. Charging additional amounts to Medical Assistance as a result of underutilization of contracted placements appears questionable.

- An analysis of claiming of children in the custody of DCYF during fiscal 2008 found some instances where an individual's reported attendance in a foster care contracted placement overlapped with an inpatient hospital stay for the same individual. While the number of instances identified was not significant, it demonstrates the importance of processing all Medicaid claims through the MMIS. A full adjudication of all claims through the MMIS should identify and prevent payment for incompatible services.

In general, controls over Medicaid claims for children in foster care, which originate through DCYF's RICHIST system, should be enhanced to match controls in place for all other Medicaid claims processed through the State's MMIS. MMIS processing for these claims includes recipient

eligibility edits but not many of the other specific claim controls designed in the MMIS. Controls over residential placement services are particularly deficient because DCYF is reimbursed for the amount requested -- approved provider rates for DCYF providers are not maintained within the MMIS. Further, controls within the MMIS to detect duplicate billings are ineffective since services could be billed under a comprehensive per diem rate and also on a fee-for-service basis. Lastly, policies regarding the Medicaid allowability of specific items and the determination of appropriate provider rates have not been established.

Controls over the claiming of DCYF contracted placements needs to be improved to ensure that only eligible claims are reimbursed through Medical Assistance. DHS, as the single State Medicaid Agency, in conjunction with DCYF should develop more formalized policies and procedures relating to provider eligibility and licensing, clinical documentation, allowable services, etc. In addition, DHS should adopt rate setting methodologies or procedural fee schedules that serve to standardize the reimbursement for similar services provided to children in the State's custody. The State should consider requiring providers to submit claims for Medicaid reimbursement directly to the MMIS. Submitting these claims directly to the MMIS as enrolled providers would greatly enhance the controls over medical services provided to children placed in the State's custody.

Questioned Costs: $12,347

RECOMMENDATIONS

2008-98a Formalize a claiming methodology for DCYF residential placements which utilizes either an all-inclusive or prorated per diem rate that is consistent with federal regulations. Alternatively, reimburse providers on a fee-for-service basis or include residential placements as in-plan services through Rite Care.

2008-98b Enhance controls over Medicaid claims originating from DCYF's RICHIST system to be equivalent to controls in place over all other Medicaid claims paid through the MMIS.

2008-98c Move towards processing all Medicaid claims through the Medicaid Management Information System.

Finding 2008-99

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID ELIGIBILITY QUALITY CONTROL (MEQC) PROGRAM

42 CFR 431.800 establishes State plan requirements for a Medicaid eligibility quality control (MEQC) program that must be designed to reduce erroneous expenditures by monitoring eligibility determinations and claims processing operations. The regulations require that federal financial participation (FFP) be disallowed for erroneous Medicaid payments due to ineligibility and recipient liability errors as detected through the MEQC program. The agency must collect and verify all information necessary to determine the eligibility status of each individual included in the State's MEQC sample.

42 CFR 431.816 requires the Medicaid agency to complete eligibility case reviews and report the findings electronically through the system prescribed by CMS for 100 percent of all cases selected in the MEQC sample. Our inquiry of MEQC review activity for fiscal 2008 found that DHS was not able to comply with this 100% requirement due to a significant percentage of cases where Medicaid recipients were not cooperating with the MEQC unit's review. We noted that sixty-three (63) of three hundred sixty-six (366) positive cases, or 17.2% of cases selected for MEQC review could not be reviewed due to participants' refusal to provide the required information.

We questioned how the large number of non-cooperative cases impacted the statistical validity of the MEQC sample results communicated to CMS and whether exclusion of the non-cooperatives cases from the error rate calculation was consistent with federal requirements. DHS was unable to provide documentation to support that its handling and reporting of the non-cooperative cases selected for MEQC review was consistent with federal regulations and/or guidelines.

Both DHS's application for benefits and Code of Rules indicate that as a condition of eligibility, the Medical Assistance applicant/recipient must cooperate with State and Federal personnel conducting quality control reviews. Failure to cooperate may result in a denial of eligibility or case closure. In instances where recipients have not cooperated with MEQC reviews, DHS has continued Medicaid benefits. DHS has not explained the inconsistency between its stated policies regarding applicant/recipient cooperation and the actual non-cooperation of certain recipients evidenced during the MEQC sampling process.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number).

Questioned Costs: None

RECOMMENDATIONS

2008-99a Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.

2008-99b Revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.

Finding 2008-100

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767
Administered by: Department of Human Services (DHS)
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID ELIGIBILITY FOR QUALIFIED NON-CITIZENS

Federal law (the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 - PRWORA) restricts eligibility for certain qualified non-citizens applying for Medicaid benefits for a period of five years after establishing legal residence in the United States. Various exceptions to the five-year ban apply based on immigration status and country of origin. Additionally, non-citizens, regardless of qualified status may receive emergency services under the Medicaid program. Further, pursuant to the State Plan for the State Children's Health Insurance program, non-citizen pregnant women are eligible for prenatal, delivery and post-partum care services as coverage for unborn children.

For the first three months of fiscal 2008, the Department of Human Services' policies and procedures (to determine Medicaid eligibility) were not adequate to comply with the federal requirement restricting Medicaid eligibility for a period of five years after establishing legal residence in the United States (unless exempt from the five-year ban). Data regarding the immigration status of applicants was collected and recorded within the Department's INRHODES computer system to allow determination of qualified non-citizen status; however, the five-year ban provision for qualified non-citizens was not programmed into the INRHODES computer system until September 25, 2007.

We assessed the fiscal 2008 impact of the State's noncompliance with the five-year ban for certain non-exempt qualified non-citizens by utilizing data obtained from the State's INRHODES computer system which contains Medicaid program eligibility information. The INRHODES system data identified individuals meeting qualified non-citizen status at August 2007 who were not exempt from the five-year ban and had not met the five-year residency requirement as of August 2007.

The Medicaid eligible population at August 2007 totaled 176,321 individuals. Our analysis identified 3,733 qualified non-citizens (2,159 adults and 1,574 children) that were deemed eligible for Medicaid during the month of August 2007 but were not exempt from the five-year ban nor had they met the five-year residency requirement as of our test month (August 2007). This group of 3,733 individuals, while still eligible for emergency services under Medicaid, would not have been eligible for the full scope of services allowed under Medicaid nor would they be eligible for capitated managed care coverage under the State's Rite Care program.

Based on a limited analysis of the 3,733 ineligible individuals identified through our audit procedures, we estimated that the State likely incurred approximately $1.35 million in federal costs. Because the majority of the 3,733 individuals identified were enrolled in the State's managed care program, the estimated questioned costs were based on the average cost of providing managed care coverage to these individuals for the three-month period of ineligibility in fiscal 2008. We believe that our analysis resulted in a reasonable estimate of the extent of non-compliance with PRWORA provisions during fiscal 2008; however, an exact determination of unallowable costs would require complete review of application data and underlying supporting documentation as well as a medical

determination as to whether medical claims were paid for "emergency services" as defined by federal regulations. Further, the 3,733 individuals identified as potentially ineligible impact both Medicaid and SCHIP. The State first establishes Medicaid eligibility and then "allocates" specific claim expenditures to SCHIP based on program participant criteria. It was impractical to specifically estimate questioned costs for each federal program, therefore our estimate of the federal share of questioned costs assumes the Medicaid federal financial participation (FFP) rate of 52.35% for the months of non-compliance. The FFP rate for SCHIP was 66.65% for the same period.

We performed limited procedures to validate the reports from the State's INRHODES computer system that identified the 3,733 non-citizens whose eligibility codes indicated non-exempt status under PRWORA. The validity and completeness of this report is dependent upon the controls over data entry, the accuracy of coding of application data within the system and other system related controls. Our limited procedures included testing a sample of cases to ensure that the case specific data contained within INRHODES was consistent with the report generation criteria (e.g., non-citizens identified did not qualify as exempt status under PRWORA and had not met the five-year residency requirement).

Questioned Costs: $1,350,000 (the amount of questioned costs specifically identifiable to Medicaid and SCHIP was impractical to estimate)

RECOMMENDATION

2008-100 Credit the federal grantor for questioned costs relating to claims paid on behalf of individuals ineligible for Medical Assistance.

Finding 2008-101

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

PROGRAM OVERPAYMENTS

Federal regulation 42 CFR 433.20 requires the State to refund the federal share of overpayments that are subject to recovery to CMS through a credit on its Quarterly Statement of Expenditures (Form CMS-64). The federal share of overpayments subject to recovery must be credited on the Form CMS-64 report submitted for the quarter in which the 60-day period following the discovery is made regardless of whether or not the overpayment has been recovered by the State.

RIte Share Program

The State operates its RIte Share program to provide health insurance through employers for Medicaid eligible individuals and families as a cost effective alternative to its RIte Care program. Rite Share involves paying the employee share of health insurance coverage directly to the employer or in many cases, the employee. For fiscal 2008, Rite Share expenditures approximated $42 million covering nearly 8,000 individuals under their respective employer health insurance coverage. Since the inception of the RIte Share program, DHS has accumulated a receivable balance totaling $848,850 (federal Share - $445,731) relating to payments made to individuals whose employer health

insurance coverage had terminated. As part of our review of these program overpayments, we found that DHS was not crediting the federal government for its share of these unallowable costs.

As part of the RIte Share enrollment process, DHS accumulates necessary health insurance information to determine the cost effectiveness of the coverage provided by the employer. Such information includes the benefits covered by the plan, the cost of the plan, the employee's share, employee co-payments, etc. DHS does not obtain any documentation from the health insurance plan as verification of coverage. Verification is only made with the employer.

Once enrolled, DHS periodically confirms that individuals have remained employed and covered by the employer's health coverage. In most instances, because Medicaid pays individuals prospectively for employer coverage, individuals will usually receive one or two months of payments before DHS identifies terminated employment and/or health coverage. In addition to paying premiums to these individuals, DHS also retroactively dates their insurance coverage termination date in the MMIS to the date the individual terminated their employment. This results in the State paying all fee for service claims submitted on behalf of these individuals in addition to paying the premiums for their employer coverage.

Although DHS has improved it's monitoring of the employment and sustained health insurance coverage requirements of the Rite Share program, program overpayments to individuals that terminated employment coverage should be credited back to the federal government in a timely manner.

Hospital Settlements

The RI General Laws require inpatient hospital providers to file cost settlement reports to DHS within one year from the end of the hospital's fiscal year. DHS uses these settlement reports to determine amounts owed to or due from participating hospitals. During fiscal 2008, most hospitals had submitted their cost reports for the fiscal years ended in 2006 and prior.

At June 30, 2008, DHS had determined that three hospitals had been overpaid a total of $11,244,460 based on hospital settlement reports filed by these providers. DHS had entered into payment agreements with these providers in an attempt to resolve the outstanding balances. In accordance with federal regulations, DHS should credit the federal grantor for the federal share ($5,904,466) within 60 days of identification of the program overpayments.

Questioned Costs: $6,350,197

RECOMMENDATION

2008-101 Reimburse the federal government for program overpayments within 60 days of discovery.

Finding 2008-102

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER DISPROPORTIONATE SHARE PAYMENTS

Section 1923 of the Social Security Act requires that States make Medicaid disproportionate share hospital (DSH) payments to hospitals that serve a disproportionately large number of low-income patients. The Omnibus Budget Reconciliation Act of 1993 limits these payments to the annual costs incurred to provide services to Medicaid and uninsured patients less payments received for those patients. Each State is required to administer DSH payments in accordance with the requirements outlined in their CMS-approved Medicaid State plan.

During fiscal 2008, DHS made DSH payments totaling $125 million to hospitals meeting the specific requirements outlined in the Social Security Act (the "Act"). The majority of DSH payments made are determined based on the direct proportion of each qualifying hospital's uncompensated care to the total uncompensated care costs for all qualifying hospitals. Each qualifying hospital is required to certify the amount of uncompensated care costs incurred by providing services to low-income patients. DHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by the hospitals.

Beginning in fiscal 2009, section 1923 (j) (2) of the Act will require States to significantly improve their reporting and oversight over the determination of DSH payments by requiring the State to annually submit to the Secretary an independent certified audit that verifies the following:

a) The extent to which hospitals in the State have reduced their uncompensated care costs to reflect the total amount of claimed expenditures made under this section.

b) Payments under this section to hospitals that comply with the requirements of subsection (g) of section 1923 of the Act.

c) Only the uncompensated care costs of providing inpatient hospital and outpatient hospital services to individuals described in paragraph (1) (A) are included in the calculation of the hospital specific limits under the Act.

d) The State includes all payments under this title, including supplemental payments, in the calculation of such hospital-specific limits.

e) The State has separately documented and retained a record of all of its costs under this title, claimed expenditures under this title, uninsured costs in determining payment adjustments under this section, and any payments made on behalf of the uninsured from payment adjustments under this section.

Audits for Medicaid state plan years 2005 and 2006 must be submitted to CMS no later than December 31, 2009. DHS should implement procedures to improve the controls over Medicaid DSH payments and to ensure that newly implemented DSH audit requirements are met during fiscal 2009.

Questioned Costs: None

RECOMMENDATION

2008-102 Improve controls over Medicaid DSH payments by implementing the federal requirements of section 1923 (j)(2) of the Social Security Act.

Finding 2008-103

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

DOCUMENTATION OF MEDICAID ELIGIBILITY DETERMINATIONS

Individuals or families applying for Medical Assistance benefits, in most cases, are required to complete the appropriate application form (DHS-1, DHS-2, or Marc-1 application forms). The purpose of these application forms is to gather the necessary information (household demographic, citizenship, income, resources, etc.) to make an accurate determination of eligibility for the program. DHS eligibility technicians review the forms, including the supporting documentation, for completeness and enter the information into the State's INRHODES system. This information ultimately determines whether or not the applicant is eligible for Medicaid benefits.

As part of our audit, we reviewed the case files (program application and supporting documentation) for 60 individuals included in our claims testing sample. We evaluated the completeness and accuracy of the information obtained from these individuals at the time of their eligibility determination in effect for fiscal 2008. Our review focused on determining that (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.

Our review noted the following documentation deficiencies:

- Required documentation for initial application or eligibility recertification was not included in 6 files reviewed.
- Documentation of applicant resources (bank accounts, vehicles, property, etc.) was not found for 6 files reviewed.
- Documentation of citizenship was not included in 3 files reviewed. INRHODES IEVS controls did validate eligibility in all instances.
- Inconsistencies between the data reported in the case file and the INRHODES system were noted in 2 cases.
- Applicant expense documentation (rent, utilities, etc.) were not included in 3 files reviewed.
- Documentation supporting applicant health insurance coverage was not included in one instance.

The Medical Assistance application forms require applicants to provide documentation of their reported citizenship, income, resources, living arrangements, and expenses. This application process and the program eligibility technicians that perform the initial intake processes for Medicaid represent a vital control over program eligibility. DHS should consider further training to reinforce the specific documentation that is required to be obtained in conjunction with the application and recertification processes. Also, DHS should consider developing a more systematic process for

storing supporting documentation to allow for improved safeguarding and access to the data obtained.

Questioned Costs: None

RECOMMENDATION

2008-103 Improve controls over required eligibility documentation obtained during the Medical Assistance application process.

Finding 2008-104

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

DRUG UTILIZATION REVIEW

The State, through the appointment of a Drug Utilization Review (DUR) Board, administers its drug utilization review procedures as required under Medicaid regulations. Section 42 CFR 456.711 requires States to provide for an ongoing educational outreach program as part of its DUR program. This program should educate providers on common drug therapy problems with the aim of improving prescribing and dispensing practices. DUR programs must include the following practices:

- Dissemination of information to physicians and pharmacists in the State concerning the duties and powers of the DUR Board and the basis for the standards required by Section 42 CFR 456.705(c) for use in assessing drug use.
- Written, oral, or electronic reminders containing patient-specific or drug-specific information and suggested changes in prescribing or dispensing practices. These reminders must be conveyed in a manner designed to ensure the privacy of patient-related information.
- Face-to-face discussions, with follow up discussions when necessary, between health care professionals expert in appropriate drug therapy and selected prescribers and pharmacists who have been targeted for educational intervention on optimal prescribing, dispensing, or pharmacy care practices.
- Intensified review or monitoring of selected prescribers or dispensers.

As part of the DUR program's retrospective review, once a potential drug therapy problem is identified and confirmed by a clinical pharmacist, a PharmRisk Alert letter is mailed to the provider. The letter describes the potential drug therapy problem and requires the provider to formally respond to the issue. The primary purpose of this communication is to change the provider's prescribing or dispensing practices or to obtain a reasonable justification for the practice in the specific instance being evaluated.

Our review of the State's DUR activity reports noted provider response rates ranging from a high of 42% to a low of 25% for respective quarters during fiscal 2008. Providers identified as exhibiting questionable pharmacy prescribing and dispensing patterns failed to respond to the majority of the PharmRisk inquiries made during fiscal 2008. Our inquiry of the high percentage of

non-responding providers found that the State does not have any enforcement protocol in place to resolve instances when providers do not formally respond to the DUR Boards inquiries.

DUR programs within State Medicaid operations are designed to safeguard the prescribing and dispensing practices of those providers that provide services to Medicaid recipients. The State needs to implement procedures to appropriately monitor and enforce the findings of its DUR Board in order to ensure compliance with federal regulations relating to utilization review procedures within the Medicaid program.

Questioned Costs: None

RECOMMENDATION

2008-104 Develop procedures to ensure the monitoring and enforcement of findings by the State's appointed DUR Board.

Finding 2008-105

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE – CFDA 93.959
Administered by: Rhode Island Department of Mental Health Retardation and Hospitals (MHRH) – Division of Behavioral Healthcare Services

ACTIVITIES ALLOWED OR UNALLOWED

Program expenditures reported for state fiscal year 2008 included an unallowable $17,000 expenditure for prevention and treatment of problem gambling. MHRH personnel agreed that this should have been charged to a state account and was charged to the Substance Abuse Block Grant account in error. This expenditure was reported in the federal expenditure report submitted at the end of the two-year period of availability for the FFY 2007 grant.

Questioned Costs: $17,000

RECOMMENDATION

2008-105 Correct the federal report to remove the inappropriate program charge and adjust the state accounting system accordingly.

Finding 2008-106

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE – CFDA 93.959
Administered by: Rhode Island Department of Mental Health Retardation and Hospitals (MHRH) – Division of Behavioral Healthcare Services

PROVIDER CONTRACTS

Agreements with subrecipient service providers consist of a written contracts that cover a multi-year period. For each state fiscal year covered by the contract, a (1) program appendix which identifies the specific services to be provided during a state fiscal year, and (2) financial appendix which identifies the funding for a state fiscal year, the basis for payment and a state purchase order are made part of the provider agreement. We found the following deficiencies in contract files:

- Two contracts covering state fiscal year 2008 (one a new contract and one a modification extending a prior year contract) were not signed by MHRH and the provider until after June 30, 2008.

- Four contracts had a purchase order but did not have a Financial Appendix for state fiscal year 2008.

- Three contracts had a Financial Appendix and purchase order covering state fiscal year 2008, but did not have a separate Program Appendix which contains a description of the specific services to be provided and standard contract terms and conditions concerning suspension and debarment, audit requirements, etc..

- Eleven contracts identified prohibited uses of federal substance abuse block grant funds. However, the language omitted two prohibited uses of block grant funds, i.e., using federal funds to enforce state laws banning tobacco sales to persons under the age of 18 and religious activities. Four additional contracts lacked just the tobacco prohibition.

Questioned Costs: None

RECOMMENDATION

2008-106 Sign contracts at the beginning of the contracted period and ensure that contracts include all required appendices, contract language (including prohibitions), and description of services to be provided.

Finding 2008-107

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE – CFDA 93.959
Administered by: Rhode Island Department of Mental Health Retardation and Hospitals (MHRH) – Division of Behavioral Healthcare Services

EARMARKING

We could not determine whether the state was in compliance with two federal earmarking requirements because MHRH did not track its compliance nor did it maintain documentation for each federal grant year to identify total expenditures for each earmark and supporting expenditure transactions. The two earmark requirements are:

- The State shall expend not less than 20 percent of the SAPT grant for primary prevention programs for individuals who do not require treatment of substance abuse. The programs should educate and counsel the individuals on such abuse and provide for activities to reduce the risk of such abuse by the individuals (42 USC 300x-22; 45 CFR sections 96.124 (b)(1) and 96.125).

- Designated States shall expend not less than 2 percent and not more than 5 percent of the award amount to carry out one or more projects to make available to individuals early intervention services for HIV disease at the sites where the individuals are undergoing substance abuse treatment. If the State carries out two or more projects, the State will carry out one such project in a rural area of the State unless the Secretary waives the requirement (42 USC 300x-24; 45 CFR section 96.128(a)(1) and (d)).

MHRH could not substantiate that more than 20% of federal program expenditures for federal fiscal year 2007 were for the 20% earmarking requirement (second bullet above). Documentation provided was incomplete because the total included expenditures for two federal grant years, but it did not identify the expenditures by federal grant year. Also, this documentation did not include the federal program expenditures for each federal grant year that were recorded in the prior or subsequent state fiscal year. As a result, it was not possible to determine which expenditures applied to which grant year for purposes of determining compliance with this earmark requirement.

MHRH could not demonstrate its compliance with the HIV earmark (# 2 above) for federal fiscal 2007. Federal program expenditures for the HIV earmark are comprised of a portion of the expenditures made by one sub-recipient provider. However, MHRH pays this provider one-twelfth of the contract amount each month and does not require the provider to submit a written request for payment. Additionally, the provider is not required to submit any financial documentation to substantiate its expenditure of allowable HIV earmark costs during the year. Thus, MHRH was unable to demonstrate the propriety of the payments made to the provider for HIV earmark purposes and could not evidence its compliance with the earmarking requirement.

A third earmark requires that the State may not expend more than 5 percent of the grant to pay the costs of administering the grant (42 USC 300x-31; 45 CFR section 96.135 (b)(1)). MHRH could not demonstrate compliance with this earmarking requirement for federal fiscal year 2007.

MHRH should routinely track and maintain supporting documentation demonstrating compliance with each federal earmarking requirement for each federal grant year in which federal funds are received for the program.

Questioned Costs: None

RECOMMENDATION

2008-107 Track and maintain documentation demonstrating compliance with all applicable federal earmarking program requirements.

Finding 2008-108

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE – CFDA 93.959
Administered by: Rhode Island Department of Mental Health Retardation and Hospitals (MHRH) – Division of Behavioral Healthcare Services

LEVEL OF EFFORT - MAINTENANCE OF EFFORT

MHRH could not sufficiently demonstrate its compliance with federal maintenance of effort (MOE) requirements for federal fiscal year 2008 because it could not provide documentation to identify MOE expenditures for each of the following four MOE requirements:

1. The State shall for each fiscal year maintain aggregate State expenditures for authorized activities by the principal agency at a level that is not less than the average level of such expenditures maintained by the State for the two State fiscal years preceding the fiscal year for which the State is applying for the grant. The "principal agency" is defined as the single State agency responsible for planning, carrying out and evaluating activities to prevent and treat SA and related activities. The Secretary may exclude from the aggregate State expenditures funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose (42 USC 300x-30; 45 CFR sections 96.121 and 96.134; and Federal Register, July 6, 2001 (66 FR 35658) and November 23, 2001 (66 FR 58746-58747) as specified in II, "Program Procedures - Availability of Other Program Information").

2. The State must maintain expenditures at not less than the calculated fiscal year 1994 base amount for SA treatment services for pregnant women and women with dependent children. The fiscal year 1994 base amount was reported in the State's fiscal year 1995 application (42 USC 300x-27; 45 CFR section 96.124(c)).

3. Designated States shall maintain expenditures of non-Federal amounts for HIV services at a level that is not less than the average level of such expenditures maintained by the State for the 2-year period preceding the first fiscal year for which the State receives such a grant. A designated State is any State whose rate of cases of HIV is 10 or more such cases per 100,000 individuals (as indicated by the number of such cases reported to and confirmed by the Director of the Centers for Disease Control and Prevention for the most recent calendar year for which the data are available.) (42 USC 300x-30; 45 CFR sections 96.128 (b) and (f)).

4. The State shall maintain expenditures of non-Federal amounts for tuberculosis services at a level that is not less than an average of such expenditures maintained by the State for the 2 year period preceding the first fiscal year for which the State receives such a grant (42 USC 300x-24; 45 CFR section 96.127).

MHRH should design procedures to document monitoring and tracking of its compliance with all federal MOE requirements.

Questioned Costs: None

RECOMMENDATION

2008-108 Implement documentation procedures to monitor and track compliance with each MOE requirement.

Finding 2008-109

BLOCK GRANTS FOR PREVENTION AND TREATMENT OF SUBSTANCE ABUSE – CFDA 93.959
Administered by: Rhode Island Department of Mental Health Retardation and Hospitals (MHRH) – Division of Behavioral Healthcare Services

SUBRECIPIENT CASH MANAGEMENT

MHRH is not monitoring its subrecipients to ensure that payments (and cash balances) are limited to each subrecipient's immediate cash needs. We noted a few deficiencies in testing payments to subrecipient providers totaling $7,479,737.

$1,710,773 was paid to providers based on a written reimbursement request for payment of federal funds. The request included an approved budget, expenditures previously reported, expenditures for the current period, cumulative expenditures and the remaining budget balance. The request form did not detail federal funds on hand. Additionally, MHRH did not require providers to submit documentation such as copies of accounting system general ledgers, paid invoices or payroll disbursements to support the amounts claimed for reimbursement.

The State paid $5,768,964 to the remaining providers but did not require them to request funds on an as needed basis. Instead, the State paid the sub-recipient one-twelfth of the contract, monthly, based on the presumption that services were incurred evenly over the 12 month contract period, without any substantiation of the subrecipient's allowable expenditures during the period.

In many cases audit reports were received by MHRH after year end, but no comparison was made between payments to the subrecipients and audited program expenditures per the audit reports to determine the propriety of payments made to the providers and to identify any excess federal cash.

MHRH should ensure subrecipients are not receiving excess federal cash by requiring subrecipients to provide substantiation of their immediate cash needs prior to issuing payments to the subrecipients.

Questioned Costs: None

RECOMMENDATION

2008-109 Improve controls to ensure that payments to subrecipients are limited to their immediate cash needs and do not result in excess federal funds on hand.

Finding 2008-110

HOMELAND SECURITY CLUSTER:
Homeland Security Grant Program - CFDA 97.067
State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004
Administered by: Rhode Island Emergency Management Agency (RIEMA)

REPORTING – FEDERAL FINANCIAL STATUS REPORTS

Federal regulations governing the Homeland Security Cluster programs require RIEMA to submit quarterly Financial Status Reports (SF-269A forms) for each grant award. These reports outline quarterly and cumulative program outlays, unliquidated obligations and the unobligated balance of federal funds.

RIEMA submitted sixteen SF-269A reports relating to four grant awards during fiscal 2008. We reviewed these reports and found deficiencies that indicate appropriate controls were not in place to ensure that the reports were complete and accurate.

For example, we were unable to trace the quarterly expenditures recorded on any of the sixteen reports to the expenditure data recorded in the State's accounting system. This was due to a number of factors but, in most cases, RIEMA did not obtain the expenditure data from the official State accounting system source (the general ledger). We could not verify the data in one report because RIEMA could not locate the original supporting documentation.

RIEMA has posted dozens of adjustments to the original expenditure entries in the State accounting system. This was approved by an appropriate federal official and was intended to ensure that RIEMA complied with various earmarking requirements.

RIEMA does not have a policy in place that requires a supervisor familiar with the State accounting system to review and approve the SF-269A reports or any of the adjustments posted to the State accounting system. We believe that this practice would provide some assurance that the 1) SF-269A reports are complete, accurate and supported by the official State accounting system, and 2) adjustments are appropriate and achieve the intended purpose.

Questioned Costs: Unknown

RECOMMENDATIONS

2008-110a Prepare SF-269A reports utilizing expenditure data recorded in the State accounting system's general ledger, and retain all supporting documentation.

2008-110b Ensure that all SF-269A reports and accounting system adjustments are reviewed and approved by an individual familiar with the State accounting system.

Finding 2008-111

HOMELAND SECURITY CLUSTER:
Homeland Security Grant Program - CFDA 97.067
State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004
Administered by: Rhode Island Emergency Management Agency (RIEMA)

ACTIVITIES ALLOWED OR UNALLOWED

RIEMA spent a total of $14,569 in fiscal 2008 for two construction projects that were charged to the 2005 Emergency Management Performance Grant (EMPG). The EMPG was included as part of the Homeland Security Grant Program in 2005. According to the Department of Homeland Security's 2005 *Program Guidelines and Application Kit*, EMPG funds cannot be used for any type of construction or renovation.

Questioned Costs: $14,569

RECOMMENDATION

2008-111 Adjust federal reports and credit the federal government for amounts determined to be unallowable under the Homeland Security Cluster programs.

Finding 2008-112

HOMELAND SECURITY CLUSTER:
Homeland Security Grant Program - CFDA 97.067
State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004
Administered by: Rhode Island Emergency Management Agency (RIEMA)

ALLOWABLE COSTS/COST PRINCIPLES

RIEMA did not maintain documentation required by federal regulations to support payroll costs charged to the Homeland Security Cluster programs. Office of Management Budget Circular A-87 (A-87) stipulates that when employees work solely on a single federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees

worked solely on that program for the period covered by that certification. These certifications must be prepared at least semi-annually and must be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

In addition, A-87 stipulates that when employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation. These reports must reflect an after the fact distribution of the actual activity and account for the total activity for which each employee is compensated.

RIEMA did not maintain semi-annual certifications for those employees whose payroll costs were charged to a single program. It also did not maintain appropriate personnel activity reports for those employees whose payroll costs were charged to multiple programs. The payroll costs for these employees were allocated to various programs based on an estimate of the amount of time the employees spent working on these programs.

Questioned Costs: Unknown

RECOMMENDATION

2008-112 Prepare semi-annual certifications for those employees whose payroll costs are charged to a single program, and utilize personnel activity reports to allocate payroll costs for those employees who work on multiple programs.

Finding 2008-113

HOMELAND SECURITY CLUSTER:
Homeland Security Grant Program - CFDA 97.067
State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004
Administered by: Rhode Island Emergency Management Agency (RIEMA)

EQUIPMENT MANAGEMENT

Federal regulations require RIEMA to use, manage, and dispose of equipment that was purchased with federal funds in accordance with the state's laws and procedures. These procedures require RIEMA to submit a *Capital Asset Acquisition Report* (form SFA-12) to the State Controller's Office after purchasing certain assets. This information is used by the State to maintain asset inventory records.

RIEMA has not consistently reported the equipment it purchased with Homeland Security Cluster funds in accordance with the foregoing procedures. As a result, neither the State nor RIEMA has a complete inventory record of these assets. RIEMA has started to reconstruct these records, but it has not completed this task to date.

The inventory records should include the purchase price, date of acquisition, and the federal grant under which the equipment was purchased. Once the inventory records are complete, RIEMA should conduct a physical inventory of equipment at least once every two years.

Questioned Costs: None

RECOMMENDATIONS

2008-113a Complete compilation of inventory records. Include all pertinent data such as purchase date, acquisition cost, and grant under which the equipment was funded.

2008-113b Conduct a physical inventory of equipment at least once every two years.

Finding 2008-114

HOMELAND SECURITY CLUSTER:
Homeland Security Grant Program - CFDA 97.067
State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004
Administered by: Rhode Island Emergency Management Agency (RIEMA)

SPECIAL TESTS AND PROVISIONS – SUBGRANT AWARDS

Federal regulations require RIEMA to obligate federal funds for subgrants under the State Homeland Security Program (SHSP), Urban Areas Securities Initiative (UASI) and Law Enforcement Terrorism Prevention Program (LETPP) within 60 days after the date of the grant award. The regulations require RIEMA to establish a firm commitment for these obligations which must be unconditional. RIEMA must also have documentary evidence of the commitment, and the award terms must be communicated to the subgrantee and, if applicable, accepted by the grantee.

We selected a random sample of 15 subgrants and found that at least 7 of them were not obligated within 60 days after the grant award (in one case we could not ascertain when the subgrant was obligated because the grantee did not date the related document). In 4 of the 7 cases, the subgrants were obligated between 73 and 86 days of the grant award. In the other 3 cases the subgrants were obligated between 115 and 158 days after the grant award.

Questioned Costs: None

RECOMMENDATION

2008-114 Obligate SHSP, UASI and LETPP funds for subgrants within 60 days after the grant award.

Finding 2008-115

HOMELAND SECURITY CLUSTER:
Homeland Security Grant Program - CFDA 97.067
State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004
Administered by: Rhode Island Emergency Management Agency (RIEMA)

SUBRECIPIENT MONITORING

OMB Circular A-133 requires RIEMA to (1) ensure that its 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 the subrecipient audits necessitate adjustment of RIEMA's records or impact its ability to comply with applicable federal regulations.

RIEMA has instituted policies requiring subrecipients that are subject to audit requirements to submit their audit reports. As a result, RIEMA has received some audit reports, but it has not reviewed them to determine if there were any audit findings. It also did not assess whether or not all subrecipients expending more than $500,000 had, in fact, had audits performed.

Questioned Costs: None

RECOMMENDATIONS

2008-115a Review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action.

2008-115b Evaluate whether the subrecipient audit reports necessitate adjustment of RIEMA's records, or impact its ability to comply with applicable federal regulations.

Corrective Action Plan

Finding 2008-1 *Corrective Action*

The Department of Administration plans to implement the HR and Time Attendance, Grants, Cash Management, Enterprise Asset Management modules by the end of Fiscal Year 2013.

Anticipated Completion Date: June 30, 2013

Contact Person: John Landers, Chief Information Officer
Phone: 401.222.4444

Finding 2008-2 *Corrective Action*

2008-2a

Procedures are now in place to ensure that agency hierarchy modifications are documented and maintained.

Anticipated Completion Date: Completed

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2008-2b

All centralized agencies have "approval only" access within the RIFANS Accounts Payable module. Only the Office of Accounts & Control can initiate invoice documents for these agencies. Non-centralized agencies have initiators and approvers.

Anticipated Completion Date: Completed

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2008-2c

As of September 2008, bi-annual reviews are conducted of all agency hierarchies. Any requests for changes are reviewed for overall effect on the agency before implementing. Bi-weekly reports are reviewed comparing payroll records with RIFANS active accounts; any active RIFANS account for a terminated employee initiates a request to the agency for a hierarchy revision.

Anticipated Completion Date: Completed

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2008-2d

Delegations of approval controls have been improved. All RIFANS additions/changes require approval by the agency CFO and the Office of Accounts & Control.

Anticipated Completion Date: Completed

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2008-2e

RIFANS has been modified to require users to select the appropriate account within the accounts payable module prior to the system initiating invoice transactions. A default account no longer populates.

Anticipated Completion Date: Completed

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2008-2f and-2g

The Office of Accounts and Control will review the workflow related to cash transfers to ensure that there is appropriate segregation of duties.

Anticipated Completion Date: September 30, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-2h

The Office of Accounts and Control will determine if a second review of all journal entries prepared at the agency level is the best way to improve controls over journal entries or if some other more focused, less costly control enhancements might substantially achieve the same objective.

Anticipated Completion Date: December 31, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-2i

The Oracle module to allow for this function is not included in the implementation schedule within the next four fiscal years.

Anticipated Completion Date: N/A

Contact Person: John Landers, Chief Information Officer
Phone: 401.222.4444

Finding 2008-3 *Corrective Action*

2008-3a

The Office of Account & Controls in conjunction with the Division of Purchases has prepared new guidelines for invoices not requiring purchase orders. Automated processes have been implemented that allow the Office of Accounts & Control to restrict the vendors allowed in batch invoices.

Anticipated Completion Date: Completed

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2008-3b

The report titled "RI Direct Invoices Report" is now in Production. The Office of Accounts & Control reviews the report monthly to monitor the types of invoices created without a purchase order.

Anticipated Completion Date: Completed

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2008-3c

A procedure is in place where vendors are only added to RIFANS through the bid process or with a W-9 approved by an agency chief financial or executive officer.

Anticipated Completion Date: Completed

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2008-3d

A procedure is in place where each new bid processed through the Division of Purchases requires an updated W-9 form. The Office of Accounts & Control, in conjunction with DOIT is working on a report showing the last update of vendor files, including all vendors originally included in prior financial applications.

Anticipated Completion Date: December 31, 2009

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

Finding 2008-4 *Corrective Action*

2008-4a, and 2008-4b

The Department of Administration under the direction of the Chief Information Security Officer (CISO), will work with the Agency IT Managers to identify critical systems at each agency and determine its compliance with the new security standards.

Anticipated Completion Date: June 30, 2009

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

2008-4c

Currently, all new projects come through the PRC, Project Review Committee. Any new project that gets approved must provide the Chief Information Security Officer (CISO) a written security plan for review and approval. This ensures that new systems meet the security standards.

Anticipated Completion Date: N/A

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

2008-4d

Currently, DOIT has one Chief Information Security Officer (CISO) and one contractor assisting the CISO. Given the current budget constraints, the ability to bring on additional security staff will be difficult. However, DOIT will utilize its current staff outside the security team and when appropriate utilize this existing staff to supplement the security group.

Anticipated Completion Date: N/A

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2008-5 *Corrective Action*

The balances of long-term assets and liabilities will be recorded in the RIFANS accounting system.

Anticipated Completion Date: November 30, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2008-6 *Corrective Action*

DOIT, the Office of Accounts & Control and the Division of Purchases are working on a timeline for applying all outstanding Oracle critical patch updates to the Oracle database supporting the RIFANS accounting system.

Anticipated Completion Date: December 31, 2009

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.6731
Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2008-7 *Corrective Action*

2008-7a

The Federal Grants Information Schedule (FGIS) will be redesigned to provide further assurance that amounts reported to Federal granting agencies are consistent with amounts reported in RIFANS.

Anticipated Completion Date: June 30, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-7b

Procedures will be prepared to ensure that variances identified on the FGIS are researched and resolved.

Anticipated Completion Date: June 30, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-7c

Procedures have been implemented to ensure that Federal accounts are linked to the correct CFDA reference within RIFANS.

Anticipated Completion Date: Complete

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-7d

The Office of Accounts and Control will review the feasibility of identifying in RIFANS adjustments to prior period federal activity.

Anticipated Completion Date: December 31, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-7e

A request to create a position within the Office of Accounts and Control to monitor activity relating to financial aspects of federal programs has been submitted to Human Resources.

Anticipated Completion Date: September 30, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2008-8 *Corrective Action*

2008-8a

The Office of Accounts & Control has identified 98 Social Security Number discrepancies within the personnel and payroll systems as a result of a complete match that was performed in FY'09. The Human Resource Department is currently working with agencies to verify correct employee information for the discrepancies. All new hires are verified through the State's E-Verify program.

Anticipated Completion Date: September 2008, 2009

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2008-8b

The Office of Accounts & Control and DOIT are working to identify the critical data in the State's payroll and HR systems to determine discrepancies between the two systems

Anticipated Completion Date: December 2009

Contact Persons: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704
Alan Dias, Assistant Director of IT
Phone: 401.222.6091

2008-8c

The Office of Accounts & Control and DOIT are working to establish a procedure to identify and correct missing or incomplete data in the State's payroll system.

Anticipated Completion Date: December 2009

Contact Persons: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704
Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2008-9 *Corrective Action*

Current transmission of data over the state network of batch payments is secure over SFTP. This has always been the case since RIFANS went live in June 2006. The issue at hand is data at rest and checks and balances of files leaving host systems to RI-FANS.

In the spring of 2009 PGP and operational controls were put into place for DCYF batch imports. The use of PGP ensured the data at rest was encrypted. This was possible because of the way the data is produced and required no manual intervention. For other agencies, the use of SFTP and current operational controls will best address the security of the data.

Anticipated Completion Date: N/A

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2008-10 *Corrective Action*

2008-10a

New reporting guidelines have been developed for use by component units when submitting audited financial statements to the Office of Accounts and Control. The instructions provided to component units for the FY 2009 close indicate that the use of these guidelines is mandatory this year. In addition, we will meet with component unit management in cases where specific reporting issues exist.

Anticipated Completion Date: July 31, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-10b

Draft financial statements will be reviewed to insure transactions are recorded appropriately and consistently.

Anticipated Completion Date: September 30, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2008-11 *Corrective Action*

The Department of Administration has started the conversion of the subsidiary accounting systems. The two major systems are payroll and HR. System changes have been made on the payroll system with HR currently undergoing system changes.

This project has been ongoing, since 2006, and is resource dependent. Other major changes to payroll have impacted the completion date of this finding.

Anticipated Completion Date: December 31 2009

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2008-12 *Corrective Action*

2008-12a

During the implementation phase of the Oracle FA module this was considered and it was determined that the Oracle capital asset module was not able to track assets under construction. We will review options that are available in the current system to improve tracking of project-based capital project processes.

Anticipated Completion Date: December 31, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone 401.222.6408

2008-12b

A communication will be sent to all FA Coordinators reminding them again about the importance of reporting FA disposals on a timely basis. In addition, inventories are currently being performed for fixed assets at all departments and agencies. Assets that are not inventoried will be removed from the Oracle Fixed Asset Data Base.

Anticipated Completion Date: August 31, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-12c

Processes were reviewed and enhanced and procedures are being drafted.

Anticipated Completion Date: August 31, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-12d

The Office of Accounts and Control will review the application of existing policies and procedures to ensure that the State's investment in capital assets is fairly stated.

Anticipated Completion Date: October 31, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-12e

Currently rental payments for equipment under capital leases are expensed as paid. The State does not enter into a significant number of such leases. Further, much of the equipment is returned to the lessor at the conclusion of the lease term. The Office of Accounts and Control does not believe that the current practice, which is simple and cost effective to maintain, materially distorts the entity wide financial statements.

Anticipated Completion Date: NA

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-12f

Procedures and a program were developed to perform physical inventories of fixed assets at all departments and agencies. This process has started in FY2009 and will continue in future years.

Anticipated Completion Date: N/A

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-12g

The criteria for placing infrastructure assets in service, focusing in particular on projects that are completed in phases and span multiple years, will be reviewed and procedures will be updated and documented.

Anticipated Completion Date: December 31, 2009

Contact Person: Michael Abbruzzi, CFO, RIDOT
Phone: 401.222.6590 x4535

2008-12h

The process for retiring infrastructure assets will be evaluated, focusing especially on assets that are later subject to major reconstruction, and procedures for retirement of such assets will be documented.

Anticipated Completion Date: December 31, 2009

Contact Person: Michael Abbruzzi. CFO RIDOT
Phone: 401.222.6590 x-4535

2008-12i

The capitalization threshold was recently evaluated and set at a level that was deemed appropriate to insure that all material assets are recorded in the entity-wide financial statements.

Anticipated Completion Date: NA

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2008-13 *Corrective Action*

Division of Information Technology will assign a team to implement this capability using current available technology.

Anticipated Completion Date: March 2010

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2008-14 *Corrective Action*

2008-14a, b, c and e

As of September 2008, there bi-annual reviews are conducted of all agency hierarchies. Any requests for changes are reviewed for overall effect on the agency before implementing. All RIFANS additions/changes require approval by the agency CFO and the Office of Accounts & Control. Bi-weekly reports are reviewed comparing payroll records with RIFANS active accounts; any active RIFANS account for a terminated employee initiates a request to the agency for a hierarchy revision.

Anticipated Completion Date: Completed

Contact Person: Louise M. Anderson, Associate Controller-Operations
Phone: 401.222.2704

2008-14d

The Division of Information Technology has implemented password procedures with RI-FANS that are in compliance with the password policies.

Anticipated Completion Date: Completed

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

2008-14f

The Department of Administration developed online training material that was distributed to RI-FANS users. Users reviewed the material and then completed an online form stating they reviewed the training material. This data was reviewed for feedback and compliance. Prospectively, new RI-FANS employees will need to review the training material before given access to RI-FANS.

Anticipated Completion Date: Completed

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

2008-14g

The Department of Administration identified a RI-FANS security officer. This officer will identify non-compliance issues with the RI-FANS and develop a corrective action plan to address areas of non-compliance.

Anticipated Completion Date: Completed

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2008-15 *Corrective Action*

2008-15a

The ClearCase software package was implemented in the summer of 2006 to address previous audit findings. DOIT acknowledges that improvements need to be made to the original software implementation to better improve the program change control originally put into place.

Anticipated Completion Date: February 2010

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

2008-15b

Currently DOIT has change control procedures for the payroll programs and the taxation programs on the mainframe. These programs reside on the VSE partition of the mainframe. Other systems on

the VSE partition are not versioned using the Clearcase tool. Programs that reside on the MVS partion also do not use the Clearcase product.

Though important to have version control for all applications, to implement version control for other applications will require additional licensing and possible outside resources to migrate the source code to the Clearcase product. Given the current budget constraints, DOIT's priority for FY10 will be to improve the process for the current payroll and taxation programs and at a later date address versioning for other mainframe applications.

Anticipated Completion Date: N/A

Contact Person: Alan Dias, Assistant Director of IT
Phone: 401.222.6091

Finding 2008-16 *Corrective Action*

Subsequent to June 30, 2008, the Office of the General Treasurer began implementation of a new software package to record and track short-term investment activity. The new software is intended to allow daily interface of investment transactions to the State's RIFANS accounting system.

Anticipated Completion Date: June 30, 2009

Contact Persons: Kenneth Goodreau, Chief Investment Officer
Phone: 401.222.2287
Marc Leonetti, State Controller
Phone: 401.222.6731

Finding 2008-17 *Corrective Action*

2008-17a and 2008-17b

The Office of Accounts and Control will work with the General Treasurer and the Budget Office to enhance controls over funds on deposit with the fiscal agent.

Anticipated Completion Date: December 31, 2009

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.6731

Finding 2008-18 *Corrective Action*

A work group will be established, including representatives from the Financial Reporting section of the Office of Accounts and Control and Treasury, to improve the process for gathering information to meet the GAAP disclosures for deposits and investment risk.

Anticipated Completion Date: September 30, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2008-19 *Corrective Action*

Taxation will be contacted DoIT and a ticket will be created to ensure that an e-mail is sent each time a file is uploaded. This e-mail should contain enough information so Taxation staff can confirm that the file was properly uploaded. If there is a problem with the upload it should be clearly stated in the e-mail and the file should be resubmitted until the issue is resolved.

Anticipated Completion Date: December 31, 2009

Contact Person: Susan Galvin, Chief of Tax Processing
Phone: 401.574.8769

Finding 2008-20 *Corrective Action*

The Division of Taxation has been working with DoIT to create an online ARC approval process. The online approval process will allow Revenue Agent or Revenue Officers the ability to create an online correct. Depending on the total dollar amount of the correct, the transaction will be then forwarded electronically to their supervisor and possibly their chief for approval. This change requires significant system modifications.

Anticipated Completion Date: June 30, 2009

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2008-21 *Corrective Action*

The Division of Taxation will continue to post all transactions as fast as possible. The Divisions primary responsibility is to deposit all funds within 24 to 48 hours of receipt. Posting of the payments to the taxpayers accounts occurs after the payments are deposited.

The Division of Taxation of Taxation will work with the Office of Accounts and Control to revise the methodology used to estimate refunds payable at the fiscal year end.

Anticipated Completion Date: June 30, 2009

Contact Person: David Sullivan, Tax Administrator
Phone: 401.574.8922

Finding 2008-22 *Corrective Action*

2008-22a

The Office of Accounts and Control will review alternatives to the current process which involves using the project code field in Oracle to map expenditures to bond issue proceeds.

Anticipated Completion Date: November 30, 2009

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

2008-22b

Treasury will work with the Office of Accounts and Control to establish a monthly process to reconcile the balance of invested proceeds for each bond issue to the balance of unexpended proceeds as reported by the RIFANS accounting system.

Anticipated Completion Date: September 30, 2009

Contact persons: Peter Keenan, Associate Controller – Finance
Phone: 401.222.6408
Vincent Izzo, Cash Manager
Phone: 401.222.2287

2008-22c

The Office of Accounts and Control will perform a review of processes in effect to account for bond and COPS proceeds and related expenditures on capital projects and enhance processes based on the results of this review.

Anticipated Completion Date: March 31, 2010

Contact Person: Peter Keenan, Associate Controller-Finance
Phone: 401.222.6408

Finding 2008-23 *Corrective Action*

2008-23a

Financial Management will continue to strengthen the control procedures over financial reporting to ensure accurate identification of accounts payable and reservations of fund balance. As part of the year-end process Financial Management will inquire of each section to ensure all transactions are recorded. Financial Management will also verify the fund balance related to the GO Bonds with DOA.

Anticipated Completion Date: August 1, 2009

2008-23b

A process is in affect to manage the federal receivable balance. This process includes cash flow projections, a collection focus on aged balances and an accelerated project closeout schedule. The agency has established a target amount of a balance of $9M that is in accordance with the funding needs of the Highway Improvement Program. At the close of State Fiscal Year 2008 the Department reduced the receivable amount to approximately $9M. As of May 20, 2009, the Legacy amount (prior to the ORACLE implementation) was reduced to $0. Also in Fiscal Year 2009, the Department closed over 200 Federal Aid projects. These actions released nearly $8 Million of Federal obligation authority which was applied to other projects.

Anticipated Completion Date: June 30, 2009

2008-23c

The Department has begun reporting to the Office of Accounts and Control the amount of the Federal Accounts Receivable. A Grants Module report has been developed in FMS which reports the receivable amount and all Federal-Aid projects that comprise the amount. This report is then forwarded to Accounts and Control.

Anticipated Completion Date: July 1, 2008

2008-23d

Financial Management will review the current process, identify methods to automate the process, and document all phases/procedures of the Infrastructure Reporting Process. Acknowledging the magnitude of this task, we will attempt to implement new procedures for the 2009 Fiscal Year End Close. However, at the very least (for FY09) the reconciliation process and all data manipulation will have the appropriate audit trail.

Anticipated Completion Date: September 1, 2009

Contact Person: Michael Abbruzzi, Associate Director
Phone: 401.222.6590 ext.4535

Finding 2008-24 *Corrective Action*

The reconciliation process will be expanded and the new process will be implemented as of June 1, 2009.

Anticipated Completion Date: June 1, 2009

Contact Person: Michael Abbruzzi, Associate Director
Phone: 401.222.6590 ext.4535

Finding 2008-25 *Corrective Action*

2008-25a

Mary E. Gelardi served as the Administrator of MIS through her retirement at the end of Sept. 2008. Thomas Lewandowski is now Acting Administrator of MIS. The Acting Administrator of MIS is performing an ongoing review Security Handbook policies and standards. As part of this review, password resets controls have been implemented. This review is ongoing process that will be continually monitored.

Anticipated Completion Date: September 2008

2008-25b

Mary E. Gelardi had been designated to serve as the Security Administrator for the FMS application on 04/11/2008. Mary Gelardi has retired and now Jon Kelsall serves as the Security Administrator for the FMS Application.

Anticipated Completion Date: April 11, 2008

2008-25c

MIS has enforced the policy of resetting computer desktop passwords and CMS passwords every 90 days. Desktop computers instituted this policy as of May 2008. CMS was modified in June 2008 to begin using the 90 day policy. FMS instituted this policy on 11/30/2008.

Anticipated Completion Date: November 30, 2008

2008-25d

As of June 2008 CMS was updated to transmit data directly to the FMS Server for processing. Payables and Purchasing will no longer be required to pull files from the FTP server and place them in a directory on the FMS server. Modifications to the CMS program now places files in a windows directory. Access to the directory will be granted to the appropriate PO and AP RIDOT personnel.

Anticipated Completion Date: June 2008

2008-25e

MIS has eliminated the need for AP/PO staff members to intervene in processing of transactions. All processes identified by the AP/PO staff members have now been automated and were complete as of 8/31/2008.

Anticipated Completion Date: August 31, 2008

2008-25f

As of 6/22/2008 MIS has implemented management controls to house a Development, Test and Production environment of the PMP/CMS application at DOA. A PMP Help Desk team was established at RIDOT on 01/21/2008. This team is monitoring all changes and requested changes in CMS. They serve as quality engineers that place completed code changes in a test environment, develop and enforce test plans with the RIDOT users. Upon successful testing, the completed code will migrate to the production environment.

Anticipated Completion Date: June 22, 2008

Contact Person: Michael Abbruzzi, Associate Director
Phone: 401.222.6590 ext.4535

Finding 2008-26 *Corrective Action*

No corrective action required.

Finding 2008-27 *Corrective Action*

The Rhode Island Lottery has contracted with its gaming systems provider to engage for an independent SAS 70 Type II level audit of its on-line and video gaming systems. The audit will assess controls over both systems and cover the period January thru June 2009, and a report will be issued subsequent to the Lottery's fiscal year-ending June 30, 2009.

The Lottery will include a request in its annual operating budgets subsequent to fiscal year 2010 for bi-annual SAS 70 Type II level audits of the on-line and video systems to assess procedures and controls over the integrity of the Lottery's games and its financial reporting processes.

Contact Person: Gerald S. Aubin, Director
Rhode Island Lottery
Phone: 401.463.6500

Finding 2008-28 *Corrective Action*

The Lottery is required by statute to submit monthly financial reports to executive and legislative officials by the twentieth business day following the close of the month. Additionally, the Lottery is required to estimate and transfer net revenues by the tenth business day. This makes it imperative to record and summarize financial information to meet the statutory timelines.

Currently, the Lottery records all cash receipts, video commissions, and all other invoices payable through the State of Rhode Island's RIFANS system. All credit card charges are imported by the Office of Accounts and Control into RIFANS. All other accounting activity for financial reporting is recorded only in the Lottery's general ledger system and is not recorded by the State in its accounting system. The current procedures enable the Lottery to submit timely financial statements and transfer estimated revenues. During 2008, Lottery finance personnel met with the State Controller, who recommended we not change our current procedure, because the timeliness of

financial reporting and revenue transfers could be affected by utilizing the State's accounting system.

However, the Lottery finance department's personnel is continuing to work with the Office of Accounts and Control to determine whether establishing expense accounts for all Lottery expenditures in the State's system and reconciling monthly to the Lottery's general ledger accounts will further improve internal controls over financial reporting. Additionally, Lottery finance personnel will work with the Office of Accounts and Control to determine whether using only RIFANS for financial reporting will enable timely financial statements and transfers of estimated revenues.

Contact Person: Gerald S. Aubin, Director
Rhode Island Lottery
Phone: 401.463.6500

Finding 2008-29 *Corrective Action*

The Lottery has been working with its on-line and video gaming systems provider to correct the identified issues noted in the various audit assessment reports provided to the Lottery by the Office of Auditor General and by the Lottery's information security contractor.

Most of the on-line system issues noted within the audit assessments have been addressed.

Most of the video system issues noted within the audit assessments have been addressed, but there are a few issues that the Lottery is working on with its gaming systems provider to resolve.

The Lottery's gaming system provider needs to improve its oversight responsibility in the area of information security. Once the system provider improves this oversight responsibility, additional monitoring procedures can be implemented. The Lottery is working with the system provider to see that this issue is resolved in a manner that is acceptable to both the Lottery and the system provider.

Contact Person: Gerald S. Aubin, Director
Rhode Island Lottery
Phone: 401.463.6500

Finding 2008-30 *Corrective Action*

Since Treasurer Caprio took office in January of 2007, Treasury has made great strides to improve and facilitate the audit process. These initiatives were enacted upon taking office to address the findings and deficiencies noted in audits of previous administrations, and will be enhanced throughout 2009.

- Previously an annual exercise, preparation for the audit is now part of Treasury's monthly routine, with each staff member having ownership of key aspects of the audit.
- A computer terminal is reserved, year round, for the use of the Office of the Auditor General, in the Finance Division. The terminal contains audit related data and files, ranging from monthly manager reports to quarterly statements. All data is searched using a PDF search function.

- A Bloomberg terminal has been installed in the cash management office and is available to audit staff at their convenience. This third party data source was never available in the past and has been deemed essential for a plan that deals with billions of dollars.
- A new position has been established and dedicated to the reconciliation of accounts on a monthly basis, and provides critical input into audit issues throughout the year. Established in response to previous audit findings, the job has greatly improved the sometimes cumbersome nature of auditing a multi-billion dollar program.
- The audit inquiry and response process has been clarified and improved, with the audit team addressing requests for information in writing, and Treasury staff are now required to reply within a timely fashion. Treasury now requests acknowledgement of receipt of information from audit staff, ensuring delivery. This regimented approach is essential to an efficient program, and will be enforced going into 2009.
- A focus on alternatives is an area where our staff excels. The monitoring of this program has been completely revamped. A three layer approach - incorporating PCG (the consultant), State Street (the custodian), and our staff - is taken, ensuring that alternative investments receive an in-depth level of scrutiny. Two staff members are dedicated to reconciling the value of these investments on a monthly basis. Monthly data from each of the alternative investment partners is screened through 3 sources, reviewed and documented. Past issues have revolved around timing and documentation. These are industry issues and we will be vigilant in addressing these issues with our General partners in the future.

Treasury has taken, and will continue to take, proactive steps to reduce risk and aggressively monitor the system, and we will continue to improve the implementation of the following key initiatives:

- The Chief Investment Officer (CIO) position has been modified to prioritize daily monitoring of the System's assets. This involves reviewing daily accounting reports provided by State Street and other various third party data sources. Previously, account information was only available monthly. Binders of the daily data for the duration of the administration are maintained by the CIO.
- A third party consulting relationship has been incorporated to monitor and implement asset allocation analysis on a daily basis. This service is integrated with the daily monitoring conducted by the Finance Division, and the reports serve as an independent unbiased assessment of the System's daily closing balances in relation to the investment policy (available on Treasury's website). Russell Investments was selected by RFP to provide this service and has been fully functional since mid 2008.

Most, if not all, of these initiatives have been in place since 2008, and Treasury believes the new approach has addressed many past findings. The substance of the program insulated our investments through the most treacherous financial environment seen in decades. Never has there been a time when liquidity has been so challenged, and our program met these challenges.

As always, Treasury greatly appreciates the attention and consideration afforded by the Office of the Auditor General, and Treasury will continue to work diligently to address the findings presented in the audit report.

Contact Person: Kenneth Goodreau, Chief Investment, Officer Office of the General Treasurer
Phone: 401.222.2287

Finding 2008-31 *Corrective Action*

2008-31a

ERSRI has made significant progress in reconciling prior period posting errors. ERSRI is committed to reconciling these errors and anticipates completion by the close of calendar year 2009.

2008-31b

ERSRI concurs with the finding and will work to develop strategies that will improve the financial reporting of contributions receivable.

For Fiscal 2009 ERSRI will implement a structured review process of contributions receivable that will help to address and mitigate any potential risk posed by preparing contributions receivable via a manual estimation process.

Contact Person: Zachary Saul, Assistant Director - Finance
Employees' Retirement System of Rhode Island
Phone: 401.457.3900

Finding 2008-32 *Corrective Action*

The Authority will fund the operating Reserve and Renewal and Replacement components provided there is sufficient cash flow.

Contact Person: James McCarvill, Executive Director
Rhode Island Convention Center Authority
Phone: 401.351.4295

Finding 2008-33 *Corrective Action*

Management concurs with the finding and will implement the recommendation for the year ending June 30, 2009.

Contact Person: Buddy Croft, Executive Director
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2008-34 *Corrective Action*

Management will establish procedures to identify potential liabilities immediately.

Contact Person: Buddy Croft, Executive Director
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2008-35 *Corrective Action*

No corrective action plan is available from the RI Industrial Recreational Building Authority.

Finding 2008-36 *Corrective Action*

No corrective action plan is available from the Central Falls School District.

Finding 2008-37 *Corrective Action*

See Corrective Action Plan for Finding 2008-88.

Finding 2008-38 *Corrective Action*

See Corrective Action Plan for Finding 2008-72.

Finding 2008-39 *Corrective Action*

2008-39a, b, and c

The Office of Accounts and Control has a senior manager now responsible for the CMIA program. The process will be reviewed and enhanced to be both effective and consistent across all agencies.

Anticipated Completion Date: October 31, 2009

2008-39d

The Grants module within Oracle will automate the draws of federal funds. This module is not scheduled to be implemented in the next fiscal year.

Anticipated Completion Date: N/A

2008-39e and f

A review of the interest liability calculation will be performed to ensure the calculation is accurate. A corrected report will be submitted.

Anticipated Completion Date: December 31 2009

Contact Person: Marc Leonetti, State Controller
Phone: 401.222.6731

Finding 2008-40 *Corrective Action*

See Corrective Action Plan for Finding 2008-12.

Finding 2008-41 *Corrective Action*

Corrective Actions:

- All orders will be picked by three warehouse workers in which all of the workers will have to sign off at the completion of the order.
- The warehouse foreman or his designee will check orders upon completion to assure that the order has been filed correctly.
- All school districts will be notified by mail that the person receiving the commodity order at the Central Distribution Center will be responsible for the accuracy of the order when the order is being loaded at the Central Distribution Center docking area.
- Signs will also be posted at each loading dock to again notify the drivers that all orders are final when they leave the Central Distribution Center.
- A sampling of monthly inventories will be verified if there are any discrepancies found with the counts.

The first two actions should greatly help to prevent the over/under shipping of orders to the school districts with the two areas of checks and balances.

Anticipated Completion Date: June 1, 2009

Contact Person: Terrence McNamara, Administrator, Physical Resources
Phone: 401.462.4023

Finding 2008-42 *Corrective Action*

The DHS systems security administrator will meet with appropriate staff to develop pertinent reports for a system security monitoring and tracking system. Follow-up procedures for identified issues will be developed.

Contact Person: Randy Rosati, Acting Administrator
Phone: 401.462.3014

Finding 2008-43 *Corrective Action*

During SFY ’08, The Office of Finance, Child Nutrition Programs (CNPs) accomplish significant enhancements and efficiencies to its core nutrition USDA Programs including:

- The development, competitive bid process and contracting of an innovative statewide food service contract, and the associated local District contract,
- The rollout and enhancement of the *CNP Connect* computer program enabling local Districts to accurately and efficiently file meal claims on the web,
- Collaboration in the development and implementation of the RI Nutrition Requirements which improve the quality of school meals statewide,
- Provided expert staff to participate in a major audit identifying misuse of USDA funds.

However, CNP staffing is finite and efforts needed to be prioritized. As a result, some monitoring activities were impacted. However, a key vacancy (the Coordinator - Child Nutrition Programs) has been filled, and RIDE has taken a number of measures to address the CRE and SMI review findings.

- Staff responsibilities have been adjusted to ensure sufficient resources are dedicated to CRE and SMI reviews.
- All the FY '08 incomplete / missing CRE reviews have been scheduled and will be completed by the end of FY '09. The schedule / tracking system, enhanced by CNP Connect, will ensure that follow-up visits are conducted within federal timelines via an electronic reminder functionality.
- During USDA's recent Management Evaluation of RIDE's CNP, USDA recommended that SMI reviews that were not completed during the 2003-2008 five (5) year cycle be set aside. USDA directed RIDE to start the new five (5) year review cycle (2009-2014) and to ensure that all required, scheduled SMI reviews were completed. The USDA will provide documentation of their recommendation in their Federal Program Review Report. RIDE expects to receive the USDA report by the end of FY09.

Anticipated Completion Dates: SMI Reviews, September 30, 2009, CRE Reviews, July 30, 2009
Follow-up reviews will be conducted no later than December 31 of the following school year, depending on the acceptance of the original corrective action.

Contact Person: Becky Bessette, Coordinator, Child Nutrition Programs
Phone: 401.222.4253
E-mail: Becky.Bessette@ride.ri.gov

Finding 2008-44 *Corrective Action*

As noted in RIDE's response to Finding 2008-43 above CNP staff is very limited. This meant that sampling and verification activities were also affected. However, RIDE has now taken the following actions to track Districts compliance with the completion and accurate / timely reporting of their free / reduced meal application verification process.

- Assigned additional personnel to SFA sampling and verification monitoring
- Developed a process for early identification of non compliant SFAs. This process will provide feedback to those SFA's to assure that they comply with eligibility sampling requirements, and that they meet the March 15 submission deadline.
- Implemented policies to withhold reimbursements to SFA's that do not submit information timely.
- Modified the reporting process so that prior to submission to USDA, one staff member will prepare the FNS-472 report and a second staff member will ensure the accuracy of the numbers

Contact Person: Becky Bessette, Coordinator, Child Nutrition Programs
Phone: 401.222.4253
E-mail: Becky.Bessette@ride.ri.gov

Finding 2008-45 *Corrective Action*

Health agrees with the finding. The employee on military leave was notified that the State would not continue to pay health insurance costs, however the employee has the option to pay this cost in order to continue the benefit. Health will follow up with DOA to ensure that no charges will be made to the WIC account related to this employee.

Contact Persons: Ann Barone, Acting Chief, WIC Program
Phone: 401.222.4623
Doug Axelsen, CFO RI Department of Health
Phone: 401.222.5112
Ana Novais, Executive Director of Health, Division of Community, Family Health & Equity – Phone: 401.222.5117

Finding 2008-46 *Corrective Action*

The Department will establish stronger controls to ensure that the required State match is provided. The Department wishes to point out that the total calculated required State match expenditures for federal fiscal year 2007 was $9,024,406, while the shortfall amount was $45,676.

Anticipated Completion Date: September 30, 2009

Contact Person: Robert Farley, Associate Director
Phone: 401.462.2424

Finding 2008-47 *Corrective Action*

Prospectively, the Department will ensure that the amounts reported on the SF-269 report are reconciled to RIFANS.

Anticipated Completion Date: September 30, 2009

Contact Person: Robert Farley, Associate Director
Phone: 401.462.2424

Finding 2008-48 *Corrective Action*

2008-48a

The Department concurs and will seek federal approval to allocate SSI expenditures through the cost allocation plan and obtain approval for the cost allocation plan methodology used. This process will be initiated in June 2009 and is estimated to be completed by September 30, 2009.

2008-48b

The Department concurs and will work with the Department of Administration to prevent the duplication of personnel costs on the quarterly cost allocation reports. This process is estimated to be completed by September 30, 2009.

2008-48c

The Department concurs. The applicable federal reports will be corrected and resubmitted to the federal government. This process is estimated to be completed by September 30, 2009.

Contact Person: Robert Farley, Associate Director
Phone: 401.462.2424

Finding 2008-49 *Corrective Action*

2008-49a

DLT concurs with this finding and has implemented corrective action effective SFY2009.

SFY2008 FARS ledgers contain SFY2007 carry in amounts identified on separate lines within each ledger. DLT has established authorized balances within FARS ledgers consistent with grant award documentation effective SFY2009.

Anticipated Completion Date: July, 2008

Contact Person: Diane Gagne, Assistant Director, Financial and Contract Management
Phone: 401.462.8147
Email: dgagne@dlt.ri.gov

2008-49b

DLT concurs with this finding and has implemented quarterly or biannual reconciliations effective SFY2009. The federal grants information schedule (FGIS) has been redesigned by the State Controller for SFY2009 to facilitate ease of completion and consistent presentation by all agencies. DLT will complete and remit this report in a timely manner in accordance with the requirements.

Anticipated Completion Date: July, 2008

Contact Person: Denise Paquet, Administrator, Financial Management
Phone: 401.462.8178
Email: dpaquet@dlt.ri.gov

Finding 2008-50 *Corrective Action*

The RI Department of Labor and Training does not dispute the finding. A new case management system has been secured to address the matter that went live on May 28, 2009. The new system, Geographic Solutions, assures completion of data entry for every element and aspect of individual case management. The process occurs from eligibility to program exit. The program modules within the new database include eligibility, core, intensive and training services. The eligibility

items are required fields that cannot be bypassed. Only certain types of data are accepted in certain fields and incorrect or missing data will prohibit the ability to move forward to the next screen or record. The eligibility items, such as Selective Service, are addressed by a "verify link" which appears when key pieces of requested information need to be verified by documentation. Verify links must be completed for these required items in order to continue with data entry activity.

As part of the implementation of the new system, intensive training of staff has and will continue to be conducted to ensure that all data elements are appropriately supported by required documentation.

Anticipated Completion Date: May 2009

Contact Person: Kimberly Weiss, Chief of Employment and Training Programs
Phone: 401.462.8793
Email: kweiss@dlt.ri.gov

Finding 2008-51 *Corrective Action*

DLT concurs with this finding and has implemented corrective action in SFY2009.

The State Workforce Investment Office (SWIO) has modified its procedures relative to the review and approval of funding requests received from local workforce investment boards indicated on Periodic Cash Request Forms. Approval for cash reimbursements is now denied whenever an error is identified by SWIO program staff on the submitted form as opposed to adjusting subsequent requests for errors identified. The local board must resubmit a revised Periodic Cash Request Form before any funds are released. Additionally, DLT will conduct more frequent reconciliations during each fiscal year rather than relying upon a single year-end reconciliation to identify discrepancies.

Anticipated Completion Date: July 2008

Contact Person: Bob Garofano, Fiscal Coordinator
Phone: 401.462.8149
Email: bgarofano@dlt.ri.gov

Finding 2008-52 *Corrective Action*

The FHWA approved the new reporting revisions in July, 2008. RIDOT in turn reissued the PURK section 14: Labor Compliance Checks in August, 2008. The new reporting procedures changed the reporting frequency from monthly to a minimum of 2 times per year. RIDOT will continue to monitor compliance and enforce completion of checklists and certified payrolls

Anticipated Completion Date: July 2008

Contact Person: Frank Corrao, Construction Management
Phone: 401.222.6940 Ext. 4202

Finding 2008-53 *Corrective Action*

2008-53a:

RIDOT continues to work on revisions to the Materials Sampling and Testing Manual with the FHWA. Additionally, the Department has established an Office of Compliance and Review that will monitor the testing consistency in the field and the processing of the paperwork to ensure the transfer of documents from the lab to the field offices.

Anticipated Completion Date: October 2008

Contact Person: Colin Franco, Materials Section
Phone: 401.222.6940 Ext. 4637

2008-53b:

A Staff Meeting Summary, dated July 23, 2008 was issued to reinforce the requirements for the receipt of certificates of compliance. During the 2009 Winter Seminars and summarized in a Reference Memo 2009-4, all staff members were notified of the importance and the reasoning behind the requirement for the certificate of compliance before payment of an item is processed. We anticipate that an electronic module for our construction management program will be implemented, during FY10, whereas the payment of an item of work will be tied to the receipt of the certificate, before payment or proceeding of the payment will be allowed.

Anticipated Completion Date: July 23, 2008

Contact Person: Frank Corrao, Construction Management.
Phone: 401.222.6940 Ext. 4202

2008-53c:

Additional training will be provided to reinforce compliance related to this procedure. RIDOT will continue to improve practices to ensure the applicable PURK manuals procedures are followed when dealing with rejected or unacceptable materials at the project site. The Department has established an Office of Quality Compliance and Review that will monitor the testing consistency in the field and the processing of the paperwork to ensure the transfer of documents from the lab to the field offices.

Anticipated Completion Date: March 2009

Contact Person: Frank Corrao, Construction Management
Phone: 401.222.6940 Ext. 4202

2008-53d:

RIDOT's current plan is to have the materials test book be electronically generated by the Quest project file (project distribution of quantities for a project). Anticipated completion of this task is

during FY10. The standardization and electronic controls will allow for a more uniform and concise document for all to follow.

Anticipated Completion Date: November 1, 2009

Contact Person: Frank Corrao, Construction Management
Phone: 401.222.6940 Ext. 4202

2088-53e:

RIDOT anticipates that an electronic module for our construction management program will be implemented, during FY10, whereas the payment of an item of work will be tied to the receipt of the mill certification, before payment or proceeding of the payment will be allowed.

Anticipated Completion Date: November 1, 2009

Contact Person: Frank Corrao, Construction Management
Phone: 401.222.6940 Ext. 4202

Finding 2008-54 *Corrective Action*

2008-54a:

The existing formal contract (Memorandum of Agreement) will be modified to contain all terms, policies and procedures that subrecipients must follow before the Department will approve the distribution and or reimbursement of grant funds. Contract terms will detail required documentation necessary for final acceptance and payment. Final acceptance and review procedures will be performed by the Office of Quality Compliance and Review. The expected implementation for this finding is June 30, 2009.

2008-54b:

All grant awards to Local Public Agencies (LPA) will have assigned a designated flex field in the oracle financial system. In addition, LPA information will be incorporated into the construction management's project tracking software (PTS). The expected implementation for this finding is June 30, 2009.

2008-54c:

Single audit review will be incorporated into final review and acceptance procedures performed by the Office of Quality Compliance and Review. This review will also be performed for each fiscal year a subrecipient is receiving funding. The expected implementation for this finding is June 30, 2009.

2008-54d:

The existing formal contract (Memorandum of Agreement) will be modified to contain all of the above-mentioned requirements. The expected implementation for this finding is June 30, 2009.

2008-54e:

The Department is currently working with the Federal Highway Administration (FHWA) to ensure that contract language addresses all applicable Federal regulations.

Anticipated Completion Date: (All) June 30, 2009

Contact Person: Richard Fondi
Phone: 401.222.6940 Ext. 4637

Finding 2008-55 *Corrective Action*

Verification policies and procedures are in effect and financial aid staff is well trained in this area. We have emphasized these policies and procedures with the staff. Further, as demonstrated to the auditor through recalculation of the EFC, use of the actual tax paid in this case would not have changed the result.

Anticipated Completion Date: September 2008

Contact Person: James T. Hanbury, Director of Student Financial Aid
Rhode Island College
Phone: 401.456.8033

Finding 2008-56 *Corrective Action*

Procedures are in place to ensure that first-time FFEL recipients receive entrance counseling. In this case, a financial aid staff member processed a system override to enable disbursement to the student's account at the College one day prior to the completion of entrance counseling. The requirements of the regulation have been reinforced with the staff member.

Anticipated Completion Date: September 2008

Contact Person: James T. Hanbury, Director of Student Financial Aid
Rhode Island College
Phone: 401.456.8033

Finding 2008-57 *Corrective Action*

The small calculation errors in refunds for these students were due to an inappropriate adjustment of the academic calendar in the system by a staff member in the Records Office. This caused our PeopleSoft information system to prorate the enrollment period incorrectly. This problem was identified and the calculations were corrected for all but one student. One student calculation error of $5 was not identified until the audit. Problems created by the inappropriate system adjustments by another department to the academic calendar were brought to the attention of executive administration, and a decision was made to give exclusive control of the calendar-related system tables to the Director or Student Financial Aid.
Anticipated Completion Date: Spring 2008

Contact Person: James T. Hanbury, Director of Student Financial Aid
Rhode Island College
Phone: 401.456.8033

Finding 2008-58 *Corrective Action*

The late return of this refund was due to human error. The refund was calculated and the funds were removed from the student's account within the required timeframe. However, the person responsible for returning the funds to the lender made a mistake and overlooked the return until it was caught by the audit. We have since developed a new system query as a weekly secondary check to prevent similar problems for occurring in the future.

Anticipated Completion Date: October 2008

Contact Person: James T. Hanbury, Director of Student Financial Aid
Rhode Island College
Phone: 401.456.8033

Finding 2008-59 *Corrective Action*

The University reports Pell disbursements to COD several times per week. Reconciliations are performed to determine the accuracy of submissions. Additionally, the University will run error reports to confirm the amount and number of submissions during each transaction. All Pell disbursements were accurately distributed and reconciled for the academic year.

Anticipated Completion Date: Ongoing

Contact Person: Bonnie Saccucci, Senior Associate Director, Enrollment Services
University of Rhode Island
Phone: 401.874.7530

Finding 2008-60 *Corrective Action*

The University concurs with the findings and has implemented a verification procedure to ensure timely and accurate notifications of disbursements to students. It should be noted that students have 24/7 access to their loan disbursements through their e-campus account. All loan disbursements to students were accurate and reconciled.

Anticipated Completion Date: Ongoing

Contact Person: Bonnie Saccucci, Senior Associate Director, Enrollment Services
University of Rhode Island
Phone: 401.874.7530

Finding 2008-61 *Corrective Action*

The University concurs with the findings and will be more diligent when manually adjusting COA budgets for students. Enrollment Services has reviewed the process and procedures with the current staff.

Anticipated Completion Date: Ongoing

Contact Person: Bonnie Saccucci, Senior Associate Director, Enrollment Services
University of Rhode Island
Phone: 401.874.7530

Finding 2008-62 *Corrective Action*

The University concurs with the finding and is in the process of securing off-campus agreements with all outside agencies. The University collects all student timesheets and verifies all information before submitting it to the University's payroll office for payment.

Anticipated Completion Date: Ongoing

Contact Person: Bonnie Saccucci, Senior Associate Director, Enrollment Services
University of Rhode Island
Phone: 401.874.7530

Finding 2008-63 *Corrective Action*

Health agrees with this finding and has implemented a process to review a sample of 10 medical records at each site visit to confirm patient eligibility for federally vaccine and appropriate documentation of vaccine administration is recorded in the patient's permanent medical record.

Contact Persons: Doug Axelsen, CFO Department of Health
Phone: 401.222.5112
Patricia Raymond, Team Lead, Preventative Services and Community Practices Team – Phone: 401.222.5921
Ana Novais, Executive Director of Health, Division of Community, Family Health & Equity – Phone: 401.222.5117

Finding 2008-64 *Corrective Action*

Health agrees with this finding and will continue to review timesheets weekly, monitor staff total allocation charges on a monthly basis, and prepare payroll adjustments. Health will request access to an electronic time card system which would help in monitoring this requirement.

Contact Persons: Doug Axelsen, CFO Department of Health
Phone: 401.222.5112
Patricia Raymond, Team Lead, Preventative Services and Community Practices Team – Phone: 401.222.5921

Ana Novais, Executive Director of Health, Division of Community, Family Health & Equity – Phone: 401.222.5117

Finding 2008-65 *Corrective Action*

Health agrees with this finding and has requested cost centers for each segment of the program.

Contact Persons: Doug Axelsen, CFO Department of Health
Phone: 401.222.5112
Patricia Raymond, Team Lead, Preventative Services and Community Practices Team – Phone: 401.222.5921
Ana Novais, Executive Director of Health, Division of Community, Family Health & Equity – Phone: 401.222.5117

Finding 2008-66 *Corrective Action*

2008-66a:

The Department takes very seriously, its mandate to participate in the Income Eligibility Verification System as required in Section 1137 of the Social Security Act as amended. As described in the audit report, an established an IEVS unit to carry out IEVS data matching reviews. Noteworthy is the fact that during part of the period of review, the Department experienced an unprecedented loss of staff in all areas, including a loss of 1 Supervisor and 2 staff within the IEVS Unit itself. Correspondingly, there was a significant loss of eligibility technicians and some social caseworker staff within all field offices which resulted in vacant caseloads for a period of time; the ability of the field to respond to IEVS Unit prompts may well have been compromised to some degree.

The Department is committed to stabilizing all facets of the field operation by refilling as many vacant positions as possible. Eligibility technician positions had been posted in February and March of 2009 and these workers are in training. Additional social caseworkers are being sought for the next round of jobs to be filled. DHS Administration is confident that the issues raised in this audit will be greatly minimized by stabilizing the eligibility and service worker staff.

During 2009, the DHS Administration will ensure that the IEVS Unit places greater efforts on responding to information reported through the National and State Directories of New Hires. These two sources of data have proved to be a more effective data-matching source and will reduce more and more, the number of IEVS cases reflecting discrepancies.

2008-66b:

The department will strengthen controls to ensure that appropriate supporting documentation is maintained as recommended.

2008-66c:

With regard to the propriety and application of DHS policy (1022.10.20) the Department believes that this long-standing policy is supportable by federal regulation and commits to seek a

determination from the Administration for Children and Families as to appropriateness of it as currently implemented within the R. I. DHS Policy. If ACF does not agree with its application, the Department will modify both policy and procedures to assure compliance with federal IEVS requirements.

Anticipated Completion Date**:** September 30, 2009

Contact Person: Donalda Carlson, Acting Associate Director
Division of Individual and Family Support
Phone: 401.462.6833

Finding 2008-67 *Corrective Action*

2008-67a:

The Department will reemphasize with all TANF social caseworkers and Child Care staff the requirements to obtain and properly utilize updated documentation in case records for determining eligibility and payment amounts.

2008-67b:

The department agrees to strengthen controls to ensure adherence to procedures relating to required documentation. During FFY 2009, the Department is participating and Improper Payment Authorization Review with the ACF Child Care Bureau. 261 records are subject to review and it is intended to be helpful in identifying weaknesses in case recordkeeping and will fortify the protocols related to child care determination. The Department had developed procedures regarding supervision of individual job search activities under the TANF R.I. Works Program and has purchased a service through the R.I. Department of Labor and Training to oversee both group and individual job search. DHS Administration will clarify through written procedural memo to staff information related to this activity.

2008-67c:

The department will include child care cases in the sample case review process.

Anticipated Completion Date**:** September 30, 2009

2008-67d

In the Spring of 2007, the Rhode Island Child Care Assistance Unit which determines eligibility for all low income-eligible working parents applying for child care, participated in a pilot scanning project to test out the applicability of using scanning to create electronic images of all required documents used to determine eligibility. The staff agreed to serve as the pilot with a phased-in process, testing the speed of the system, the quality of the images scanned and the efficiency of accessing electronic images within the InRhodes system versus the traditional use of paper documentation. The scanning project has been successful in identifying glitches in the system during the first 6 months of the pilot and has over time been monitored to determine if the value of scanning was such that it could be used throughout the multiple benefit programs administered by

DHS. Going forward, the staff in the child Care Assistance Unit is convinced that scanning will be done to optimize their process for collecting and recording of proper images into InRhodes system (eg. Pay stubs, birth certificates, child support income, etc.)

Contact Person: Donalda Carlson, Acting Associate Director
Division of Individual and Family Support
Phone: 401.462.6833

Finding 2008-68 *Corrective Action*

2008-68a:

In October 2008, the Department implemented a new web-based reporting system for monitoring and tracking of TANF parents who are actively participating in their employment plan activities, hours, start and end dates of each activity, and information triggers when individuals end or discontinue their plan activities. This system which is referred to as the Employment Activity Referral and Response System (EARR) is designed to collect real time information on parents attending approved programs and the data emanating from the EARR system is used to automatically report to ACF on ACF-199, TANF Data Report and ACF 209, SSP-MOE Data Report. During the first quarter of entering data and responding to activity changes, the users and the system experienced some degree of difficulty which is understandable whenever a new electronic process is started. This reporting system has required ongoing adjustment and staff have needed period updates on use of the system and appropriate responses from agencies who are approved to report back on parent activities.

During 2009, refinements will be further developed and the Department will continue with a quality improvement agenda in order to insure accuracy and consistency in all data entered in behalf of parents in programs.

2008-68b:

The Department will explore the issue with Northrop-Grumman as to the reporting of unapproved eligibility data and will adjust if it is found to be systemic.

2008-68c:

Rhode Island as with all TANF States receives feedback from ACF on ACF 199 TANF Data Reports and has a practice of researching and correcting as appropriate.

Contact Person: Donalda Carlson, Acting Associate Director
Division of Individual and Family Support
Phone: 401.462.6833

Finding 2008-69 *Corrective Action*

2008-69a:

The Department acknowledges that there needs to be a strengthening of supervisory and quality control procedures over the preparation of the ACF-196 and ACF-204 reports to ensure that all necessary information is accurate and is supported by appropriate documentation. This recommendation will serve as a strong basis for insuring coordination of information and data in TANF annual reports going forward.

2008-69b:

On April 30, 2008 the 2007 TANF MOE-204 Report had been amended and was submitted to ACF. The amendments however, were not made available to the auditors during their review period and contributed to variances and inconsistencies in several areas mentioned within the audit report.

Of particular mention is the reference that DHS overstated amounts claimed for Cash Assistance for FIP (Two Parents, Minor Teens, etc.) on the ACF-204. The report goes on to say that the amounts claimed were $2,204,368 instead of $720,520 per the ACF-196, an overstatement of $1,483,848. The Department corrected this overstatement with the amended report submitted on April 30, 2008.

It is clearly the Department's responsibility to make all such documents available for the audit reviews and those sections of the 2007 MOE-204 Report will be provided. The Department realizes that it must be judicious in availing all amendments to state plans, reports and policies during future audit reviews.

Contact Person: Donalda Carlson, Acting Associate Director
Division of Individual and Family Support
Phone: 401.462.6833

Finding 2008-70 *Corrective Action*

2008-70a:

Prospectively, the Department will reconcile and document timing differences that result in variances between the amounts reported on the ACF-196 report and amounts reflected in the State accounting system.

2008-70b:

The Department concurs and will adjust the ACF-196 report.

Anticipated Completion Date: September 30, 2009

Contact Person: Robert Farley, Associate Director
Phone: 401.462.2424

Finding 2008-71 *Corrective Action*

Prospectively, the Department will strengthen supervisory review and approval procedures to ensure that amounts reported on the ACF-196 and ACF-204 are properly supported by information recorded in the State accounting system and that necessary accounting adjustments are recorded by year end.

Anticipated Completion Date: September 30, 2009

Contact Person: Robert Farley, Associate Director
Phone: 401.462.2424

Finding 2008-72 *Corrective Action*

2008-72a

The Department will conduct a comprehensive ADP risk analysis and system security review of its Medicaid Management Information System. The Department will coordinate with the Division of Information Technology to examine and seek resources to enhance the risk analysis and system security review of its InRhodes system

2008-72b

Within the MMIS protocols have been developed regarding testing procedures for moving emergency code into production. Also, each Business Design Document has a formal security section that the system analysis must include as part of the design of any modifications to the system.

2008-72c

The Department continues to coordinate its system security activities with the Division of Information Technology (DoIT). Monthly IT status meetings are held with DoIT, Northrup Grumman and DHS staff. Additionally, meetings are scheduled as needed with other security officers of each of the Executive Office of Health and Human Services as well as the Department of Corrections.

Contact Person: Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2008-73 *Corrective Action*

OCSS concurs with this recommendation and continues to make progress towards correcting the deficiencies cited in this audit report (and in previous reports) relative to the reconciliation of child support collections and distributions that are reported by the State's InRHODES Automated Child Support Enforcement System and those reported by the State accounting system.

Since the last audit report of 2004, significant improvements have been made which have assisted with the resolution of this problem:

- Electronic Debit Card called Kids Card implemented statewide in April of 2008. Implementation of the Kids Card reduced amount of undistributed collections for cases with unknown custodial parent address.

- Escheatment to the general treasury began in 2007. This also served to decrease the amount of funds in undistributed collections.

- Computer enhancement discussed in the corrective action plan of 2004 implemented to identify and flag checks with insufficient funds on a case to decrease the amount of future bounced checks for the same case. Also, a fiscal clerk has been assigned to flag and recoup insufficient funds on a regular basis.

- A child support administrative officer had been assigned to work on cases on an ad hoc cleanup report to distribute funds to custodial parents from undistributed collections.

- OCSS has researched the privatization of the State Disbursement Unit currently being handled by the Family Court for the collection posting and distribution of child support payments. OCSS has included the General Treasures office, the Controllers office, Family Court and the budget office. Awaiting budget approval to proceed with contracting with the State of Connecticut to privatize the SDU. The State of Connecticut can add Rhode Island collections, similar to adding a county, to process child support payments for economy of scales. Research has demonstrated the privatization has decreased the amount of insufficient funds, miss-postings and misidentified payments that cost the state of RI money each year. I have highly recommended this project to the Budget Office.

However, even with the significant improvements accomplished since the last audit, OCSE acknowledges there are still several issues that need to be addressed. Since the last audit was performed, the accounting office has lost three additional positions in the last 6 months. There are now only 3 people assigned to the accounting office. Despite the loss of staff, the assigned accountant does daily reconciliation of the Citizens and InRhodes account. I want to make clear that he balances the two accounts on a daily basis.

However, the nature of the Child Support collections and distribution process does not lend it self easily to reconciliation of all accounts involved. There are three so called accounts involved with the reconciliation process; the Citizens Bank Account to which all child support collections are deposited and from which all disbursements are made, the INRHODES account which has a case record, per case, of all payments distributions and adjustments, and then the RIFANS system which only has a record of all Citizens accounts receipts and disbursements The reconciliation of the RIFANS account and INRHODES account is extremely difficult because of the fluidity of that account and the number of transactions that may occur on INRHODES, after the posting of the payment.

In order to determine what causes the variance between RIFANS and InRHODES several meetings were held involving staff from the Treasurers office, OCSE staff, the RI Family Court Staff, and the vendor Northrop Grumman. OCSS staff is called into the Controllers office a few times per year to address this issue. The Associate Director decided the only way to resolve this was to gather all

involved to discuss the procedures involved. It is important to note that despite diligent effort, the accounts have never been reconciled and the findings date back to 1992. The purpose of the meetings was to brainstorm to determine if we could create a list of all transactions that may affect the monthly variance reported between the two accounts, to determine why the accounts cannot be reconciled completely, and to develop a report for the controller's office that would breakdown each type of transaction and total amount that may contribute to the variance. The meetings were quite beneficial, helped cleanup up various issues, and are ongoing. A flow chart and procedural memos were prepared for a better understanding by all. The following issues were discussed as possible explanations as to why a variance may occur:

- There is a significant timing issue. In order to reconcile the RIFANS account with Citizens Bank, OCSS must await the treasurer's report, which is only provided monthly. By the time the accounting office at OCSS receives the report from the Treasurers Office, approximately a month and a half has gone by.

- The Child Support payments are deposited into the Citizens bank account after the postings on the INRHODES individual custodial parent account. As stated these two accounts are balanced daily. The accountant reviews all electronic payments from whatever source and batch deposit from the Family Court and makes sure they balance. The payments are then remitted electronically within 24 hours to a direct deposit account or the electronic debit card called the KIDS CARD.

However, several things may occur affecting the account as follows:

- Checks returned for Insufficient Funds causing an overall shortfall

- Mispostings which cause the re-issuance of a second payment causing a shortfall

- Payments posted incorrectly for foreign currency posted in US dollars and later corrected causing a shortfall.
- Federal offsets returned as a result of an injured spouse claim or otherwise. In many cases, the payment has already been remitted to the custodial parent.

- Unidentified payments

- Collections are higher at certain times of the year because of the offsets, economic stimulus intercepts, the requirement to hold offsets for 120 days before distributing.

Other than the foregoing reasons, we cannot explain or account for the significant variance, quarterly in the accounts. We were hoping to devise a thorough report with itemized transactions as a standard quarterly report for the Controllers office. But we do not believe we have captured all of the types of transactions to do so.

OCSS continues to recommend that we privatize the State Disbursement Unit to resolve some of the underlying issues with respect to mispostings, unidentified and insufficient funds. We believe we can eliminate these issues. Second, OCSS recommends that someone from the treasurers' office or controllers' office be assigned to assist OCSS with resolving this. The OCSS staff has exhausted all possibilities. We need assistance in creating a report that explains each and every transaction that may contribute to the variance, and help in actually reconciling the variance on a monthly basis.

Contact Person: Kevin Donnelly, Accounting OCSS
Phone: 401.458.4415

Finding 2008-74 *Corrective Action*

OCSS concurs with this recommendation. OCSS performs this reconciliation quarterly and investigates any variances.

Contact Person: Kevin Donnelly, Accounting OCSS
Phone: 401.458.4415

Finding 2008-75 *Corrective Action*

2008-75a:

Accepted. The Office of Energy Resources will document the procedures used to determine payments of LIHEAP funds to subrecipients by June 30, 2009. The supporting documentation will be attached to each invoice payment.

2008-75b:

Accepted. The Office of Energy Resources closely monitors cash and the implementation of a procedure manual within the Office of Energy Resources will reflect the programs attempts to reimburse for reasonable cash needs of the subrecipient. The Central Business Office monitors subrecipient activities throughout the year and when necessary requires corrective action including the return of excess cash.

Contact Person: Matteo Guglielmetti, Office of Energy Resources
Phone: 401.574.9112

Finding 2008-76 *Corrective Action*

2008-76a:

Accepted. The Central Business Office established the necessary process for tracking funds by grant award by creating separate line sequences within the RI FANS system effective July 1, 2008.

2006-76b:

Accepted. The Central Business Office established the necessary process for tracking funds by grant award by creating separate line sequences within the RI FANS system effective July 1, 2008.

2008-76c:

Accepted. The Central Business Office will establish the necessary process for tracking funds within purchase orders by utilizing cost centers within the RI FANS system effective July 1, 2008.

Contact Person: Matteo Guglielmetti, Office of Energy Resources
Phone: 401.574.9112

Finding 2008-77 *Corrective Action*

Accepted. The Central Business Office will establish cost centers to comply with this finding by June 30, 2009.

Contact Person: Matteo Guglielmetti, Office of Energy Resources
Phone: 401.574.9112

Finding 2008-78 *Corrective Action*

2008-78a:

Accepted. The Office of Energy Resources will develop an allocation method that will be reconciled quarterly for time allocations. This will be implemented effective July 1, 2009.

2008-78b:

Accepted. The Central Business Office within the Department of Administration implemented a time sheet under guidelines from the Bureau of Audits effective July 1, 2008 to record employee activity to adjust actual time and effort reports to the budget allocation quarterly.

Contact Person: Matteo Guglielmetti, Office of Energy Resources
Phone: 401.574.9112

Finding 2008-79 *Corrective Action*

2008-79a:

Accepted. Central Business Office revised the SF269A reports during FY 2009 and a copy was provided to the Auditor General's Office.

2008-79b:

Accepted. Central Business Office revised the SF269A reports October 16, 2008, and a copy was provided to the Auditor General's Office.

2008-79c:

Accepted. Central Business Office revised the REACH SF269A reports in March 2009, and a copy was provided to the Auditor General's Office.

2008-79d:

Accepted. The Central Business Office and the Office of Energy Resources will maintain supporting documentation as required by federal regulation.

2008-79e:

Accepted. Central Business Office has submitted a revised Carryover and Reallotment Report for the 2007 grant awards as of May 15, 2009.

Contact Person: Matteo Guglielmetti, Office of Energy Resources
Phone: 401.574.9112

Finding 2008-80 *Corrective Action*

The Department concurs that one contract was not signed until the fiscal year was almost over. The department has strengthened controls over contract processing, as borne out by the audit report stating that all contracts were processed during fiscal year 2008.

Contact Person: Robert Farley, Associate Director
Phone: 401.462.2424

Finding 2008-81 *Corrective Action*

Additional research is required to resolve this finding. The Department is in the process of reviewing applicable transactions to determine whether they fell within the period of availability. Reports will be revised if deemed necessary. The anticipated date for completing this research and resolving the issue is September 30, 2009.

Anticipated Completion Date: September 30, 2009

Contact Person: Robert Farley, Associate Director
Phone: 401.462.2424

Finding 2008-82 *Corrective Action*

The federal reports will be adjusted. The Department will also work with the quality control staff and the RICHST staff to make sure that no payment can be made without an indication of a licensed foster home.

Contact Person: Brian Peterson, Associate Director/Chief Financial Officer, DCYF
Phone: 401.528.3630

Finding 2008-83 *Corrective Action*

An internal tracking and change request system has already been put in place to further document any changes to the original authorization.

Contact Person: Brian Peterson, Associate Director/Chief Financial Officer, DCYF
Phone: 401.528.3630

Finding 2008-84 *Corrective Action*

2008-84a:

The federal reports will be adjusted as recommended.

2008-84b:

There are written policies on practices and records retention. This missing records cited related to an isolated incident where an employee, who has since retired, inadvertently destroyed records contrary to the established policy.

2008-84c:

We have established this for current case; however, because an adoption case can be active for twenty-one years, it will be some time before all active cases are in the central repository. Our long-term goal would be a shared image system, but current budget levels do not allow this issue to be addressed.

2008-84d:

We will develop a quality control schedule for the unit supervisor to randomly check a percentage of cases each month.

Contact Person: Brian Peterson, Associate Director/Chief Financial Officer, DCYF
Phone: 401.528.3630

Finding 2008-85 *Corrective Action*

The Department concurs. The Social Services Block Grant financial status report (SF-269 A) will be filed for federal fiscal year 2008.

Anticipated Completion Date: September 30, 2009

Contact Person: Robert Farley, Associate Director
Phone: 401.462.2424

Finding 2008-86 *Corrective Action*

The Department has implemented system modifications that ensure that the appropriate funding source is applied. Each waiver or Title XX individual is assigned a unique program indicator that is stamped to the claim when a provider bills for homemaker services. This program indicator is then mapped to the appropriate funding source.

Due to the nature of the service, home health/homemakers services fluctuate in a given month, which creates difficulty in designing an automated decrementing system. As DHS implements the 1115(a) Global Waiver further refinements will be implemented.

Contact Person: Deborah Florio, Administrator
Phone: 401.462.0140

Finding 2008-87 *Corrective Action*

2008-87a:

Previous OAG audits raised questions about the appropriate manner in which to credit cost-sharing collections, the Department formally requested guidance from CMS on March 17, 2006 on whether the then current practice of allocating all collections to Medicaid was acceptable and, if not, what possible approaches the State might use, with a guiding principle that the approach needs to be cost-effective, given the potential administrative cost (e.g., MMIS changes and training) and the fact that the State's Federal SCHIP allotment would be essentially unaffected. On January 17, 2007, the Department received a response from CMS that raised additional questions. The Department, therefore, sought additional clarification from CMS. On May 17, 2007, the Department obtained an agreement with CMS that a prospective method to allocate cost-sharing collections between Medicaid and SCHIP would be put into place beginning State Fiscal Year 2008. In fact, full implementation of this new method was not completed in SFY2008 but has been completed in SFY2009, and the necessary SFY2008 adjustments were also completed in SFY2009.

2008-87b:

The following procedures have been developed and implemented to ensure that the federal reports properly credit the federal government, on a timely basis, for cost-sharing collections attributed to the SCHIP program. DHS-CCFH will provide a calculation of the SCHIP portion of the RIte Share and premium collection dollars on a quarterly basis and forward to this information to DHS - Financial Management Unit to be reported. This transmission shall be completed not later than 30 days following the close of a calendar quarter.

Contact Person: Deborah Florio, Administrator
Phone: 401.462.0140

Finding 2008-88 *Corrective Action*

2008-88a:

The current contract with EDS requires a Type I SAS 70 be performed bi-annually, and the SAS 70 for FY2008 occurred in May. The Department estimates that a Type II review would cost an additional $100,000, which is not available within its currently appropriated budget. However, EDS and the Department have agreed to secure proposals for a Type II review for 2010.

2008-88b:

DHS has an audit trail process in place that monitors the billing and collection of rebates and third party recoveries. All checks are logged within EDS and forwarded to the financial department where a deposit ticket is prepared by the Financial Specialist and verified by a second person within the financial team. The funds are deposited to the State's General Fund. The deposit ticket and the back up documentation is forwarded to the Drug Rebate Specialist, the TPL Specialist, or the Provider Refund Specialist where the payment is posted to the MMIS. These specialists update the appropriate screens. Updates to these screens are system stamped with the date the screen was updated, the type of transaction, and the clerk ID# who made the change.

In addition to the posting to the MMIS the drug rebate specialist and the TPL specialist maintain MS Excel spreadsheets and/or MS Access database tools to log the payments. The Excel and Access data base tools are worksheets and changes to them are not tracked.

All payments are communicated to DHS via FACN with details of the individual check amounts and the total dollar amount of the deposit. Bank deposit tickets are attached to the FACN.

Drug Rebate Procedures/Controls: Drug rebate checks are received, logged, and deposited by the financial team. The drug rebate specialist receives the deposit slip, a copy of the check, and the back-up documentation from the manufacturer from the financial team. The drug rebate specialist communicates the deposit to the DHS via FACN with the original deposit slip attached. The FACN lists each individual check by payer (manufacturer) with the amount paid and the total deposit amount. The FACN also documents which calendar quarter the payment is allocated to.

Drug rebate payments are posted upon receipt against the original AR created in the MMIS. Payments are posted via the MMIS financial screens and they are also posted to the drug rebate access database. Posted information includes rate adjustments, disputed amounts, recoupments, and payments. Each posting to the MMIS AR is documented with the transaction type, the change date, and the clerk ID as evidenced in the attached screen shots.

After each financial cycle and at each quarter close, a drug rebate status report is generated through the MS access database and forwarded to DHS. The status report documents by both SFY and by calendar year the total amount invoiced, the total amount received, disputed amounts, and outstanding amounts. These reports are reviewed by DHS.

TPL Procedures / Controls: Facsimile claims for third party liability (TPL) are generated by MMIS as part of TPL Benefit Recovery functionality. The generation of the facsimile causes an account receivable account to be created.

When a TPL payment is received the TPL specialist identifies the accounts receivable number by utilizing the TPAS (account summary) screen. The payment is posted in the TPRC (A/R reconciliation) screen. If the payment is paid is full the posting will fully satisfy the A/R. If the payment is a partial payment is received, the TPWO screen is utilized to post write offs due to denials or partial payments. If a change is made in the TPRC or TPWO screen prior to the financial, a toll specialist would delete an entry and the cancelled entry would display in the TPAR (a/r history) screen. Once a financial is complete no changes can be made in those screens. The TPRC and TPWO display change date and clerk number.

A FACN is forwarded to DHS containing the check number, dollar amount, recipient information and any attached Explanation of Benefits from insurers.
Provider Refunds Procedures / Controls: Refunds received from providers are received, logged, detailed for a deposit to the States General Fund and communicated to DHS via FACN. To record the payments within the MMIS, an A/R is established in the MMIS via FNF1 screen. The payment is then posted to the FNF2 screen. The transaction date / change date and the clerk ID# posting the payment is system stamped on the screen for audit purpose.

DHS believes that these procedures are adequate, track changes and demonstrate fiduciary responsibility.

Contact Person: Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2008-89 *Corrective Action*

As noted in connection with previous audit findings, the Department believes it has put into place the necessary controls to assure the integrity of SCHIP eligibility determinations.

Initial eligibility for services is determined by the Department's field staff using common procedures to those used to determine eligibility for Medical Assistance generally, and subject to quality review processes such as MEQC and PERM.

Once determined eligibly for Medical Assistance, SCHIP- eligible recipients are subsequently distinguished from other Medical Assistance recipients by means of standardized monthly reports produced by the State's fiscal agent according to parameters specified by the AG's staff. For at least the last half dozen years, the Department has made each of these standard monthly reports available for the AG review.

As noted in the AG's discussion, current system design constraints do not allow SCHIP program claim-ability to be determined concurrently and on the same system platform as base eligibility for Medical Assistance – and the AG has also covered that the Department's current approach is the most cost-effective method to conduct SCHIP claiming. Correspondingly, the Department believes that the use of common control methods with respect to base eligibility for Medical Assistance, coupled with established standardized reporting as agreed with the AG staff, constitute a sufficient and cost-effective quality control to support the State's SCHIP claim.

Contact Person: Deborah Florio, Administrator
Phone: 401.462.0140

Finding 2008-90 *Corrective Action*

2008-90a:

While the current procedures and methodologies result in accurate Federal financial reporting, the department is currently working with its fiscal agent to refine the alignment of accounts and coding

within the State accounting system to further improve the posting and reconciliation of MMIS reported data.

2008-90b:

The department will reconcile administrative expenditures reported on the CMS-64 with amounts reflected in the State accounting system, and document any timing differences between the CMS-64 report and underlying accounting data.

2008-90c:

The department's current procedures require that expenditure totals as reported on the PMS-272 report be supported by the Federal expenditure totals on federal financial reports. Since the due date for PMS reports sometimes precedes the preparation of the financial report, the use of estimates is occasionally necessary. The department will continue to increase efforts to report cumulative disbursements based on actual expenditures totals as reflected in the financial status report.

2008-90d

The department will implement procedures to improve tracking of Medicaid and SCHIP expenditures reported on the PMS-272 reports to better document the collective reporting of program and administrative expenditures by grant period.

2008-90e:

The department will implement procedures to ensure that expenditure reported have previously been recorded in the State's accounting system.

Contact Person: Robert Farley, Associate Director
Phone: 401.462.2424

Finding 2008-91 *Corrective Action*

2008-91a:

By letter of December 17, 2007, the Department has formally disagreed with the OIG's audit findings, and does not believe that there is a legal basis for those findings. The OIG's audit findings have not been finalized and they remain as draft findings to date. Nonetheless, in the subject correspondence the Department indicated that it was prepared to work with CMS prospectively on an alternative to the current method of obtaining non-emergency medical transportation (NEMT) for Medicaid-eligible individuals.

Effective July 1, 2008, the Department did modify the way it provided non-emergency transportation to RIte Care members. Most RIte Care clients who need non-emergency medical transportation can obtain a Rhody Ten (ten one-way trips) bus pass at a local Stop and Shop or Shaw's supermarket. RI Works clients and clients receiving Extended Medical Assistance are eligible for an unlimited monthly bus pass to support transportation to work, training, as well as medical appointments. The cost of a Rhody Ten pass is $17.50 and a monthly bus pass is $55, in

accordance with recent fare increases from RIPTA. The cost of the Rhody Ten passes is shared with the federal Medicaid program. The unlimited monthly passes are paid for with state-only funds. The Department modified its contract with RIPTA to reflect these programmatic changes.

2008-91b:

Non-emergency medical transportation reimbursements to RIPTA are for RIte Care and RIte Share eligible clients only (mainly children and families). Medicaid transportation claims paid by the Department of Elderly Affairs are for a different Medicaid eligibility population (typically over aged 60), so there is no risk of duplicate payments for the same transportation service.

In FY 2010, the Department of Human Services intends to centralize all payment for Medicaid non-emergency medical transportation through MMIS. DEA will be responsible for non-medically related transportation for clients enrolled in its programs.

Contact Person: Deborah Florio, Administrator
Phone: 401.462.0140

Finding 2008-92 *Corrective Action*

While controls can always be improved, the Department believes that existing claims edits and audits are reasonable and sufficient. System redesign may be also necessary to incorporate the tenets of the Global Waiver. The State would need to allocate additional resources to implement these changes, but the costs to do so cannot be justified on the basis of the questioned costs alone.

In October 2008, the Department began a pilot project to trial a new tool to assess the needs of individuals with developmental disabilities. This assessment tool has been vetted in 14 other states as well as several countries. It provides a method to accurately assess the support needs of individuals with developmental disabilities. Based on the outcomes of the project, we hope to better be able to identify the specific services and supports provided. This will lead to better tracking for both claims and individual outcomes. The goal in this systemic reform will be to balance the federal goals of self-direction with the need for more precise claim editing.

As a result of The Station fire, in which more than 100 people perished, the State implemented new fire codes and no longer grandfathers existing buildings. Maintaining the safety of the individuals we serve is required by the Home and Community Based Waiver, and the Department's paramount concern. The Department had two options to assure the safety of the individuals we serve: move individuals from their homes and into other limited group home vacancies in group homes that met the new fire code, or to nursing homes and/or hospitals, or to renovate the group homes. The first alternative would have significantly increased the cost of services to the Medicaid Program

It should be noted that if these consumers were in an institutional setting (hospital, nursing facility, or ICF/MR), these costs would automatically recognized as allowable expenses. Particularly given the concern for consumer safety and the potential programmatic disruptions that would have occurred, as well as the prior approval by the Single State Agency, the Department strongly believes that this is an appropriate charge to the Medicaid Program.

Contact Persons: Maureen Wu, Acting Chief Financial Officer
Phone: 401.462.3100
Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2008-93 *Corrective Action*

2008-93a:

The individualized education program (IEP) specifies all special education and related services for a child with disabilities. The IEP must be developed cooperatively by the parent and school personnel including: at least one regular education teacher of the child, at least one special education teacher or special education provider of the child, the child's parent or guardian, a person designated as the LEA representative, and individual who can interpret evaluation results and others at the discretion of the parent or LEA. The State Medicaid Program can pay for those services within the IEP that the State Medicaid agency determines to be medically necessary.

Pre-authorization within the MMIS can be an important tool in controlling costs. However, pre-authorization within the MMIS would require both significant additional systems modifications and additional personnel resources to administer. It is the Department's assessment that the expense of implementing and operating a pre-authorization system for special education services would not be cost-effective, and would not resolve any of the other deficiencies citied by OAG.

2008-93b:

The Department as instituted a number of controls to ensure the integrity of expenditures for services provided by the LEAs and with the Medicaid regulations. In addition to previous activities conducted to expand post audit/monitoring procedures of special education claims, DHS has conducted the following additional activities:

In January – June 2008, DHS conducted site visits to eleven LEAs. LEAs evaluated were Burrilville, Central Falls, East Providence, Exeter / W. Greenwich, Jamestown, North Providence, Pawtucket, Providence, Smithfield, Cumberland and the William Davies Career and Technical Institute. As a result of these reviews, DHS conducted a workgroup to develop a set of "best practices" to assist LEAs in maintaining proper documentation of Medicaid required Procedure Activity Notes, Progress Notes and Expanded Behavioral Health service documentation. Workgroup participants included several LEA special education directors and their Medicaid billing staff, third-party billing contractors and representatives from the Department of Education. Results of the focus workgroup were distributed to all LEAs prior to the start of the 2008/2009 school year.

In April 2009, the Office of Auditor General conducted site visits at the Newport County and South Kingstown public school districts as part of its financial and compliance audit of the Medical Assistance Program. Department staff accompanied the auditors on these site visits.

In SFY 2009, DHS is continuing to conduct annual site visits. The LEAs participating in the 2009 review process are Johnston, Coventry, Westerly, Lincoln, N. Smithfield, South Kingstown, East Bay Educational Collaborative, Northwest Special Education Region, Metropolitan Regional Career and Technical Center and the Beacon Charter School. As with previous rounds of on-site reviews,

DHS uses the results of annual site visits to determine the need for further technical assistance, statewide education session and workgroup sessions. All LEAs participating in the 2009 review process are being notified of results in writing, as the reviews are completed.

In SFY 2010, DHS will continue its annual reviews, and revise its guidance and provide additional training as necessary based upon these reviews.

2008-93c:

In July 2007, DHS developed a revised Medicaid School Based Claiming Guide. This guide was designed to increase the knowledge base of LEAs submitting claims for quarterly administrative claiming costs. In 2008 CMS published ruling 2287 to eliminate reimbursement under Medicaid of school administrative expenditures. Pending the outcome of this ruling, DHS was awaiting advisement from CMS regarding administrative expenditures. DHS will conduct reviews of administrative claims by third party administrators and continue to provide training and technical assistance as needed.

Contact Person: Deborah Florio, Administrator
Phone: 401.462.0140

Finding 2008-94 *Corrective Action*

2008-94a:

The findings of the Auditor's Report emphasize the need for the Executive Office of Health and Human Services and the Department of Human Services (EOHHS/DHS) to increase oversight and monitoring of the terms of the ISAs. The EOHHS/DHS Medicaid leadership staff have met with all EOHHS departments to discuss requirements of the Interagency Service Agreements, including compliance with Federal regulations, State Plan, and Cost Allocation Plans. Guidelines for compliance are written and will be distributed to all EOHHS departments to assist department in preparing an inventory of current activities under the ISA. A review of these practices will be conducted to ensure that all activities meet required mandates. The ISA will be revised to include CNOM and Global Waiver Assessment and Coordination processes.

Anticipated Completion Date: July 2009

2008-94b:

The findings of the Auditor's Report emphasize the need for the Executive Office of Health and Human Services and the Department of Human Services to increase the oversight and monitoring of Medicaid claiming by other EOHHS agencies. The steps we propose to take to respond to the Auditor's report recommendations include a review of all benefit claiming by each Department to determine if all applicable requirements are met. Once the review is complete, a certification will be issued that reflects that all benefit claiming is in compliance with the ISA, federal regulations, State Plan, and Cost Allocation Plans. Timeframe: September 2009

Also, a formal review methodology will be developed, implemented that will document the methodology for payment rates for Medicaid-funded services. This methodology and rates will be incorporated into the State Plan or Global Waiver.

Anticipated Completion Date: August 2009

2008-94c:

The EOHHS/DHS Medicaid leadership team is working with EOHHS departments to move Medicaid activities that are currently "offline" into the Medicaid Management Information System (MMIS). Recently, the Department of Mental Health, Retardation and Hospitals, has transferred the eligibility and payment system for the Community Medication Assistance Program (CMAP) to the MMIS. In addition, with the Global Waiver CNOMs, all new enhanced Medicaid eligible categories will be process through the MMIS.

Contact Person: Janice Cataldo, Executive Office of Health and Human Services
Phone: 401.462.2389

Finding 2008-95 *Corrective Action*

2008-95a:

DHS will implement controls to ensure that claims paid on behalf of ineligible individuals are determined timely.

2008-95b:

DHS will credit the federal government for the questioned cost reported above.

Contact Person: Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2008-96 *Corrective Action*

2008-96a:

DHS will review policies and procedures for review of enrollment in the Medical Assistance program and ensure eligibility for participation.

2008-96b:

DHS will work with the fiscal agent to develop a process for a data match with the Department of Health' licensure web site.

2008-96c:

DHS will provide guidance to other state agencies concerning licensure and participation requirements to be a Medical Assistance program provider.

2008-96d:

DHS will evaluate the financial and staffing feasibility of centralizing medical licensure responsibility.

Contact Person: Ralph Racca, Administrator
Phone: 401.462.1879

The Department of Mental Health, Retardation and Hospitals licenses Developmental Disability, Mental Health and Substance Abuse providers. There are regulations and professional standards for each provider type. Licensing staff review provider agencies every two years. The areas that are reviewed include, but are not limited to: personnel, licensure, staff training, health and safety, and policies and procedures. The licensing staff checks the Department of Health licensing database to insure that licenses for all professional staff are current.

Contact Person: Maureen Wu, Acting Chief Financial Officer
Phone: 401.462.3100

Finding 2008-97 *Corrective Action*

Invoices are reviewed each month to ensure that the appropriate funding sources and percentages are being charged. The Department utilizes Chapter 11 of the CMS Medicaid Manual as guidance for determining enhanced federal funding.

Contact Person: Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2008-98 *Corrective Action*

2008-98a:

Last year, a time study was done of all residential providers to DCYF by the Public Consulting Group. As a result, the Department of Children Youth and Families changed the billing percentages and methodology for all of the providers. This change was implemented within the current fiscal year.

We presented of findings to the State Medicaid agency and have agreed to update the time study annually.

2008-98b:

As a result of the time study, we will be implementing a new census/billing system, which will require the vendor to verify the delivery of medical and/or rehabilitative services monthly for each child. RICHIST will be reprogrammed to insure that only children indicated as receiving eligible services, in accordance with the child's treatment plan, will be billed to Medicaid.

Anticipated Completion Date**:** State Fiscal Year 2010

2008-98c:

As part of Phase II of the System of Care redesign, vendors will be billing eligible services directly to MMIS. These changes however, are still one to two years away. The Department continues its commitment to these goals.

Contact Person: Brian Peterson, Associate Director/Chief Financial Officer, DCYF
Phone: 401.528.3630

Finding 2008-99 *Corrective Action*

2008-99a:

The Department disagrees with the finding that the large number of non-cooperative cases may have impacted the statistical validity of the MEQC sample. Current methodology initially over samples to allow for a valid sample after removing dropped cases.

The DHS Quality Control Director will contact Rhode Island's CMS representative to arrange a meeting to review Rhode Island's MEQC policies and procedures. Also, a meeting has been held to discuss filling the vacant Medical Assistance Corrective Action Officer.

2008-99b:

The Department agrees with this finding. The Department will review it's procedures to ensure alignment with CMS policy.

Contact Person: Randy Rosati, Acting Administrator
Phone: 401.462.3014

Finding 2008-100 *Corrective Action*

It is DHS understanding that this finding was resolved within the first three months of SFY 2008.

Contact Person: Robert Farley, Associate Director
Phone: 401.462.2424

Finding 2008-101 *Corrective Action*

RIte Share: RIte Share enrollees have an affirmative obligation to notify the Department in a timely manner whenever their employment/insurance status changes in a way that would affect their eligibility or enrollment into RIte Share.

Maintaining accurate information on employment is a key element in sustaining valid health insurance information. Through enhancements made to our InRhodes system and a related interface between InRhodes and the Employer Contact Unit (ECU), the ECU is notified of enrollees' changes in employment as they are entered in InRhodes. In addition, the Department uses the information

obtained through insurance data matches that are conducted quarterly through the Medicaid fiscal intermediary.

Additionally, as stated in previous audit responses, each month, prior to the financial cycle, he ECU faxes a list of individuals for whom a RIte Share payment will be made to the respective employer requesting that the employer check the list and notify DHS of changes or deletions. For the most part, employers cooperate with this request. This process has proven successful in reducing overpayments.

A script created in the Fall of 2006 for the RIte Share staff to confirm health insurance and employment status on all telephone communications is still in place as is the printed reminder on all payment reports to RIte Share recipients which reads: "Please contact RIte Share at 462-0311 if your employment or health insurance has changed. Accepting payment after your insurance has ended may be considered Medicaid fraud."

Specifically with regard to the federal share of overpayments subject to recovery, Medicaid operates on a cash basis. Therefore, we pay the federal government its share upon recovery of the overpayment.

In an effort to collect these balances, DHS has submitted a budget article to add "medical assistance benefit overpayments" to RI General Law 44-30.1 entitled "Setoff of Refund of Personal Income Tax." This amendment would require the Division of Taxation to intercept an individual's tax refund to reimburse the state for overpayments of RIte Care, RIte Share and fee for service Medicaid. This will be treated as an expenditure credit and upon receipt of this action, the state will pay the federal government its share of the recovery.

Hospital Settlements: Settlements are collected on a cash basis. Changes in Rhode Island General Law have resulted in hospitals submitting settlement documents and payment of amounts due to the state in a timely manner. Current year settlements, due to timely filing, have resulted in equal amounts due to the state and the amounts due to hospitals.

Contact Persons: Deborah Florio, Administrator
Phone: 401.462.0140
Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2008-102 ***Corrective Action***

DHS is preparing an RFP for an auditing firm to conduct DSH audits of the community hospitals and Eleanor Slater Hospital to meet requirements of section 1923 (j)(2) of the Social Security Act.

Contact Person: Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2008-103 *Corrective Action*

The following has been implemented in order to improve our ability to make accurate eligibility determinations in our field offices: Beginning June 13, 2008 all eligibility technicians were given specific training regarding policy and documentation needs involved with citizenship/alienage requirements. DHS has acted upon the suggestion to arrange for further training and a whole new curriculum has been created by the DHS Staff Development Unit. Effective May 26, 2009 a new training for all eligibility technicians with specific meetings to address specific eligibility technician functions, is scheduled to begin. This training will run weekly through July3, 2009. Eligibility technicians will be provided appropriate folders containing applicable Medicaid policies and other documents that will facilitate accuracy of the eligibility determination process. Also, DHS, DEA and MHRH will have a new data warehouse provided as a result of a contract awarded after an RFP to EDS to create what is known as The Choices MMIS System.

Contact Person: Tom Conlon, Administrator
Phone: 401.462.1871

Finding 2008-104 *Corrective Action*

DHS believes that current policies to ensure enforcement of findings are adequate and in compliance with federal regulations. DHS will review policies of the DUR Board to ensure compliance with federal regulations.

Contact Person: Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2008-105 *Corrective Action*

The Department acknowledges that the referenced charge of $17,000 was made in error. The charge will be removed from the block grant via an adjustment in the state accounting system by Steve Dean prior to June 30, 2009.

Contact Person: Maureen Wu, Acting Chief Financial Officer
Phone: 401.462.3100

Finding 2008-106 *Corrective Action*

Maureen Wu is developing a new Departmental contract process and is currently collecting of all necessary information for contracts renewing on July 1, 2009. Steve Dean will coordinate this process to be sure that all contracts, with appropriate appendices and clauses are fully executed prior to July 1, 2009.

Contact Person: Maureen Wu, Acting Chief Financial Officer
Phone: 401.462.3100

Finding 2008-107 *Corrective Action*

Earmarking language will be included in all appropriate contract documents as well as the amount of the contract that is applied to an earmark. A mechanism for tracking and reporting on earmark expenditures is being developed by Rebecca Boss and Steve Dean. In addition, the Department will be receiving technical assistance from a SAMHSA/CSAT-funded contractor on Block Grant programmatic and financial implementation. Full implementation is expected by October1, 2009.

Contact Person: Maureen Wu, Acting Chief Financial Officer
Phone: 401.462.3100

Finding 2008-108 *Corrective Action*

The Department currently includes Block Grant language relating to required efforts (e.g., TB, HIV, pregnant women) in its contracts. Rebecca Boss and Steve Dean are expanding on this by developing and implementing procedures to monitor and track services and expenditures—including a discrete reporting process. The Department is developing a new services monitoring system that may be available to assist with implementation of this plan. Full implementation is expected by October1, 2009.

Contact Person: Maureen Wu, Acting Chief Financial Officer
Phone: 401.462.3100

Finding 2008-109 *Corrective Action*

Maureen Wu and Steve Dean will develop invoicing and reporting procedures for subrecipients to ensure that payments do not result in excess federal funds on hand. These procedures will be incorporated into contracts effective July 1, 2009.

Contact Person: Maureen Wu, Acting Chief Financial Officer
Phone: 401.462.3100

Finding 2008-110 *Corrective Action*

2008-110a:

We are currently being guided by FEMA to prepare the reports in a way that is different than recommended above. We have requested a meeting to be set up with the Auditor General's Office and FEMA representatives to resolve reporting data issues.

Anticipated Completion Date**:** September 30, 2009

2008-110b:

The SF269 reports will be reviewed by an approved individual familiar with the state accounting system. RIEMA is also in the process of developing written rules, regulations policies and procedures which will address like issues. This will enhance controls department-wide.

Anticipated Completion Date**:** March 31, 2009

Contact Person: Steve Greenhalgh, Assistant Administrator, Financial Management
Phone: 401.462.7113

Finding 2008-111 ***Corrective Action***

RIEMA has instituted a hierarchy system of signatures necessary for purchases. RIEMA will return the federal funds for the unallowable purchases and do a journal entry to reassign the expenditure to a state account.

Anticipated Completion Date**:** July 31, 2009

Contact Person: Steve Greenhalgh, Assistant Administrator, Financial Management
Phone: 401.462.7113

Finding 2008-112 ***Corrective Action***

RIEMA has instituted a new timekeeping system in April 2009 to track personnel activity. This will eliminate the semi-annual certifications and allocate costs for efficiently.

Anticipated Completion Date**:** March 31, 2009

Contact Person: Steve Greenhalgh, Assistant Administrator, Financial Management
Phone: 401.462.7113

Finding 2008-113 ***Corrective Action***

RIEMA has set a two-day period where all staff will assist in the inventory process. All items purchased will be logged on a spreadsheet or database as required. This will include, but is not limited to, computers, printers, and other equipment that has been purchased with grant funding. Bar codes will also be affixed to assets if they are missing. This inventory will include information such as a description of property, a serial number, source of property, who holds title, the acquisition date, a cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition, disposition date, and sale price as cited by Appendix IV of the State of Rhode Island's ***Fixed Assets Control and Tracking System*** and 44 C.F.R. Part 13.32(1). Once this inventory is completed, one RIEMA personnel will be tasked with maintaining and updating this inventory on a regular basis.

Anticipated Completion Date**:** December 31, 2009

Contact Person: Steve Greenhalgh, Assistant Administrator, Financial Management
Phone: 401.462.7113

Finding 2008-114 *Corrective Action*

RIEMA has implemented a control to ensure this does not occur. A calendar has been set up where a reminder pops up when the grant is due to close in 60 days. This will allow ample time for the grant to be closed or an extension filed if one is needed. A spreadsheet with all grant end dates has also been disseminated to both fiscal and program personnel so that all involved are aware of the grant end dates.

Anticipated Completion Date**:** March 31, 2009

Contact Person: Steve Greenhalgh, Assistant Administrator, Financial Management
Phone: 401.462.7113

Finding 2008-115 *Corrective Action*

2008-115a:

RIEMA will re-establish the subrecipient monitoring program by the end of June 2009. The employee assigned to this task was out on medical leave from May 2008 to present. The state imposed limitations on hiring during this time which prevented us from carrying out this function. A new member of the grants team was hired on May 10, 2009 and it is anticipated that a second individual will be on board by mid June 2009. This will allow RIEMA to have a fully functioning grants section.

Anticipated Completion Date**:** September 30, 2009

2008-115b:

The subrecipient monitoring program will include the Single Audit review of the required subgrantees, actual monitoring and follow-up for missing information. This will be the primary responsibility of one individual within the grants section. It is also anticipated that the program will utilize interns to assist in the monitoring program.

Anticipated Completion Date**:** September 30, 2009

Contact Person: Steve Greenhalgh, Assistant Administrator, Financial Management
Phone: 401.462.7113

Summary Schedule of Prior Audit Findings

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Food Donation	10.550	05-31
Food Stamp Cluster:		
Food Stamps	10.551	06-24, 07-46
State Administrative Matching Grants for Food Stamp Program	10.561	07-44, 07-45
Child Nutrition Cluster:		
School Breakfast Program	10.553	05-31, 07-44, 07-47, 07-48, 07-49
National School Lunch Program	10.555	05-31, 07-44, 07-47, 07-48, 07-49
Special Milk Program for Children	10.556	07-44, 07-48, 07-49
Summer Food Service Program for Children	10.559	05-31, 07-44, 07-47, 07-48, 07-49
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	07-44, 07-45, 07-50, 07-51
Child and Adult Care Food Program	10.558	07-44, 07-48
Section 8 Project Based Cluster:		
Section 8 Housing Assistance Payments Program – Special Allocations	14.195	07-52, 07-53
Community Development Block Grants/State's Program	14.228	02-30
Unemployment Insurance	17.225	07-44, 07-45
Trade Adjustment Assistance - Workers	17.245	07-44, 07-54
WIA Cluster:		
WIA Adult Program	17.258	07-44, 07-55
WIA Youth Activities	17.259	07-44, 07-55
WIA Dislocated Workers	17.260	07-44, 07-55, 07-56
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	07-44, 07-45, 07-57, 07-58, 07-59, 07-60
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	07-62, 07-63, 07-64, 07-65
Federal Family Education Loans	84.032	07-62, 07-63, 07-64, 07-65
Federal Work-Study Program	84.033	07-62, 07-63, 07-64, 07-65
Federal Perkins Loan Program – Federal Capital Contributions	84.038	07-62, 07-63, 07-64, 07-65
Federal Pell Grant Program	84.063	07-62, 07-63, 07-64, 07-65
Federal Direct Student Loans	84.268	07-62, 07-63, 07-64, 07-65
Academic Competitiveness Grants	84.375	07-62, 07-63, 07-64, 07-65
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged	93.342	07-62, 07-63, 07-64, 07-65

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Students		
Nursing Student Loans	93.364	07-62, 07-63, 07-64, 07-65
Title I Grants to Local Educational Agencies	84.010	07-44, 07-49
Special Education Cluster:		
Special Education – Grants to States	84.027	07-44, 07-49, 07-61
Special Education – Preschool Grants	84.173	07-44, 07-49, 07-61
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	07-44
Immunization Grants	93.268	07-44, 07-111
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	07-44, 07-66, 07-67, 07-68
Temporary Assistance for Needy Families	93.558	06-24, 06-40, 07-44, 07-46, 07-69, 07-70, 07-71, 07-72, 07-73, 07-74, 07-75
Child Support Enforcement	93.563	04-60, 04-61, 04-62
Low-Income Home Energy Assistance	93.568	07-44, 07-76, 07-77, 07-78, 07-79, 07-80, 07-81
CCDF Cluster:		
Child Care and Development Block Grant	93.575	06-24, 07-44, 07-46, 07-70, 07-75, 07-82
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	06-24, 07-44, 07-46, 07-70, 07-75, 07-82
Foster Care – Title IV-E	93.658	06-51, 07-44, 07-45, 07-83, 07-84
Adoption Assistance	93.659	07-44, 07-45, 07-85
Social Services Block Grant	93.667	06-24, 07-44, 07-46, 07-82, 07-86
State Children's Insurance Program	93.767	06-24, 07-44, 07-46, 07-75, 07-87, 07-88, 07-89, 07-90, 07-110
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	07-44
State Survey and Certification of Health Care Providers and Suppliers	93.777	07-44
Medical Assistance Program	93.778	06-24, 06-40, 07-44, 07-46, 07-71, 07-75, 07-86, 07-88, 07-90, 07-91, 07-92, 07-93, 07-94, 07-95, 07-96, 07-97, 07-98, 07-99, 07-100, 07-101, 07-110
Homeland Security Cluster:		
State Domestic Preparedness Equipment Support Program	97.004	06-71, 07-44, 07-45, 07-102, 07-103, 07-104, 07-105, 07-106, 07-107, 07-108, 07-109
Homeland Security Grant Program	97.067	06-71, 07-44, 07-45, 07-102, 07-103, 07-104, 07-105, 07-106, 07-107, 07-108, 07-109
State Homeland Security Program	97.073	06-71

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
02-30	14.228	The Department needs to improve its monitoring procedures to ensure that subrecipients are using CDBG funds for authorized purposes in compliance with laws, regulations and the provisions of contract and grant agreements.						
02-30a		Improve subrecipient monitoring procedures by ensuring all required subrecipient site visits are conducted and by reviewing all subrecipient audit reports on a timely basis.	01-19			X		Commencing in the second half of FY09, monitoring is scheduled to be initiated.
02-30b		Update the checklist used to review subrecipient audit reports to include the current terminology and reporting requirements of OMB Circular A-133.				X		Commencing in the second half of FY09, monitoring is scheduled to be initiated.
04-60	93.563	CSE does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system.						
04-60a		Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	97-35 98-37a 99-34a 00-34a 01-38a 02-42a 03-44a		X			Child Support now runs a quarterly ad-hoc report that further identifies some of the differences between the amounts recorded on INRHODES and those recorded on the State accounting system. Additional research is still required; however, a lack of staff resources prevents a more comprehensive review at this time. See Corrective Action Plan for Finding 2008-73.
04-60b		Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems.	98-37b 99-34b 00-34b 01-38b 02-42b 03-44a		X			In the prior year, a Child Support Administrative officer reviewed cases manually and was able to identify approximately one million dollars from pending distributions. However, also due to lack of staffing resources in the accounting section, only approximately half of that was distributed. With additional staff time, more progress could be made toward this effort. See Corrective Action Plan for Finding 2008-73.

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
04-61		93.563	CSE personnel do not verify data supplied by the Division of Payment Management agrees to department records.						
	04-61		Reconcile the cash balance reported on the PSC-272 report with the State accounting system.	03-45			X		See Corrective Action Plan for Finding 2008-74.
04-62		93.563	Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced.						
	04-62b		Initiate appropriate enforcement action for medical support orders.	00-35b 01-39b 02-43b 03-46b	X				
05-31		10.550 10.553 10.555 10.559	We noted numerous variances in inventory records of food commodities.						
	05-31		Improve controls over the receipt and distribution of donated food commodities by ensuring that all required forms are completed and recorded in the inventory records when goods are received, shipped, or damaged.	03-21 04-31		X			The personnel in place when this finding was first written have left RIDE. RIDE's new Nutrition personnel have become aware of this finding and will contact DOC, who administers this program, to implement controls to address this. See Corrective Action Plan for Finding 2008– 42.
06-24		10.551 93.558 93.575 93.596 93.667 93.767 93.778	Control weaknesses exist in the InRHODES system for eligibility over Food Stamps, TANF, Child Care, SSBG, SCHIP and Medical Assistance.						
	06-24b		Review INRHODES system access for all users to assure that it is appropriate and consistent with assigned job functions. Specifically review all users assigned the 'SSS' user role and limit assignment of this role to just those individuals requiring that wide level of access.	05-32b	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
06-40		93.558 93.778	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						
	06-40c		Correct the programming deficiency which removes interface message notices from the caseworker's daily report before resolution.		X				
06-51		93.658	Some of the payments in our testing sample were not eligible for federal funding.						
	06-51		Adjust federal reports to reimburse the federal government for the unallowable maintenance costs.		X				
06-71		97.004 97.067 97.073	The SF-269a reports submitted did not agree to supporting documentation.						
	06-71a		Prepare reports in accordance with applicable federal reporting instructions.	04-90a	X				
07-44		Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						
	07-44a		Continue to implement a centralized monitoring process to ensure compliance with cash management requirements for federal programs.	97-11 98-08 99-10 00-10 01-09 02-17a 03-20a 04-29a 05-29a 06-22a			X		See Corrective Action Plan for Finding 2008-39.
	07-44b		Produce RIFANS reports and implement specific procedures to ensure data used by departments in drawing cash for federal programs is consistent and appropriate for the intended objective.				X		See Corrective Action Plan for Finding 2008-39.

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
07-44c		Continue to review the basis for requesting federal funds (i.e., funding techniques) for applicable federal assistance programs, and modify the Treasury/State agreement to more closely match funding techniques to current practices.	02-17c 03-20c 04-29c 05-29b 06-22b			X		See Corrective Action Plan for Finding 2008-39.
		Our review of the annual interest liability report disclosed various inconsistencies in the report data used to compile interest liabilities for the major programs.						
07-44d		Modify procedures to ensure that all programs or program components complying with the funding techniques specified in the Treasury/State agreement are excluded from the interest liability calculation.	02-17b 03-20b 04-29b 05-29c 06-22c			X		See Corrective Action Plan for Finding 2008-39
07-44e		Calculate refund liabilities in accordance with the terms outlined in the Treasury-State Agreement. Submit a corrected CMIA Annual Report as necessary.	06-22d			X		See Corrective Action Plan for Finding 2008-39
07-45	Various	The State did not have adequate controls to ensure compliance with regulations governing the use, management and disposition of equipment purchased with federal funds.	97-10 98-07 99-09 00-09 01-08 02-16 03-19 04-30 05-30 06-23		X			See Corrective Action Plan for Finding 2008-40
07-46	10.551 93.558 93.575 93.596 93.667 93.767 93.778	Control weaknesses exist in the InRHODES system for eligibility over Food Stamps, TANF, Child Care, SSBG, SCHIP and Medical Assistance.						

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
07-46a		Assign INRHODES system access for contractor employees such that access to the production version of the system is not permitted or severely limited and adequately controlled.	05-32a 06-24a 06-24b	X				
07-46b		Assign all INRHODES systems security administrative functions to DHS personnel. Contract vendors needing access to any INRHODES resources should formally request the access through this DHS administrator. DHS should develop procedures that mandate all contracted vendors having access to INRHODES be required to re-certify their access needs with the DHS systems security administrator on a scheduled basis.	05-32c 06-24c	X				
07-46c		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. Follow-up on all activity considered questionable or potentially inappropriate.	05-32d 06-24d			X		The Department has begun working on this recommendation. See Corrective Action Plan for Finding 2008-42.
07-46d		Establish an automated sign-off, deactivation process over the EBT pinning terminals. If this deactivation cannot take place immediately, then these terminals should be configured to automatically sign-off after the shortest allowable 'time-out' period.	05-32f 06-24e	X				
07-47	10.553 10.555 10.559	Subrecipient monitoring reviews of Child Nutrition Cluster. SMI nutritional reviews should be completed timely and include communication of findings and development of a collaborative, corrective action plan.						
07-47a		Ensure that SMI nutritional reviews are completed in a timely manner and include written communication of findings and development of a collaborative, corrective action plan.	06-25		X			On advice from the USDA, the outstanding SMI reviews will be incorporated into a newly established review cycle. See Corrective Action Plan for Finding 2008-43.
07-47b		Conduct follow up visits within required federal timeframes.			X			The SMI review process has been reassigned to different personnel, including a consultant that is to be hired by the end of the state fiscal year. See Corrective Action Plan for Finding 2008-43.

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	07-47c		Enforce and impose fiscal sanctions when corrective action plans are not received timely.			X			Fiscal sanctions have been imposed. Only two corrective action plans remain and those will be completed by the end of the state fiscal year.
07-48		10.553 10.555 10.556 10.559 10.558	Child Nutrition Cluster – Controls over eSNACS System. RIDE should enhance controls over change management.						
	07-48		Enhance controls over change management for the eSNACS program by making RIDE's Office of Network and Information Systems responsible for promoting application program changes into production after they have been properly tested and approved by RIDE operational staff.		X				
07-49		10.553 10.555 10.556 10.559 84.010 84.027 84.173	Subrecipient audit reports of Department of Education Programs. RIDE should obtain and review subrecipient audit reports in a timely manner						
	07-49a		Obtain subrecipient audit reports in a timely manner, and provide applicable management decision letters to local educational agencies within required time frames.		X				
	07-49b		Review the Schedule of Expenditures of Federal Awards (included within subrecipient single audit reports) to ensure all pass-through federal funding has been appropriately reported and included in the major program determination process.		X				
07-50		10.557	DOH did not maintain adequate supporting documentation for all data on the WIC Financial Management and Participation Report.						

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	07-50		Ensure all data reported on the *WIC Financial Management and Participation Report* - FNS-798 and *Addendum to WIC Financial Management and Participation Report – NSA Expenditures* - FNS-798A is adequately supported and documentation is retained.	06-27	X				
07-51		10.557	WIC salary and fringe benefits were not supported by time activity reports. DOH should require all employees who allocate time to WIC to complete personnel activity reports. Questioned Costs - $25,994						
	07-51		Require all employees who allocate time to the WIC program to complete personnel activity reports which are then used as the basis for adjusting the budget allocations of payroll charges to the actual time spent on the program.		X				
07-52		14.195	Section 8 Housing Assistance Program - RIHMFC did not conduct housing inspections of all HUD housing on an annual basis. RIHMFC should institute procedures to ensure it inspects the minimum number of occupied units annually.						
	07-52		Rhode Island Housing should select the minimum number of occupied units to inspect required by the Handbook and institute a control policy and procedure to determine whether it is complying with the requirement.		X				
07-53		14.195	Section 8 Housing Assistance Program – the contract administrator is responsible for processing rental adjustments. Questioned Costs - $12,556		X				
07-54		17.245	Trade Adjustment Assistance - Reporting. DLT should improve controls over federal financial reports						
	07-54a		Improve controls over federal finance reports by simplifying the multiple sources used to accumulate the data required for federal reporting and ensuring all sources are reconciled to the State's RIFANS accounting system from which program expenditures are disbursed. Reconcile supporting documentation for federal reports to ledger activity.	00-20c 01-22c		X			Federal guidelines for reports necessitates maintenance and accumulation of data from multiple sources and are as simplified as practicable. Reconciliations were expanded during FY2008 to include all supporting ledgers and ensured agreement with RIFANS and federal reports and will be continued in future periods.

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07-54b		Review reports prior to submission to ensure data agrees to supporting information systems.			X			The integrated management information system Request for Proposals (RFP) was recently awarded to Geographic Solutions, a Florida-based vendor. Contract execution occurred in August 2008. A comprehensive data conversion and system deployment schedule has been created, with expected rollout July 2009. This integrated reporting and case management system will afford DLT the opportunity to submit accurate, automated reports, thereby minimizing reporting errors.
07-54c		Review reports prior to submission to ensure data is consistent with supporting information systems, including data on other federal reports.			X			Quarterly reconciliations between the ETA 563 report and the ETA-9130 report were performed during SFY2008 that ensured consistency in data on various federal reports. The reconciliations will be performed in the same manner in all future periods.
07-54d		Review reports prior to submission to ensure data agrees to supporting information.		X				
07-55	17.258 17.259 17.260	WIA Cluster – Reporting. DLT should improve controls over federal financial reporting by completing the State's required federal grant information schedule and reconciling to RIFANS.						
07-55a		Establish authorized balances within FARS ledgers consistent with grant award documentation.			X			DLT is establishing authorized balances within its FARS ledgers consistent with grant award documentation commencing in SFY2009. See Corrective Action Plan for Finding 2008-49.
07-55b		Reconcile FARS ledger activity to the State's accounting system (RIFANS) on at least an annual basis. Complete the State's required federal grant information schedule to document that federal reports are consistent with amounts reported in the State accounting system.			X			See Corrective Action Plan for Finding 2008-49.

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07-56		17.260	WIA – Dislocated workers. DLT should provide additional training to staff regarding the objectives of the questionnaire used to determine eligibility.						
	07-56		Provide additional training to staff regarding the objectives of the questionnaire. Enhance supervisory review over the eligibility process including specific review of the questionnaire used to assess eligibility.			X			See Corrective Action Plan for Finding 2008-50.
07-57		20.205	Labor compliance checklists were sometimes missing, others were missing one or both required signatures.						
	07-57		Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements.	03-29 04-40 05-42 06-30			X		See Corrective Action Plan for Finding 2008-52.
07-58		20.205	Highway Planning and Construction – Materials Testing. Documentation of testing was not on file, tests were not documented or the required signatures were missing. RIDOT should improve its quality assurance program with respect to materials testing.						
	07-58a		Improve the RIDOT quality assurance program for materials testing consistent with federal regulations and guidelines and the specific recommendations made by the Federal Highway Administration.				X		Department has established a quality compliance and review section to monitor compliance with specifications, procedures and policies, throughout the life of a construction project. We are continuing to work with FHWA to improve and update our testing manual. See Corrective Action Plan for Finding 2008-53.
	07-58b		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			X		During FY2009/Winter Training, instructions were reinforced to resident engineers the need for the receipt/submission of certificates of compliance prior to making payment on the item. These instructions were issued both verbally and in written documentation. See Corrective Action Plan for Finding 2008-53.

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07-58c		Require that "unacceptable materials" test results are documented in accordance with PURK manual procedures.	06-33b			X		Electronic formatting and distribution of test results has been started and expected completion is during calendar year 2009. This will aide in centralizing and documenting all test results. See Corrective Action Plan for Finding 2008-53.
07-58d		Communicate the approved plant list to all vendors and RIDOT personnel to ensure that only materials from approved plants are utilized in construction projects.		X				
07-59	20.205	Highway Planning and Construction – Federal reimbursement for expenditure credits – DOT did not have procedures in place to reimburse the federal government, in a timely manner, for its share of project expenditure credits						
07-59		Establish procedures to identify the federal share of expenditure credits and process reimbursements to the Federal Highway Administration in a timely manner.		X				
07-60	20.205	Highway Planning and Construction – DOT should strengthen controls to ensure that all projects subject to FHWA oversight are appropriately identified and all federal approvals are sought						
07-60		Strengthen controls to ensure that all projects subject to FHWA oversight are appropriately identified and all required federal approvals are sought.		X				
07-61	84.027 84.173	Special Education Cluster – Reporting. RIDE should obtain the required certifications regarding the census count of children receiving special education assistance and resolve discrepancies between the LEA's certification forms and data submitted online.						
07-61		Obtain the required certifications regarding the census count of children receiving special education and related services. Resolve any discrepancies between certification forms and data submitted.		X				
07-62	Various	Student Financial Aid Assistance Cluster – Cash Management. RIC does not have an effective supervisory review process for preparing cash requests.						

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	07-62		The College should design and implement effective policies and procedures to properly review and authorize requests for reimbursements of funds prior to submission.		X				
07-63		Various	Student Financial Aid Assistance Cluster – Reporting. RIC did not have effective policies in place to ensure reporting is completed timely and accurately.						
	07-63		The College should design and implement effective policies and procedures to ensure reporting is completed timely and accurately.		X				
07-64		Various	Student Financial Aid Assistance Cluster – Special Tests. Notification of disbursement of loan proceeds were not sent to families.						
	07-64		The College should design and implement effective policies and procedures to ensure timely notification is completed timely.		X				
07-65		Various	Student Financial Aid Assistance Cluster – Special Tests. Status changes for students were not submitted timely to NSLDS.						
	07-65		The College should design and implement effective policies and procedures to ensure timely notification is completed timely.		X				
07-66		93.283	The Department of Health does not require employees who work solely on a single Federal award or cost objective, or their supervisors, to sign certifications that they worked solely on that program for the period covered by the certification.						
	07-66a		Require employees working on a single Federal award or cost objective, or their supervisors, to sign certifications to that effect, on at least a semi-annual basis.	03-40 04-54 05-36 06-36a	X				
	07-66b		Require employees working on multiple activities to complete personnel activity reports, on at least a monthly basis, showing actual distribution of activity.	06-36b	X				

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
07-66c		Perform quarterly comparisons between budgeted salary allocations to actual time and effort and prepare adjustments for variances greater than ten percent. Prepare final adjustments for any variances remaining at year end.	06-36c		X			Our time card system is not automated. Supervisors who sign off on the time cards review them and if there is a consistent variance, request an allocation change.
07-67	93.283	CDC – Investigations and Technical Assistance – Subrecipient Monitoring. DOH should enhance documentation of monitoring of subrecipients, obtain and review audit reports, and determine whether audit reports necessitate adjustment of DOH's records						
07-67a		Establish appropriate policies and procedures to monitor subrecipients, utilizing site visits, audits or other means as considered appropriate and enhance documentation of such activities.				X		New policies and procedures are under development.
07-67b		Obtain and review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action.	06-38b			X		
07-67c		Evaluate whether the subrecipient audit reports necessitate adjustment of OH's records, or impact its ability to comply with applicable federal regulations.				X		
07-68	93.283	CDC – Investigations and Technical Assistance. Adjust federal reports for questioned costs resulting from inclusion of a rejected transaction. Questioned costs - $22,259						
07-68		Adjust federal reports for the questioned cost resulting from inclusion of a rejected transaction in fiscal 2007 reported program expenditures.		X				
07-69	93.558	We found expenditures identified on the ACF-196 TANF financial report are not consistently supported by the State's accounting records.						

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07-69		Reconcile and document timing differences which result in variances between the reported expenditures on the quarterly ACF-196 TANF Financial Report and amounts reflected in the State accounting system.	06-41		X			DHS agrees that timing differences associated with TANF reporting need to be thoroughly reconciled and documented. A fifth category (State Non-MOE) of spending was recently added, further complicating a reporting process that has to conform to a still evolving array of rules and numerous and substantial penalties. On a quarterly basis five categories spending are calculated including Federal, State, Separate State, Segregated State and now State Non-MOE which are reconciled and adjusted in the subsequent quarter. The Department of Human Services currently reconciles total combined cash expenditures internally on a monthly basis as part of an in-state reporting procedure with the General Assembly and the Budget Office. Also the Federal component is reconciled on a quarterly basis on the Federal Grants Information Reconciliation form. The Department is proposing that the state components (MOE and Non-MOE) also be reconciled with the state accounting system on a quarterly basis to provide a comprehensive system of tracking and correcting timing differences as they occur. See Corrective Action Plan for Finding 2008-70.
07-70	93.558 93.575 93.596	Childcare workers sometimes failed to comply with established procedures regarding hardcopy documentation of eligibility and income. This resulted in errors in the calculation of provider payments and co-payments.						

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07-70a		Strengthen controls to ensure adherence to procedures requiring agency personnel obtain and properly utilize required documentation to update electronic case file records prior to determining eligibility and payment amounts, as well as, determining compliance with work participation requirements.	01-46 02-47 03-50 04-68 05-63a 06-43a			X		The Department plans to re-train all eligibility workers on the importance of adhering to documentation requirements and the need to update electronic case files prior to determining eligibility. Major focus will be on compliance with work participation requirements. See Corrective Action Plan for Finding 2008-67.
07-70b		Ensure that the proper family share and unearned income are utilized to determine child care eligibility and to calculate co-payment and benefit payment amounts.	05-63b 06-43b	X				
07-70c		Identify policies and procedures regarding supervision of individual job search activities.	05-63c 06-43c			X		The Department will provide clarification regarding this activity. See Corrective Action Plan for Finding 2008-67.
07-70d		Include child care cases in the sample case review process.	06-43d			X		The Department will adhere to this recommendation. See Corrective Action Plan for Finding 2008-67.
07-71	93.558 93.778	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						
07-71a		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		X			The department will strengthen the capacity of the IEVS Unit to further compliance with this requirement. See Corrective Action Plan for Finding 2008-66.

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07-71b		Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or amount of benefit levels.	99-33b 00-32b 01-36a 02-41b 03-41b 04-56b 05-59b 06-40b		X			The department will strengthen the capacity of the IEVS Unit to further compliance with this requirement. See Corrective Action Plan for Finding 2008-66.
07-72	93.558	TANF – Performance Reporting. Enhance controls to ensure the accuracy and reliability of the data included in the ACF 199 TANF data report and the ACF 209 SSP-MOE Data Report.						
07-72a		Enhance controls to ensure the accuracy and reliability of the information included in the ACF 199 TANF Data Report and the ACF 209 SSP-MOE Data Report.			X			The Department has devoted time and effort into assuring data accuracy in the ACF 199 TANF Data Report and the ACF 209 SSP-MOE Report. The Department will continue these efforts. See Corrective Action Plan for Finding 2008-68.
07-72b		Implement procedures to ensure that all applicable vendors are submitting their work activity attendance verification forms as required.	05-62 06-42	X				
07-72c		Develop the capability to correct system information for non-employment work activities when actual attendance data is received indicating errors in data previously recorded and/or reported. Submit revised reports with the corrected data.		X				
07-72d		Correct the INRHODES programming error for item 28 on the ACF 199 TANF Data Report.		X				
07-73	93.558	TANF – Special Reporting – Strengthen supervisory review and approval of the ACF-204.						
07-73a		Strengthen supervisory review and approval procedures to ensure that all necessary information is included in the report and the information is accurate and is supported by appropriate data and calculations.				X		See Corrective Action Plan for Finding 2008-69.

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07-73b		Correct the federal fiscal year 2006 ACF-204 report and resubmit it to the federal government.				X		The department has submitted an amended report and will provide a copy of the amended fiscal year 2006 ACF 204 report to the Auditor General's Office.
07-74	93.558	TANF – Activities Allowed or Unallowed. DHS billed TANF for amounts billed as other program costs by the vendor. Questioned costs - $295,783						
07-74		Revise federal reports to properly charge the appropriate programs for the amounts indicated on the contractor's billing.			X			The Department did prepare adjustments to the state accounting system and the federal ACF 696 report for the Child Care program. The Department will be adjusting the state accounting system and a future federal ACF-196 report for the TANF program overcharges.
07-75	93.558 93.575 93.596 93.767 93.778	DHS does not have a process in place to update and reassess risk assessments when significant system changes occur. Further, policies and procedures to identify and address security risks related to system changes have also not been implemented by DHS.						
07-75a		Develop an enterprise-wide comprehensive ADP risk analysis and system security review process to ensure a coordinated approach to identifying and addressing security risks related to information systems used to administer federal programs.	03-43a 04-71a 05-64a 06-44a			X		See Corrective Action Plan for Finding 2008-72.
07-75b		Implement procedures to ensure that risk assessments are conducted at required intervals and when significant system changes that could affect overall information system security occur.	03-43b 04-71b 05-64b 06-44b			X		See Corrective Action Plan for Finding 2008-72.
07-75c		Coordinate information system security activities for the MMIS and INRHODES systems with the State's Division of Information Technology to ensure compliance with the State's newly mandated information systems security policies and procedures.	06-44c			X		See Corrective Action Plan for Finding 2008-72.

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07-75d		Consider utilizing an independent IT audit contractor for future contracted information system security reviews to ensure the objectivity of the engagement's results.	04-71e				X	
07-76	93.568	Contracts issued by the Office of Energy Resources do not identify the CFDA number of the funding program and all applicable compliance requirements.						
07-76		Execute and/or amend contracts with subrecipients to include all necessary federal award information and applicable compliance requirements.	06-45c	X				
07-77	93.568	The State Energy Office should continue strengthening procedures to ensure that payments of LIHEAP program funds to subrecipients are limited to their immediate cash needs, as required by federal regulations.						
07-77a		Document the sources of data and process used to determine payments of LIHEAP funds to subrecipients.	06-46a			X		As of 6/30/08 the procedure had not been implemented. During the 2nd half of FY09 a procedure will be implemented, where the agencies will submit a listing of check runs that are waiting for funds to be received to mail the checks. The program manager will approve the listing then sign and indicate amount of funds to be approved. See Corrective Action Plan for Finding 2008-75.
07-77b		Restrict subrecipient funding to their immediate cash needs.	06-46b			X		Same as above, funds will be released pending receipt of check listings to be mailed. See Corrective Action Plan for Finding 2008-75.
07-78	93.568	In order to monitor compliance with period of availability requirements, SEO uses grant award expenditure data and obligations. We found this data was not reliable.						

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07-78a		Maintain documentation to support the calculation of funds expended and obligated by grant award.	06-47a			X		Not implemented as of 6/30/08. However, in FY09 separate accounts for new grant awards have been established and will make it clearer as to how amounts were determined. See Corrective Action Plan for Finding 2008-76
07-78b		Track expenditures by federal fiscal year grant award within the State accounting system.	06-47b			X		Same as above. See Corrective Action Plan for Finding 2008-76
07-78c		Identify the federal grant award year when obligating program funds by purchase orders with subrecipients.	06-47d			X		Implemented in July 2008. See Corrective Action Plan for Finding 2008-78.
07-79	93.568	The SEO does not perform any review or analysis during the year to ensure compliance with the earmarking requirements.						Effective 7/1/08 new accounts were established for Heating Assistance. Both the ledgers and Controllers' statement will agree to amount of earmarking requirements.
07-79		Improve procedures and documentation to ensure compliance with the LIHEAP earmarking requirements.	06-48			X		During FY09 separate accounts have been established to separate the FY09 LIHEAP grant from previous fiscal years' grants. All reports completed will agree with what is reported on the Controllers' statements. Sub recipients Admin and Assurance 16 funds will be identified with cost centers. See Corrective Action Plan for Finding 2008-77.
07-80	93.568	The SEO can improve the processed used to charge administrative personnel costs to LIHEAP to ensure that allocations are consistent with supporting documentation and that adequate supporting documentation exists.						

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07-80a		Allocate employee salary and fringe benefit costs to LIHEAP based upon personnel activity reports or equivalent documentation. Adjust estimated allocations on a timely basis after the completion of periodic time studies.	03-47 04-64 06-49a			X		Not fully implemented as of 6/30/08 – employees that charged time to weatherization were split in a more equitable manner. Unable to determine exactly what time is being spent on National Grid, DOE, or HHS funding sources. Time is allocated based on funding. See Corrective Action Plan for Finding 2008-78.
07-80b		Monitor the allocation of personnel costs to LIHEAP to ensure that only appropriate charges are made to the program.	06-49b		X			Commencing in state FY09, time sheets from the CBO will reflect the time allocated to the LIHEAP grant. All personnel were allocated in the past based upon percent of their time spent on each program. At the end of June 30, 2009 adjustments will be made to reflect actual time spent vs what was presently being charged. See Corrective Action Plan for Finding 2008-78
07-80c		Ensure funding limitations in contract award amounts are observed.				X		Prior to 6/30/08 the Dept of Elderly Affairs transferred expenditures that were originally charged to LIHEAP to their state account. Although the RIFANS system has controls to limit over-expenditures in operating expenses in excess of allocations, no control was implemented which stopped postings of payroll charges.
07-81	93.568	Errors were noted in the preparation of SF-269 reports. Separate reports were not prepared for "regular" and Emergency contingency funds are required. Supporting documentation for the Carryover and Reallotment report was not maintained.						
07-81a		Comply with LIHEAP Action Transmittal No. LIHEAP-AT-2001-1 and submit separate SF-269A reports for Block Grant funds and Emergency Contingency Grants funds.	06-50a			X		During FY09, revised SF 269 reports were submitted to HHS. See Corrective Action Plan for Finding 2008-79.

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07-81b		Complete a revised final SF-269A financial report for both "Regular" block grants and Emergency Contingency funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2001-1, Dated 10/18/00	06-50b			X		During FY09, revised SF 269 reports were submitted to HHS. See Corrective Action Plan for Finding 2008-79.
07-81c		Ensure that the Carryover and Reallotment report is supported by sufficient documentation.	05-65 06-50d			X		Not implemented in June 2008; commencing in FY09, the carryover reallotment report had backup information to determine the projected carryover. See Corrective Action Plan for Finding 2008-79.
07-81d		Submit a revised Carryover and Reallotment Report for the 2006 grant awards as required.	06-50e			X		The revised FY06 carryover reallotment report will be revised during FY09. Copies to be sent to auditors.
07-82	93.575 93.596 93.667	CCDF Cluster, Social Services Block Grant – Provider Contracts. DHS did not have provider contracts for 10 of the 13 multi-site day center-based child care vendors reviewed.						
07-82		Strengthen internal controls to ensure that all contracts are renewed on a timely basis.			X			The Department has executed contracts with all of the center-based child care vendors and has implemented controls to ensure contracts are renewed timely. See Corrective Action Plan for Finding 2008-80.
07-83	93.658	Foster Care – Eligibility. Documentation was not available for one of 25 cases reviewed. Questioned costs - $99.						
07-83		Adjust federal reports to reimburse the federal government for the unallowable maintenance costs.		X				
07-84	93.658	Foster Care – Allowable Costs/Cost Principles. Personnel costs for IT personnel were duplicated for the last two fiscal quarters of fiscal year 2007 and the State linked two accounts to CFDA 93.658 in error. Questioned costs - $1,225,050						
07-84a		Adjust federal reports to reimburse the federal government for the $237,486 of unallowable costs claimed during fiscal 2007.		X				

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
07-84b		Correct accounts linked to the Foster Care program for statewide cost allocation purposes to ensure that the state accounting system reflects the appropriate share of federally-reimbursable program costs.		X				
07-85	93.659	We questioned the eligibility for 13 out of 36 payments in our sample because certain records were not available for our review.						
07-85a		Adjust federal reports to reimburse the federal government for the unallowable adoption subsidy charges.	06-52a		X			See Corrective Action Plan for Finding 2008-84.
07-85b		Develop written policies and procedures regarding Title IV-E adoption assistance eligibility determinations and record retention practices to ensure consistent application.	05-67b 06-52b		X			See Corrective Action Plan for Finding 2008-84.
07-85c		Create a central repository for all records that support the Adoption Assistance eligibility determination. Consider electronic imaging of these critical documents to facilitate storage and retrieval.	06-52c		X			See Corrective Action Plan for Finding 2008-84.
07-85d		Conduct random reviews of Adoption Assistance eligibility determinations as part of an appropriate quality control system to ensure that all claims meet federal eligibility requirements.	06-52d			X		See Corrective Action Plan for Finding 2008-84.
07-86	93.667 93.778	Controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source.						
07-86		Strengthen procedures to ensure that vendor billings for homemaker services are verified as to authorized recipient, funding source, authorization period and authorized hours prior to payment.	93.667 93.778 00-42 01-49 02-53 06-55 93.778 03-57 04-75 05-71			X		See Corrective Action Plan for Finding 2008-86.

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
07-87	93.767	Data is not available to apply collection of co-pay amounts to either Medicaid or SCHIP, whichever program was initially charged. All co-pay collections are applied to the Medicaid program.						
07-87		Implement approved CMS methodology for crediting the appropriate federal program for its share of cost sharing collections.	02-55 03-54 04-73 05-69 06-57			X		See Corrective Action Plan for Finding 2008-87.
07-88	93.767 93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medicaid Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
07-88a		Obtain a Type II "SAS 70" examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	97-43a 98-45b 99-43a 00-47a 01-54a 02-58a 03-59a 04-77a 05-72a 06-63a			X		See Corrective Action Plan for Finding 2008-88.
07-88b		Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected.	97-43b 98-45a 99-43b 00-47b 01-54b 02-58b 03-59b 04-77b 05-72b 06-63b			X		See Corrective Action Plan for Finding 2008-88.

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07-89		93.767	Specific eligibility criteria for the SCHIP program have not been programmed into the INRHODES system. The Department must use queries to identify SCHIP eligible individuals and program costs. Controls over these queries were not adequate to ensure that only individuals meeting SCHIP eligibility requirements were claimed. In addition, the INRHODES system does not adequately consider other insurance when determining SCHIP eligibility.						
	07-89		Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure eligibility and allowable cost program criteria are met.	02-54a 03-53a 04-72a 05-68a 06-56a			X		See Corrective Action Plan for Finding 2008-89.
07-90		93.767 93.778	The process to accumulate information for the CMS-64 report is complex and requires extensive manual effort. No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64.						
	07-90a		Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.	02-65b 03-65b 04-82a 05-77a 06-59a			X		See Corrective Action Plan for Finding 2008-90.
	07-90b		Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system.	02-65a 03-65a 04-82b 05-77b 06-59b			X		See Corrective Action Plan for Finding 2008-90.
	07-90c		Report cumulative disbursements on the PMS-272 based on actual expenditures in accordance with report guidelines.	03-65f 04-82c 05-77c 06-59c			X		See Corrective Action Plan for Finding 2008-90.
	07-90d		Improve controls over federal reporting by consistently reporting expenditure amounts that have been recorded in the State's accounting system.				X		See Corrective Action Plan for Finding 2008-90.

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07-91		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. Questioned costs - $149,314						
	07-91a		Formalize more specific guidelines and principles of reimbursement relating to private providers of community services for adults with developmental disabilities.				X		Updated by Finding 2008-92 for fiscal 2008.
	07-91b		Implement more extensive auditing requirements relating to private providers of community services for adults with developmental disabilities.				X		Updated by Finding 2008-92 for fiscal 2008.
07-92		93.778	DHS needs to enhance monitoring and controls to evaluate compliance by LEAs and to ensure only allowable Medicaid procedures are being reimbursed.						
	07-92a		Consider pre-authorization within the MMIS for special education services specified in student's individualized education plans. Subject special education claims to edits for pre-authorization as a requirement for payment approval.	06-61a			X		See Corrective Action Plan for Finding 2008-93.
	07-92b		Expand post audit/monitoring procedures of special education claims to ensure compliance with DHS's "Medicaid Direct Services Guidebook for Local Education Agencies".	05-74b 06-61b			X		See Corrective Action Plan for Finding 2008-93.
	07-92c		Ensure that licensure requirements for LEA providers claiming Medicaid reimbursement meet federal regulations.	06-61c	X				
	07-92d		Implement review procedures for administrative claiming determinations being conducted by a third party contractor on behalf of local education agencies.	06-61d			X		See Corrective Action Plan for Finding 2008-93.
07-93		93.778	At June 30, 2006, only seven out of fourteen hospitals were current with their required cost settlement reports through fiscal year 2003.						
	07-93a		Recover identified hospital settlements from providers in a timely manner and credit the federal government for their share within 60 days.	03-66 04-83 05-78a 06-60a			X		See Corrective Action Plan for Finding 2008-101.

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07-93b		Utilize the enforcement provisions of the Rhode Island General Laws to ensure hospitals submit year-end settlement reports within required time frames.	06-60b				X	
07-94	93.778	DHS should improve controls over Medicaid expenditures administered by other state agencies.						
07-94a		Ensure that other State agencies responsible for administering Medicaid services comply with the terms of the interagency agreements and provide DHS with all required mandates.	06-62a			X		See Corrective Action Plan for Finding 2008-94.
07-94b		Once approved, develop a review process to ensure compliance with authorized rate setting procedures for long-term care and group home facilities administered by other State agencies.	06-62b			X		See Corrective Action Plan for Finding 2008-94.
07-94c		Process claims for Medicaid eligible individuals residing at State-operated substance abuse facilities through the MMIS.	05-74a			X		See Corrective Action Plan for Finding 2008-94.
07-94d		Review and strengthen procedures to ensure current agreements containing the required suspension and debarment certifications are in place for all providers.	06-62c	X				
07-94e		Reevaluate all centralized billing costs charged to Medical Assistance by the Department of Administration to ensure the allowability of these expenditures.		X				
07-95	93.778	Medical Assistance - Timely identification of claims paid on behalf of ineligible individuals. DHS should determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share. Questioned costs - $10,949						
07-95a		Determine, on a timely basis, the amount of claims paid on behalf of ineligible individuals and reimburse the federal government for its share.				X		See Corrective Action Plan for Finding 2008-95.
07-95b		Credit the federal government for questioned costs identified.				X		See Corrective Action Plan for Finding 2008-95.
07-96	93.778	Medical Assistance – Provider eligibility. We found licensure information lacking in the Medicaid provider files maintained by the fiscal agent.						

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07-96a		Improve fiscal agent oversight of provider enrollment and licensing to ensure that all providers enrolled in the Medical Assistance program are eligible to participate.				X		See Corrective Action Plan for Finding 2008-96.
07-96b		Develop procedures to electronically match DOH licensure data with active Medicaid providers to periodically update licensure status.				X		See Corrective Action Plan for Finding 2008-96.
07-96c		Provide specific guidance to other State agencies with responsibility for licensing provider groups to ensure the eligibility of all providers being reimbursed through the Medical Assistance Program.				X		See Corrective Action Plan for Finding 2008-96.
07-96d		Consider centralizing all medical licensure responsibility within one department to ensure consistent application of Medicaid licensing requirements.				X		See Corrective Action Plan for Finding 2008-96.
07-97	93.778	Medical Assistance – Matching – Fiscal Agent Contract. DHS should obtain specific guidance from CMS regarding the allowability of services performed by the fiscal agent. Questioned costs - $226,097						
07-97		Review fiscal agent contract services to ensure their allowability for reimbursement at federally enhanced rates. Obtain specific guidance from CMS outlining the allowability of enhanced federal participation for services performed by the fiscal agent.				X		See Corrective Action Plan for Finding 2008-97.
07-98	93.778	Medical Assistance – Unallowable Costs. DHS purchased monthly transportation passes for Medicaid eligible individuals rather than purchasing passes only for medical appointments. Also, certain staff training costs were over allocated to Medical Assistance. Questioned costs - $4,783,120						
07-98		Reimburse the federal government for all costs deemed to be unallowable by CMS.				X		See Corrective Action Plan for Finding 2008-91.
07-99	93.778	We found several cases where individuals were paid directly for health insurance coverage after they had terminated employment. The recipients did not return premium payments to DHS.						

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07-99		Reimburse the federal government for program overpayments within 60 days of their discovery.	03-63 04-81a 05-76a 06-58b			X		See Corrective Action Plan for Finding 2008-101.
07-100	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.						
07-100a		Formalize a claiming methodology for DCYF residential placements which utilize an all-inclusive per diem rate that is consistent with federal regulations. Alternatively, reimburse providers on a fee-for-service basis or include residential placements as in-plan services through Rite Care.	06-64a			X		See Corrective Action Plan for Finding 2008-98.
07-100b		Enhance controls over Medicaid claims originating from DCYF's RICHIST system so that they are equivalent to controls in place over all other Medicaid claims paid through the MMIS.	06-64b			X		See Corrective Action Plan for Finding 2008-98.
07-100c		Move towards processing all Medicaid claims through the Medicaid Management Information System.				X		See Corrective Action Plan for Finding 2008-98.
07-101	93.778	Medical Assistance – Medicaid Eligibility Quality Control. DHS should re-evaluate MEQC policies to ensure compliance and revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.						
07-101a		Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.				X		See Corrective Action Plan for Finding 2008-99.
07-101b		Revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.				X		See Corrective Action Plan for Finding 2008-99.
07-102	97.067 97.004	Homeland Security Cluster – Period of Availability. Federal regulations require the State to liquidate all obligations within 90 days after the respective grant periods.						
07-102a		Liquidate all obligations before the end of the period of availability.		X				

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07-102b		Investigate expenditures charged in fiscal 2007 to the account linked to federal grants that had been closed. Determine if RIEMA has drawn federal funds for those expenditures under any other federal grants and/or reported the expenditures on any federal financial status reports pertaining to other federal grants.				X		RIEMA will investigate these expenditures and determine if it has drawn federal funds for these expenditures under any other federal grants and submit revised SF-269 reports where necessary.
07-102c		Close accounts in the State accounting system that are linked to federal grants that have expired				X		RIEMA will close out accounts for expired grants.
07-103	97.067 97.004	Homeland Security Cluster – Cash Management. RIEMA should implement procedures to comply with the cash management compliance provisions applicable to each Homeland Security Cluster grant..						
07-103		Implement procedures to comply with the unique cash management compliance provisions applicable to each Homeland Security Cluster grant award.		X				
07-104	97.067 97.004	Homeland Security Cluster – Reporting. Ensure that all SF-269A reports and supporting documentation are reviewed and approved by an individual familiar with the state accounting system.						
07-104a		Submit an amended final SF-269A for the 2003 supplemental State Homeland Security Program Grant to report that some obligations have not been liquidated.					X	The related obligations have been liquidated.
07-104b		Prepare SF-269A reports utilizing expenditure data recorded in the state accounting system's general ledger, and retain all supporting documentation.	04-90b 06-71c			X		See Corrective Action Plan for Finding 2008-110.
07-104c		Ensure that all SF-269A reports and supporting documentation are reviewed and approved by an individual familiar with the state accounting system. Maintain evidence of these reviews.	04-90d 06-71d			X		See Corrective Action Plan for Finding 2008-110.
07-105	97.067 97.004	Homeland Security Cluster – EMA spent federal dollars in fiscal 2007 for two construction projects charged to the 2005 EMA Performance Grant. Questioned Costs - $18,180						

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07-105		Adjust federal reports and credit the federal government for amounts determined to be unallowable under the Homeland Security Cluster programs.				X		RIEMA will return the federal funds for the unallowable purchases and do a journal entry to reassign the expenditure to a state account.
07-106	97.067 97.004	Homeland Security Cluster – Allowable Costs/Cost Principles. RIEMA did not maintain documentation required to support payroll charged to the Homeland Security Cluster.						
07-106		Prepare semi-annual certifications for those employees whose payroll costs are charged to a single program, and utilize personnel activity reports to allocate payroll costs for those employees who work on multiple programs.	06-66			X		See Corrective Action Plan for Finding 2008-112.
07-107	97.067 97.004	Homeland Security Cluster – Equipment Management. RIEMA has not consistently reported the equipment purchased with Homeland Security Cluster Funds.						
07-107a		Complete compilation of inventory records. Include all pertinent data such as purchase date, acquisition cost, and grant under which the equipment was funded.	04-91 06-67a			X		See Corrective Action Plan for Finding 2008-113.
07-107b		Conduct a physical inventory of equipment at least once every two years...				X		See Corrective Action Plan for Finding 2008-113.
07-108	97.067 97.004	Homeland Security Cluster – Special Tests, Subgrant Awards. RIEMA is required to obligate federal funds for subgrants within 60 days after the date of the grant award. RIEAM did not obligate the 2006 SHSP and LETPP grants within the 60 day time frame.						
07-108		Obligate SHSP and LETPP funds for subgrants within 60 days after the grant award.	06-69a			X		See Corrective Action Plan for Finding 2008-114.
07-109	97.067 97.004	Homeland Security Cluster – Subrecipient Monitoring. RIEMA did not ensure that its subrecipients expending $500,000 or more have met applicable audit requirements.						

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07-109a		Review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action.	04-89c 06-68b			X		See Corrective Action Plan for Finding 2008-115.
07-109b		Evaluate whether the subrecipient audit reports necessitate adjustment of RIEMA's records, or impact its ability to comply with applicable federal regulations.				X		See Corrective Action Plan for Finding 2008-115.
07-110	93.767 93.778	Medical Assistance & SCHIP – DHS procedures were not adequate to restrict eligibility for those persons establishing legal residence within 5 years. Questioned costs $4,934,966 (actual share for MA & SCHIP undetermined).						
07-110a		Ensure that recent enhancements to controls over eligibility for qualified non-citizens are being implemented appropriately and consistently by eligibility technicians. Include such provisions within required Medicaid Eligibility Quality Control sampling procedures.		X				
07-110b		Credit the federal grantor for questioned costs relating to claims paid on behalf of individuals ineligible for Medical Assistance.				X		See Corrective Action Plan for Finding 2008-100.
07-111	93.268	Immunization Grants – DOH not obtaining certifications for those employees charging 100% of their time to the federal grant. No time sheets supporting adjustments to payroll charges.						
07-111a		Require employees working on a single federal award or cost objective, or their supervisors, to sign certifications to that effect, on at least a semi-annual basis.		X				
07-111b		Require employees working on multiple activities to complete personnel activity reports, on at least a monthly basis, showing actual distribution of activity.		X				
07-111c		Perform quarterly comparisons between budgeted salary allocations to actual time and effort and prepare adjustments for variances greater than ten percent. Prepare final adjustments for any variances remaining at year-end.			X			Our time card system is not automated. Supervisors who sign off on the time cards review them and if there is a consistent variance, request an allocation change. See Corrective Action Plan for Finding 2008- 64.