

**State of Rhode Island**  
and Providence Plantations

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**EIN # 05-6000522**

**State of Rhode Island  
and Providence Plantations**

**SINGLE AUDIT REPORT**

**Fiscal Year Ended June 30, 2019**

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**Office of the Auditor General**  
General Assembly



## Office of the Auditor General

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

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May 29, 2020

FINANCE COMMITTEE OF THE HOUSE OF REPRESENTATIVES

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, 2019. 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 audit was conducted in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). As required, this report is submitted to the Federal Single Audit Clearinghouse for distribution to federal funding agencies.

The *Single Audit Report* includes our reports on (1) the basic financial statements of the State of Rhode Island, (2) internal control over financial reporting and on compliance and other matters, and (3) compliance with requirements applicable to each major federal program and on internal control over compliance. A detailed Schedule of Expenditures of Federal Awards is also included as outlined in the Table of Contents.

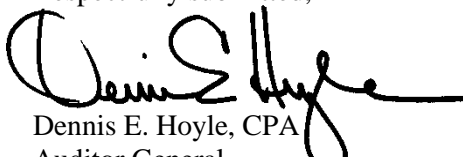
Findings and related recommendations that are required to be reported in the *Single Audit Report* are included in the Schedule of Findings and Questioned Costs. These include financial statement related findings and those related to the administration of federal programs.

The State's management has prepared a corrective action plan addressing each finding, which is included in *Section E* of this report. The status of prior year findings has also been prepared by the State and is included herein in *Section F*.

The *Single Audit Highlights* section on the following pages summarizes key financial statement findings and findings related to the administration of federal programs. Key statistics about the total amount of federal assistance received by the State of Rhode Island in recent years and the federal programs audited in fiscal 2019 as major programs are also summarized.

I would like to express our appreciation to the many individuals that cooperated with and assisted us in the conduct of our audit.

Respectfully submitted,



Dennis E. Hoyle, CPA  
Auditor General



# State of Rhode Island and Providence Plantations

## Memorandum

To: Federal Single Audit Clearinghouse

Re: Submission of the State of Rhode Island – Single Audit Report  
Fiscal Year Ended June 30, 2019  
Federal EIN # 05-6000522

Submission of the State of Rhode Island's Single Audit Report for the fiscal year ended June 30, 2019 was delayed beyond the original due date of March 31, 2020 due to the effect of the global Covid-19 pandemic. This resulted in administrative delays in completing all the components of the Single Audit reporting package which are required for successful submission of the report to the Federal Single Audit Clearinghouse.

Such extensions were permitted pursuant to federal Office of Management and Budget (OMB) Memo M-20-17 - *Administrative Relief for Recipients and Applicants of Federal Financial Assistance Directly Impacted by the Novel Coronavirus (COVID-19) due to Loss of Operations*. OMB authorized therein:

***13. Extension of Single Audit submission. (2 CFR § 200.512)***

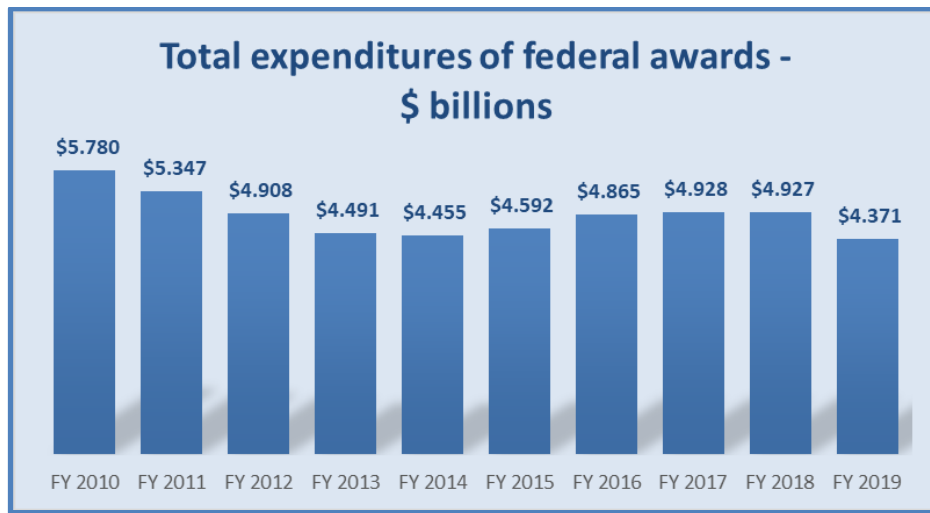
*Awarding agencies, in their capacity as cognizant or oversight agencies for audit, should allow recipients and subrecipients that have not yet filed their single audits with the Federal Audit Clearinghouse as of the date of the issuance of this memorandum that have fiscal year-ends through June 30, 2020, to delay the completion and submission of the Single Audit reporting package, as required under Subpart F of 2 CFR § 200.501 -Audit Requirements, to six (6) months beyond the normal due date. No further action by awarding agencies is required to enact this extension. This extension does not require individual recipients and subrecipients to seek approval for the extension by the cognizant or oversight agency for audit; however, recipients and subrecipients should maintain documentation of the reason for the delayed filing. Recipients and subrecipients taking advantage of this extension would still qualify as a "low-risk auditee" under the criteria of 2 CFR § 200.520 (a)- Criteria for a low-risk auditee.*

This memorandum is included within the reporting package for the State of Rhode Island's Single Audit Report - Fiscal Year Ended June 30, 2019 - to meet the notification and documentation requirement of OMB Memo M-20-17.

## State of Rhode Island – Fiscal 2019 – Single Audit Highlights

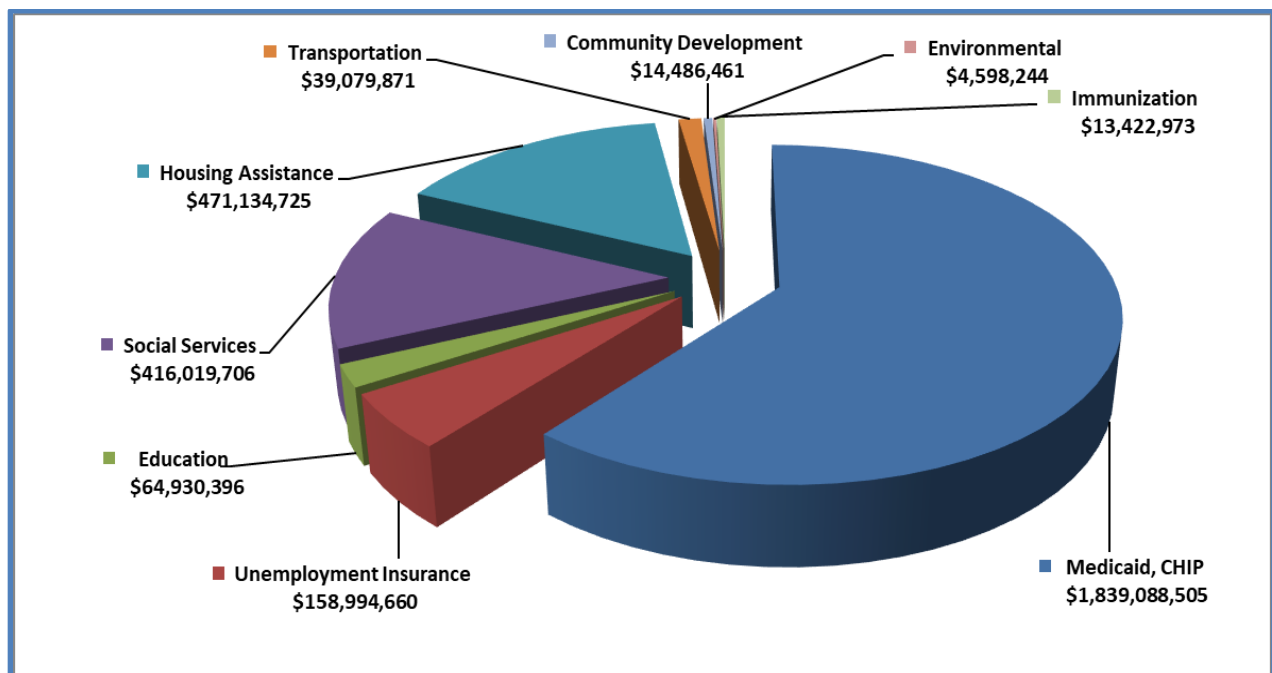
The annual Single Audit is required by federal law and regulation as a condition of continued federal assistance. The report includes the State’s financial statements, a detailed schedule of federal award expenditures and our reports outlining internal control deficiencies and noncompliance relating to financial reporting and the administration of federal programs.

Federal funding represents approximately 40% of the State’s General Fund expenditures and is the State’s second largest revenue source. The graph below depicts the changes in total expenditures of federal awards as reported in the State’s *Single Audit Reports* for fiscal years 2010 to 2019. The general decrease in aggregate federal funding in years 2010 through 2014 is largely due to the phase-out of federal stimulus funding (American Recovery and Reinvestment Act) which began in fiscal year 2009 but resulted in significant expenditures in 2010 and 2011. In fiscal 2019, the decrease in total expenditures of federal awards largely resulted from the return of federally guaranteed student loans to the federal government.



Federal assistance consists of both direct cash and noncash awards (e.g., loan and loan guarantee programs and donated food commodities). Federal assistance is received under a wide variety of more than 450 individual programs. Many programs are jointly financed with federal and state funding. Medicaid is the single largest program with fiscal 2019 expenditures totaling approximately \$2.9 billion - the federal government shared \$1.7 billion of that cost. Consistent with federal guidelines, we tested 69% of the total expenditures of federal awards as major programs following risk-based criteria established in the federal Uniform Guidance. Major program expenditures are summarized in the chart below.

### Fiscal 2019 Federal Award Expenditures Tested as Major Programs - Summarized by Program Type



# State of Rhode Island – Fiscal 2019 – Single Audit Highlights

The Single Audit Report includes 68 findings as summarized in the following table.

Summary of findings included in the 2019 <i>Single Audit Report</i>			
	Primary government	Component units	Total
<b>Findings related to the financial statements</b>			
Material weaknesses in internal control	6	2	8
Significant deficiencies in internal control	26	1	27
Material noncompliance		1	1
<b>Findings related to the administration of federal programs</b>			
Material noncompliance / material weakness in internal control	9		9
Material weaknesses in internal control	11		11
Significant deficiencies in internal control	11		11
Noncompliance / significant deficiency in internal control	1		1
<b>Total</b>	<b>64</b>	<b>4</b>	<b>68</b>

## Findings Summary

### Financial Statement Findings

Weaknesses identified in the State's internal control over financial reporting, result from our annual audit of the State's financial statements for the year ended June 30, 2019. The State's management has responsibility for, and maintains internal control over, financial reporting. *Government Auditing Standards* require that we communicate deficiencies in internal control over financial reporting based on our audit.

The State's management has implemented corrective action on some findings previously reported. Incremental progress is also noted in our findings when recommendations have not been fully implemented but corrective actions are underway.

The State recently completed a strategic plan to coordinate needed replacements/enhancements to its key statewide financial and administrative systems. Implementation and funding of the strategic plan is essential to ensure that critical legacy financial systems, such as the payroll system, will be available to support State operations.

The strategic plan report details the need for, and the benefits to be derived from, an enterprise applications modernization effort. The report highlights that "the risks of inaction far outweigh the cost of upgrades in capability".

Prior and current year audit findings highlight that important functionalities are minimally met through legacy systems and multiple departmental processes without intended integration and efficiencies. This results in business continuity risk, decreased efficiency and effectiveness, and control weaknesses. The State has already experienced such integration issues and halted work on a time and effort reporting system and a grants management system. The State had expended nearly \$3 million on those projects.

Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are assessing and documenting internal control consistent with management's overall responsibility for the adequacy of the design and operation of internal control. Internal controls safeguard public resources and support accurate financial reporting.

The State should commit to providing additional training and implementation materials to assist departments and agencies in documenting their internal control. An internal control assessment and documentation effort should be implemented to coincide with the implementation of a fully integrated ERP system.

The State can continue to improve its consideration of controls over functions performed by external parties by enhancing use and documentation of Service Organization Control (SOC) reports. These improvements are necessary and consistent with management's responsibility for the overall adequacy of the design and operation of internal control.

The complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid financial activity within the State's financial statements. This complexity increases each year through new federal regulations, various State initiatives, and additional challenges resulting from implementation of its RIBridges eligibility system. Medicaid is the State's single largest activity - representing nearly 40% of the annual budgeted outlays of the State's General Fund.

The State did not comply with its spending hierarchy policy for the RI Veterans' Home where multiple funding sources existed for a single activity.

Responsibility for monitoring the investment activity and other compliance aspects of funds on deposit with a fiscal agent (trustee) can be improved and should be vested with the Office of the General Treasurer.

## State of Rhode Island – Fiscal 2019 – Single Audit Highlights

The Executive Office of Health and Human Services (EOHHS) authorized more than \$188 million in system payouts and manual disbursements in fiscal 2019, representing provider advances, payments to managed care organizations for contract settlements and/or non-claims based financial activity, and other program disbursements. The reporting and internal control processes relating to these types of disbursements are manual in nature and external to other established control procedures.

The processes followed for periodic physical inventories of capital assets and the evaluation of inventory results can be improved to ensure that accurate capital asset records are maintained. An asset was erroneously reported as unlocated and removed from the inventory records.

The State can improve controls over recording federal revenue to ensure (1) amounts are consistent with the limitations of grant awards from the federal government and (2) federally claimed expenditures are consistent with amounts recorded in the State's accounting system. We found a grant award deferral had not been recognized and a request for additional grant award funding was still pending for fiscal 2019 program costs.

Controls can be improved within the accounting system to better track the distinct components of fund balance required for presentation in the fund level financial statements.

For the newly established Information Technology internal service fund, policies should be enhanced to provide for consistent recognition of revenue and expense thereby ensuring the fund operates on as close to a break-even model as possible.

All bank account reconciliations should be performed by the Office of the General Treasurer Business Office - Reconciliation Team. Controls over cash disbursements can be strengthened by ensuring authorized signers on State bank accounts are current and faithful performance bonds are maintained for key Treasury personnel.

Overall, the State has not sufficiently addressed information technology (IT) security risks. The State needs to ensure its IT security policies and procedures are current and assessments of compliance for all critical IT applications - systems posing the most significant operational risk - are prioritized.

The State does not follow uniform enterprise-wide program change control procedures for the various IT applications operating within State government. This increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

Processing functionalities within Division of Taxation's STAARS system result in a volume of returns held in suspense pending resolution. This complicates financial reporting estimates due to the uncertain effect of returns that had not fully processed at fiscal year end.

STAARS system user access rights need to be assessed and tailored to ensure access is consistent and appropriate with each employee's responsibilities.

The Department of Transportation's use of multiple systems to meet its operational and financial reporting objectives results in unnecessary complexity and control weaknesses since these systems were never designed to share data.

Controls to ensure accurate and consistent reporting of investment income and expenses within the pension trusts require enhancement at both the custodian and System management level.

The resources necessary to effectively manage and administer the OPEB (retiree healthcare) System to ensure all System functions are met and adequately controlled should be assessed. A unified database or computer application is needed to maintain membership data for each of the State's OPEB plans. This would improve controls over the administration of the benefit programs and the process to accumulate data necessary for periodic actuarial valuations of the OPEB plans for both funding and accounting purposes.

### Federal Program Findings

#### 2019 Major Programs

Supplemental Nutrition Assistance Program (SNAP) Cluster
Mortgage Insurance Homes
Section 8 Project-Based Cluster
Community Development Block Grant State's Program
Housing Vouchers Cluster
Unemployment Insurance
Federal Transit Cluster
Veterans State Nursing Home Care
Performance Partnership Grants
Title I Grants to Local Education Agencies
Supporting Effective Instruction State Grants
Immunization Cooperative Agreements
Temporary Assistance for Needy Families (TANF) Cluster
Low-Income Home Energy Assistance Program (LIHEAP)
Child Care and Development Fund (CCDF) Cluster
Children's Health Insurance Program (CHIP)
Medicaid Cluster

The RIBridges system is used to administer several federal programs including Medicaid, CHIP, TANF, SNAP, and CCDF program clusters. While improved in fiscal 2019, the system continued to negatively impact federal program compliance for these programs.

Controls within RIBridges are inadequate to ensure that user access is limited to only authorized individuals and such access is consistent with each user's specific scope of duties. Additionally, automated password change controls were not operational, and therefore, users were not required to change passwords at required intervals.

## State of Rhode Island – Fiscal 2019 – Single Audit Highlights

The State must enhance security oversight over systems used to administer multiple federally funded programs to fully comply with federal regulations. The plan must be sufficiently comprehensive and include timely reaction to and consideration of identified security issues and risk factors.

**Medicaid and Children’s Health Insurance Programs** – The State did not comply with Medicaid and CHIP eligibility requirements during fiscal 2019 due to control deficiencies and inconsistent case documentation in RIBridges.

Data discrepancies between the systems used to determine Medicaid and CHIP eligibility (RIBridges) and the claims/capitation payment system (MMIS) continued to negatively impact controls to ensure that payments were made only on behalf of eligible individuals during fiscal 2019.

The effectiveness of the Medicaid Eligibility Quality Control (MEQC) program is diminished by the continued RIBridges functional limitations and limited staffing allocated to this activity.

Processing Medicaid applications for long-term care services in RIBridges results in significant delays in determining eligibility and necessitating advances to long-term care service providers.

The Executive Office of Health and Human Services (EOHHS) lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCOs) which represent nearly 60% of Medicaid benefit expenditures. More stringent audit and financial monitoring procedures should be employed.

EOHHS needs to reassess all activities considered surveillance utilization review services performed within the Medicaid program to comply with federal regulations and amend the State Plan to accurately reflect the State’s current practices.

The State is not currently in compliance with federal regulations for the screening, enrollment, and revalidation of providers used in MCO networks.

Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) administration costs were allocated to the Medicaid program through a departmental cost allocation plan that was not federally approved.

Improvements in policies and procedures related to Medicaid claiming for patients at Eleanor Slater Hospital are needed to ensure compliance with federal requirements.

The Department of Children Youth and Families (DCYF) did not utilize updated residential time study results when allocating payments for residential placements to Medicaid.

**TANF** – The State did not comply with TANF eligibility requirements during fiscal 2019 due to control deficiencies and inconsistent case documentation in RIBridges.

The Department of Human Services (DHS) can improve the timely update and/or development of new employment plans for clients upon the expiration of an existing plan.

The State did not comply with the Income Eligibility and Verification System requirements in fiscal 2019. RIBridges does not currently meet that required functionality.

**SNAP** – The RIBridges eligibility system does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations. The system is also not producing reports to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports.

**CCDF** – The RIBridges eligibility system lacked effective income validation controls during fiscal 2019 which impacted program eligibility determinations and the amount of required parent cost-sharing amounts.

**LIHEAP** – DHS subrecipient monitoring procedures need to be enhanced to ensure that funds are expended by subrecipients in compliance with LIHEAP laws and regulations. DHS must enhance controls regarding the allocation of expenditures to multiple available grant awards/periods to ensure compliance with earmarking, period of performance and reporting compliance requirements for LIHEAP.

**Unemployment Insurance** – The Department of Labor and Training (DLT) did not make the necessary changes to its system to allow for the imposition of penalties on overpayments due to fraud, and to prohibit relief from charges to an employer’s UC account when the overpayment was the result of the employer’s failure to respond timely or adequately to a request for information.

**Community Development Block Grant** – Tracking and monitoring of locally-held program income generated by CDBG activities should be enhanced by the Office of Housing and Community Development (OHCD). OHCD should improve procedures to ensure federal reports are retained and adequately supported by underlying records.

**Performance Partnership Grants** – The Department of Environmental Management (DEM) can enhance controls over time and effort reporting to ensure payroll cost allocations and reimbursements for the Performance Partnership Grants are adequately supported.

**Federal Transit Cluster** – The Rhode Island Department of Transportation (RIDOT) subrecipient monitoring procedures need to be enhanced to ensure (1) that funds are used by subrecipients in compliance with FTA program laws and regulations and (2) contracts with vendors and subrecipients comply with State procurement regulations and FTA program laws and regulations.

A Corrective Action Plan (Section E), prepared by the State’s management, is included in the report, which describes planned corrective actions and a timetable for implementation.

A Summary Schedule of Prior Audit Findings (Section F) is also included, which reports the status of findings from prior audits.

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## Financial Statements



**Basic Financial Statements**

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# Office of the Auditor General

State of Rhode Island and Providence Plantations - General Assembly

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

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, 2019, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 1% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 24% of the assets and deferred outflows and 2% of the revenues of the business-type activities;
- the HealthSource RI Trust, an agency fund, the Ocean State Investment Pool, an investment trust fund, and the Rhode Island Higher Education Savings Trust, a private-purpose trust fund, which collectively represent 35% of the assets and 23% of the revenues of the aggregate remaining fund information; and
- all the component units comprising the aggregate discretely presented component units.

The financial statements for these entities were audited by other auditors whose reports 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 solely on the reports of the other auditors.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### **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, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Matters of Emphasis**

As described in Note 16 – the State disclosed contingencies regarding potential federal overpayments related to the Medicaid program.

As described in Note 2 – the fair values of certain investments included within the fiduciary funds - pension and other employee benefit trusts, which represent 24% of the assets of the pension and other employee benefit trusts and 15% of the assets of the aggregate remaining fund information, have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or general partners.

Our opinions are not modified with respect to these matters.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages A-4 through A-28, the Budgetary Comparison Schedules on pages A-178 through A-182, and information about the State's pension plans and other postemployment benefit plans on pages A-183 through A-220 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the

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

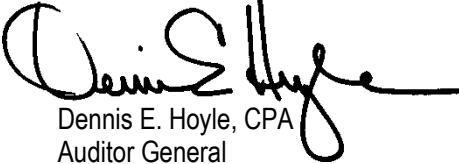
methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

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* (Section B) is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have issued our report dated December 31, 2019 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.



Dennis E. Hoyle, CPA  
Auditor General

December 31, 2019 except for the *Schedule of Expenditures of Federal Awards* (Section B) as to which the date is May 22, 2020.



# Management's Discussion and Analysis



**State of Rhode Island**

Fiscal Year Ended

June 30, 2019



Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Rhode Island (State) for the fiscal year ended June 30, 2019. The MD&A is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the financial statements, notes and required supplementary information which follow the MD&A should be reviewed in their entirety.

## Financial Highlights - Primary Government

### Government-wide Financial Statements

- **Net Position:** The total assets plus deferred outflows of resources of the State was less than total liabilities plus deferred inflows of resources at June 30, 2019 by \$265.5 million. This amount is presented as "net position (deficit)" on the Statement of Net Position for the Total Primary Government. Of this amount \$1.4 billion was reported as restricted net position, \$3.5 billion as net investment in capital assets and \$(5.2) billion was reported as unrestricted net position (deficit).
- **Changes in Net Position:** The net increase in the primary government's net position in fiscal year 2019 of \$102.4 million, which reduced the overall net deficit reported by the State, at June 30, 2019 was mostly attributable to business-type activities which experienced an increase in net position of \$97.6 million during the fiscal year. This was primarily due to the Employment Security Fund operating at an \$89.2 million surplus in fiscal 2019. The Lottery also contributed approximately \$397.3 million in resources to fund governmental activities in fiscal year 2019, an increase of \$32.3 million over fiscal 2018.

### Fund Financial Statements

#### Governmental Funds

- The State's governmental funds reported a combined ending fund balance of \$1,251.7 million, a decrease of \$49.5 million in comparison with the restated previous fiscal year. This is primarily a result of the decrease in the fund balance of the Intermodal Surface Transportation (IST) Fund of \$91.9 million, which was due to a significant increase in expenditures for transportation related projects as the pace of bridge and highway improvements being made under the State's RhodeWorks initiative picked up significantly this year.
- As of June 30, 2019, the State's General Fund reported an ending fund balance of \$371.0 million, an increase of \$8.5 million as compared to the prior year restated fund balance.
- The most significant source of General Fund revenues, taxes, increased by \$96.6 million as compared to fiscal 2018. Personal income, sales and use and general business taxes all reflected healthy increases from the prior fiscal year due to a number of factors including the improving economic climate and greater number of Rhode Islanders employed.
- On the expenditure side, total General Fund expenditures were \$209.8 million greater than in fiscal 2018 due to greater spending across a number of categories the most significant of which are discussed below.

\* There was an increase of \$105.5 million in the Human Services function which is attributable to several factors. Spending in the Medicaid program increased by approximately \$85.2 million due to increased caseloads and continued general growth in healthcare costs. The new Veterans' Home accounted for increased spending of \$3.3

million, primarily due to higher staffing level requirements and operating costs. Spending for Child Welfare programs within the Department of Children, Youth and Families increased by over \$10.6 million due to a sharp rise in caseloads, particularly in more expensive congregate care settings.

- \* Expenditures for Education rose by \$62.1 million primarily as a result of the continued transition to the Education Funding Formula, which required almost \$19.8 million in additional funding in fiscal 2019 compared to fiscal 2018. The State's share for Teacher Retirement costs, plus funding for State-operated schools, increased spending by \$5.5 million. Additional federal funds expended within the Department of Elementary and Secondary Education accounted for \$23.7 million of the year-over-year increase in spending. Finally, additional state support of \$6.9 million was provided for the three institutions of higher education, including \$2.6 million for the continuation of the Governor's RI Promise scholarship program.
- \* The State fully funded its State Budget Reserve and Cash Stabilization Account (the Reserve) within the General Fund in the amount of \$203.9 million as required by Chapter 35-3 of the RI General Laws.

### **Proprietary Funds**

- The Rhode Island Lottery transferred \$397.3 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of \$32.3 million in comparison with the previous fiscal year. Sales of traditional lottery products were up 1.9% year-over-year. Changes to the Mega Millions® game, including an increase in ticket price, a record \$1.5 billion Mega Millions® jackpot in October 2018, and new high price point instant games significantly contributed to the overall increase in traditional lottery games revenue. Video lottery net terminal income revenues increased 8.6% in fiscal 2019 with the opening of Tiverton Casino Hotel in September 2018. Net revenues from the operation of table games increased by 12.1% in fiscal 2019 due to the opening of Tiverton Casino and the commencement of Stadium gaming at both Twin River Casino and Tiverton Casino in the fall of 2018. Lastly, Sports Book betting operations began in November 2018 at Twin River Casino and December 2018 at Tiverton Casino. Sports Book gross revenue totaled \$127.6 million through June 30, 2019.
- The Employment Security Fund ended the fiscal year with a net position of \$559.2 million, an increase of \$89.2 million from the prior fiscal year. This favorable change is principally attributable to an excess of tax revenue over benefits paid, due primarily to the State's historically low unemployment levels.
- The Rhode Island Convention Center Authority ended the fiscal year with a net position deficiency of \$47.7 million, a deficit decrease of \$7.5 million compared with the prior year. The Authority has historically had a net position deficiency, because the amount of debt related to capital assets has exceeded the net book value of the capital assets and because the repayment term for the debt is generally longer than the depreciable life of the assets.

## **Overview of the Financial Statements**

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

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

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

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## Government-wide Financial Statements

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

- The **Statement of Net Position** presents all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as "net position." Over time, increases and decreases in the government's net position 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 position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods - for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

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

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

## Fund Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar

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

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

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds - enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Similar to the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds - the Lottery Fund, the Rhode Island Convention Center Authority (RICCA) Fund, and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.
- **Fiduciary funds:** These funds are used to account for resources held for the benefit of parties outside the State government. Fiduciary funds are not included in the government-wide financial statements because the resources of these funds are not available to support the State's programs. These funds, which include the pension and other postemployment benefits trusts, an external investment trust, private-purpose trusts and agency funds, are reported using accrual accounting. Individual fund data for fiduciary funds can be found in the supplementary information section of the State's CAFR.

## Discretely Presented Component Units

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

## Notes to the Financial Statements

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

## Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's pension and other postemployment benefit obligations. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally enacted budget.

## Other Supplementary Information

Other supplementary information, which follows the required supplementary information in the State's CAFR, includes the combining financial statements for nonmajor governmental funds, internal service funds and fiduciary funds.

## Government-Wide Financial Analysis

### Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (deficit) (governmental and business-type activities) totaled \$(265.5) million at the end of fiscal 2019, compared to \$(367.8) million at the end of the prior fiscal year, as restated. Governmental activities reported unrestricted net position (deficit) of \$(5,124.9) million.

A portion of the State's net position 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 position represents resources that are subject to external restrictions on how they may be used.

State of Rhode Island's Net Position as of June 30, 2019 and 2018  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018*	2019	2018	2019	2018*
Current and other assets	\$ 2,412,885	\$ 2,365,680	\$ 624,805	\$ 550,828	\$ 3,037,690	\$ 2,916,508
Capital assets	4,468,440	4,298,377	158,121	134,409	4,626,561	4,432,786
Total assets	6,881,325	6,664,057	782,926	685,237	7,664,251	7,349,294
Deferred outflows of resources	813,673	855,400	10,693	11,606	824,366	867,006
Long-term liabilities outstanding	6,969,022	6,899,323	232,013	248,029	7,201,035	7,147,352
Other liabilities	1,319,338	1,201,446	69,485	54,053	1,388,823	1,255,499
Total liabilities	8,288,360	8,100,769	301,498	302,082	8,589,858	8,402,851
Deferred inflows of resources	163,488	180,339	726	935	164,214	181,274
Net position (deficit):						
Net investment in capital assets	3,517,242	3,356,040	(42,225)	(50,807)	3,475,017	3,305,233
Restricted	850,784	584,682	561,601	471,070	1,412,385	1,055,752
Unrestricted	(5,124,876)	(4,702,373)	(27,981)	(26,437)	(5,152,857)	(4,728,810)
Total net position (deficit)	\$ (756,850)	\$ (761,651)	\$ 491,395	\$ 393,826	\$ (265,455)	\$ (367,825)

\*Restated.

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As indicated above, the State reported a balance in unrestricted net position (deficit) of \$(5.1) billion as of June 30, 2019. Two primary factors, which are discussed below, contributed to this deficit.

As required by governmental accounting standards the State recognizes the net pension liability for all of the pension plans it has funding responsibility for. In addition, beginning in fiscal 2018 the State has recognized the net other postemployment benefit (OPEB) liability (asset) for the retiree health care plans that it has funding responsibility for. Recognition of these liabilities has had a significant adverse impact on unrestricted net position. At June 30, 2019 the net pension liability related to governmental activities was \$3.63 billion and the net pension liability related to business-type activities was \$17.1 million. In addition, the net OPEB liability related to governmental activities was \$496.7 million and the net OPEB liability related to business-type activities was \$3.9 million.

Another significant contributing factor creating the deficit in unrestricted net position is the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government's direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units and non-profit organizations within the State to fund specific projects.

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

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

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

- Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation to satisfy any deficiency or default of any payment of the bonds. As of June 30, 2019 approximately \$622.3 million of principal and \$109.9 million of accreted interest are included in the State's debt.
- Historic Tax Credit Bonds - The R.I. Commerce Corporation (RICC), on behalf of the State, issued \$301.9 million of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. As of June 30, 2019, approximately \$120.8 million of such bonds are outstanding.

- The State has entered into certain capital lease agreements, known as Certificates of Participation (COPS), the proceeds of which are sometimes used to benefit certain entities outside of the primary government, for example, by the State's university and colleges for energy conservation projects or by local school districts to improve technology infrastructure on a state-wide basis. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly. As of June 30, 2019, approximately \$204.1 million of obligations (net) are outstanding relating to these projects.

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

## Changes in Net Position

### Governmental Activities

The State's overall net position for the primary government improved by \$102.4 million during fiscal 2019. Total revenues of \$8,902.1 million increased by \$505.8 million compared to fiscal 2018. The favorable results were aided by a number of factors including increased general revenues due mainly to increases in tax revenues for personal income and sales taxes, as well as increases in capital grants primarily related to transportation infrastructure improvements. In addition, the charges for services category of revenue increased due to expanded Lottery operations.

The State's expenses, which cover a wide range of services, increased by \$624.6 million. The most notable increases were in the human services, education and public safety categories.

The increase in Human Services expenditures of \$98.7 million is attributable to several factors. Spending in the Medicaid program increased by approximately \$85.2 million due to increased caseloads and continued general growth in healthcare costs. The new Veterans' Home accounted for increased spending of \$3.3 million, primarily due to higher staffing level requirements and operating costs. Spending for Child Welfare programs within the Department of Children, Youth and Families increased by over \$10.6 million due to a sharp rise in caseloads, particularly in more expensive congregate care settings.

The primary driver of the increase in Education function expenditures of \$94.9 million is the continued transition to the Education Funding Formula, which required almost \$19.8 million in additional funding in fiscal 2019 compared to fiscal 2018. Additional federal funds expended within the Department of Elementary and Secondary Education accounted for \$23.7 million of the year-over-year increase in spending. Finally, additional state support of \$6.9 million was provided for the three institutions of higher education, including \$2.6 million for the continuation of the Governor's RI Promise scholarship program.

The increase in Public Safety expenses of \$146.6 million primarily is a result of a pension expense credit of \$96.5 million in fiscal 2018 relating to the measurement of the net pension liability for certain retired members of the State Police. This credit resulted from a change in actuarial assumption attributable to the establishment of an advance funded trust that replaced the previous plan which was funded on a pay-as-you-go basis. According to GASB standards, the discount rate for advance funded plans used in actuarial calculations of net pension liability is typically higher than the discount rate used for pay-as-you-go plans. Higher discount rates result in lower pension expense. The discount rate for the plan increased from 2.85% to 7.00% with the establishment of the advance funded trust, which resulted in a large pension credit in fiscal 2018. GASB standards require the immediate recognition of this change in the discount rate assumption since the plan is a closed plan that is comprised entirely of retired employees. Additionally, federal spending for capital projects under the National Guard (\$6.8 million); disaster reimbursement expenses under the Emergency Management Agency (\$5.1 million); Crime Victims' Assistance and federal forfeiture spending within the Department of Public Safety (\$5.1 million) and additional spending of \$4.2 million in the Department of Corrections due to increased personnel costs contributed to the increase.



## Business-Type Activities

- The Employment Security Fund net position increased significantly as a result of taxes collected exceeding benefits paid due primarily to the very low unemployment rate in the State.
- Lottery revenue and associated expenses both grew significantly due to the opening of the new Sportsbook operations in the fall of 2018.

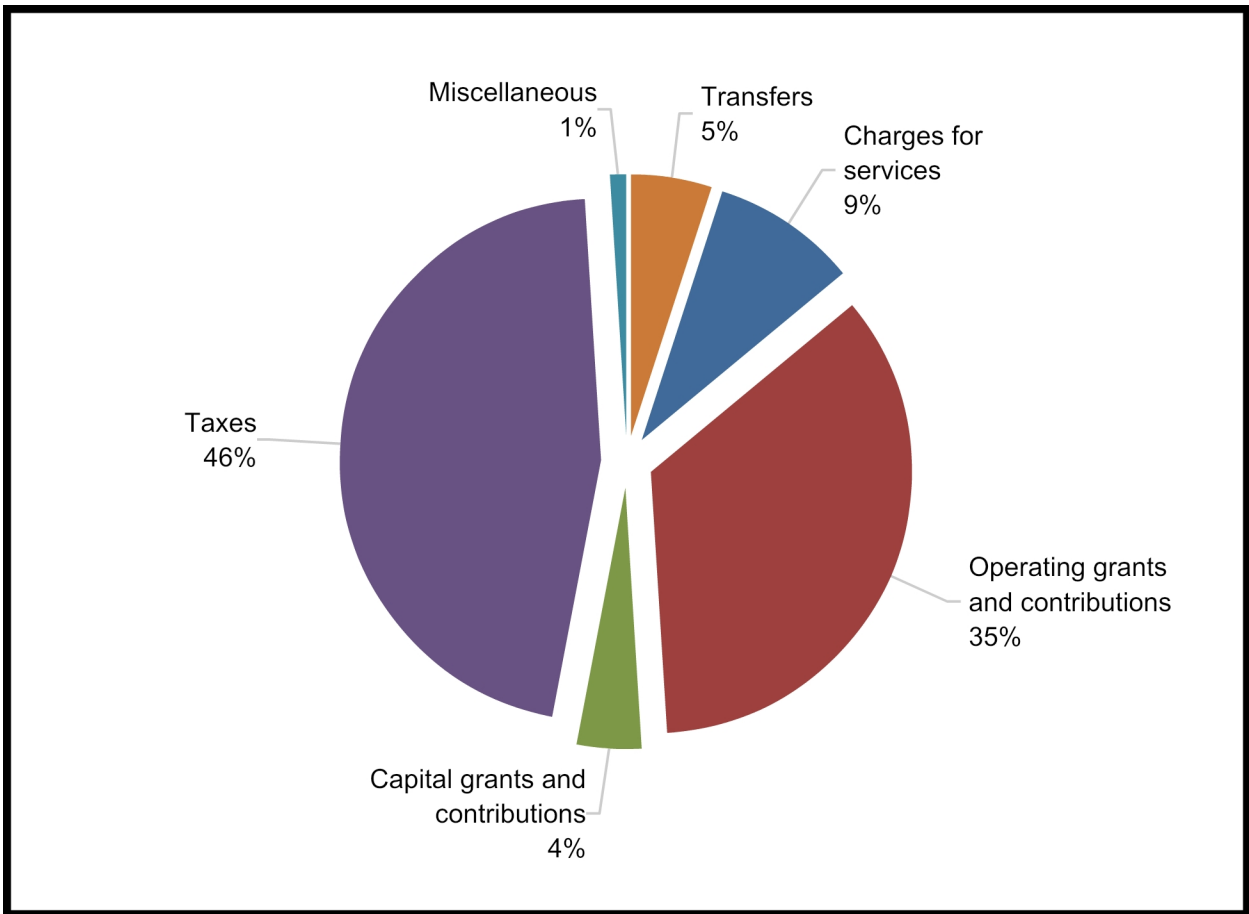
A more detailed analysis of changes in revenues and program expenses for both governmental activities and business-type activities is as follows:

State of Rhode Island's Changes in Net Position  
For the Fiscal Years Ended June 30, 2019 and 2018  
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 713,955	\$ 641,305	\$ 1,332,911	\$ 1,142,564	\$ 2,046,866	\$ 1,783,869
Operating grants and contributions	2,817,912	2,784,544	1,278	1,259	2,819,190	2,785,803
Capital grants and contributions	295,979	207,673	—	—	295,979	207,673
General revenues:						
Taxes	3,609,427	3,474,545	—	—	3,609,427	3,474,545
Interest and investment earnings	19,028	10,548	639	604	19,667	11,152
Miscellaneous	101,495	124,370	11,461	8,946	112,956	133,316
Loss on sale of capital assets	(1,977)	—	—	—	(1,977)	—
Total revenues	<u>7,555,819</u>	<u>7,242,985</u>	<u>1,346,289</u>	<u>1,153,373</u>	<u>8,902,108</u>	<u>8,396,358</u>
Program expenses:						
General government	841,779	751,362	—	—	841,779	751,362
Human services	4,063,865	3,965,185	—	—	4,063,865	3,965,185
Education	1,803,273	1,708,408	—	—	1,803,273	1,708,408
Public safety	580,367	433,815	—	—	580,367	433,815
Natural resources	103,477	97,253	—	—	103,477	97,253
Transportation	426,522	403,365	—	—	426,522	403,365
Interest and other charges	99,971	92,231	—	—	99,971	92,231
Lottery	—	—	680,356	521,594	680,356	521,594
Convention Center	—	—	51,698	52,684	51,698	52,684
Employment Security	—	—	148,430	149,227	148,430	149,227
Total expenses	<u>7,919,254</u>	<u>7,451,619</u>	<u>880,484</u>	<u>723,505</u>	<u>8,799,738</u>	<u>8,175,124</u>
Excess (deficiency) before transfers	(363,435)	(208,634)	465,805	429,868	102,370	221,234
Transfers	368,236	343,273	(368,236)	(343,273)	—	—
Change in net position	4,801	134,639	97,569	86,595	102,370	221,234
Net position (deficit) - Beginning	(768,024)	(448,902)	393,826	310,832	(374,198)	(138,070)
Cumulative effect of prior period adjustments	6,373	(453,761)	—	(3,601)	6,373	(457,362)
Net position (deficit) - Beginning, as restated	(761,651)	(902,663)	393,826	307,231	(367,825)	(595,432)
Net position (deficit) - Ending	<u>\$ (756,850)</u>	<u>\$ (768,024)</u>	<u>\$ 491,395</u>	<u>\$ 393,826</u>	<u>\$ (265,455)</u>	<u>\$ (374,198)</u>

**Chart 1** depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2019.

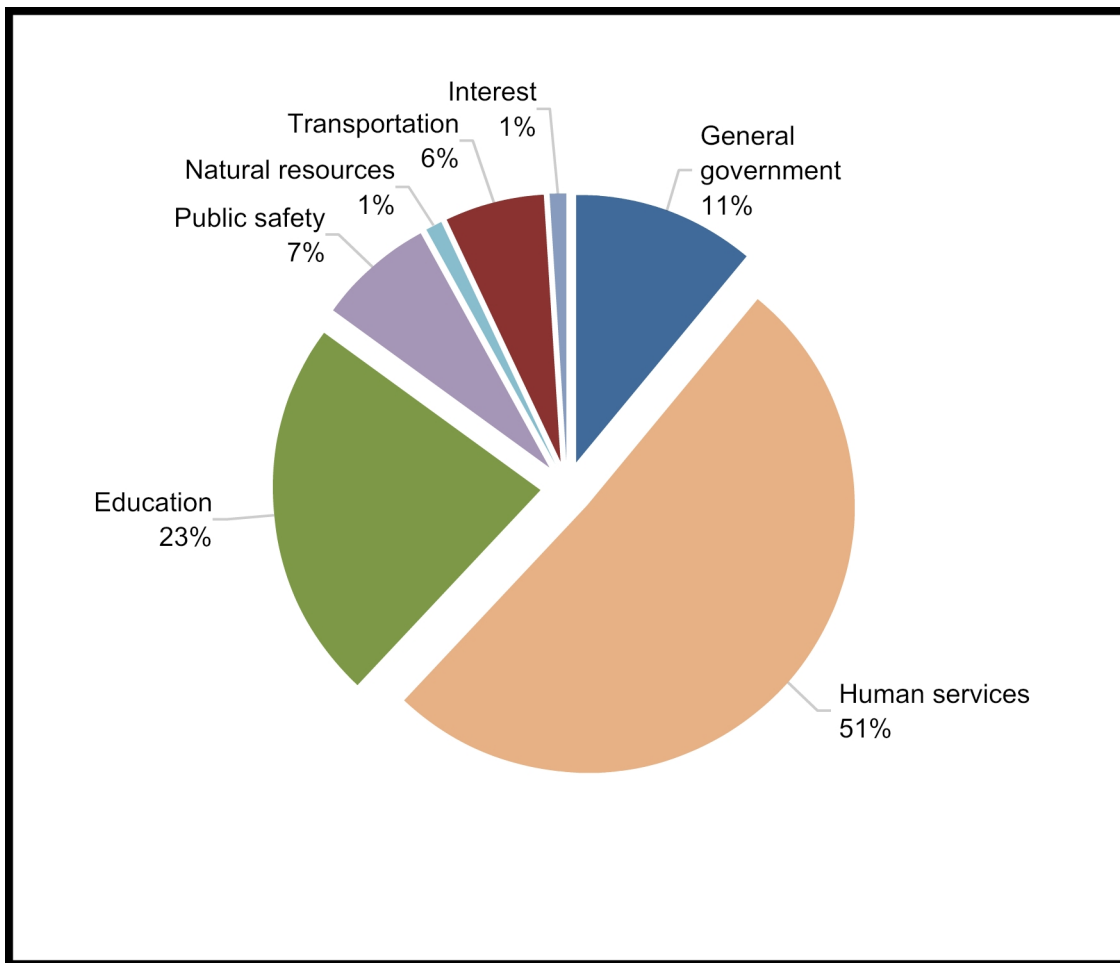
**Chart 1 - Revenues and Transfers - Governmental Activities**



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal 2019 versus the prior fiscal year. Taxes continued to represent the largest source of revenue at 46% of the total while operating grants and contributions represented 35% of the total in fiscal 2019.

**Chart 2** depicts the purposes for which program expenses related to Governmental Activities were expended during the fiscal year ended June 30, 2019.

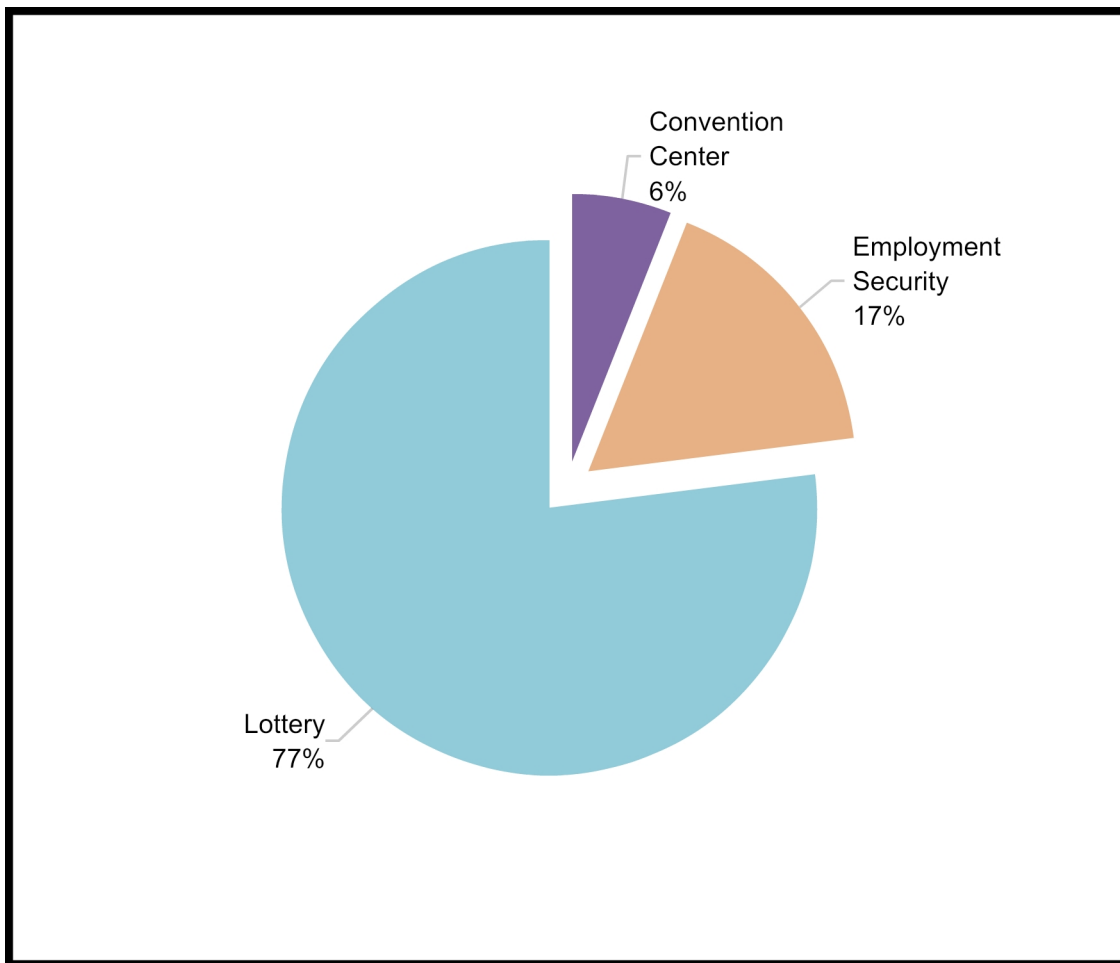
**Chart 2 - Program Expenses - Governmental Activities**



The relative mix of program expenses for governmental activities remained about the same in fiscal 2019 as in the prior fiscal year. There was a slight decrease in human services expenditures as a percent of total expenditures and slight increases in general government and public service expenditures as a percent of total expenditures for the reasons discussed above.

**Chart 3** depicts the program expenses related to Business Type Activities during the fiscal year ended June 30, 2019.

**Chart 3 - Program Expenses - Business Type Activities**



There was an increase in Lottery expenses as a percent of total expenses due the increase in Lottery prize awards associated with the introduction of Sportsbook operations in November 2018 at Twin River Casino Hotel and December 2018 at Tiverton Casino Hotel.

## Financial Analysis of the State's Funds

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

### Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of \$1.252 billion, a decrease of \$49.5 million from June 30, 2018 (restated). A breakdown of the components follows (expressed in thousands):

	2019	2018 (Restated)	Increase (decrease) from 2018	
			Change	Percent
Governmental Funds				
Nonspendable	\$ 1,732	\$ 1,800	\$ (68)	(3.78)%
Restricted	913,729	959,989	(46,260)	(4.82)%
Unrestricted				
Committed	92,317	79,992	12,325	15.41 %
Assigned	37,255	42,385	(5,130)	(12.10)%
Unassigned	206,642	217,006	(10,364)	(4.78)%
Total	<u>\$ 1,251,675</u>	<u>\$ 1,301,172</u>	<u>\$ (49,497)</u>	<u>(3.80)%</u>

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

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

Significant changes in fund balance are discussed below:

- The net decrease of \$46.3 million in the restricted portion of the fund balance is primarily related to spending of the proceeds from highway and bridge improvement bonds (GARVEE bonds) issued in prior years for projects being done under the RhodeWorks program. The impact of this was partially offset by proceeds from new borrowings in Special Revenue and Capital Project funds.
- The net increase of \$12.3 million in the committed portion of the unrestricted fund balance is primarily attributable to an increase in the RI Highway Maintenance Account within the Intermodal Surface Transportation Fund. This account, which is funded by a variety of motor vehicle and license related fees, was created by the General Assembly in the 2014 session to address the State's highway and bridge infrastructure improvement needs.
- The net decrease of \$5.1 million in the assigned portion of the unrestricted fund balance primarily resulted from a reduction in the amount of assigned fund balance allocated to fund the fiscal 2019 budget.
- The net decrease of \$10.4 million in the unassigned portion of fund balance primarily results from a reduction in remaining fund balance available for appropriation offset to an extent by an increase in the Budget Reserve and Cash Stabilization Account.

#### General Fund

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

	2019	2018 (Restated)	Increase (decrease) from 2018	
			Change	Percent
Nonspendable	\$ 1,558	\$ 1,626	\$ (68)	(4.2)%
Restricted	119,677	97,185	22,492	23.1 %
Unrestricted				
Committed	5,206	3,210	1,996	62.2 %
Assigned	37,255	42,385	(5,130)	(12.1)%
Unassigned	207,336	218,136	(10,800)	(5.0)%
Total	<u>\$ 371,032</u>	<u>\$ 362,542</u>	<u>\$ 8,490</u>	2.3 %

Revenues and other sources of the General Fund totaled \$7.2 billion in fiscal 2019, an increase of \$247 million or 3.6% from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

	2019	2018	Increase (decrease) from 2018	
			Amount	Percent
Revenues				
Taxes:				
Personal income	\$ 1,391,890	\$ 1,339,798	\$ 52,092	3.9 %
Sales and use	1,286,024	1,244,806	41,218	3.3 %
General business	433,460	426,783	6,677	1.6 %
Other	61,917	65,325	(3,408)	(5.2)%
Subtotal	<u>3,173,291</u>	<u>3,076,712</u>	<u>96,579</u>	<u>3.1 %</u>
Federal grants	2,826,622	2,744,485	82,137	3.0 %
Restricted revenues	281,236	230,156	51,080	22.2 %
Licenses, fines, sales, and services	398,221	383,325	14,896	3.9 %
Other general revenues	57,226	81,439	(24,213)	(29.7)%
Subtotal	<u>3,563,305</u>	<u>3,439,405</u>	<u>123,900</u>	<u>3.6 %</u>
Total revenues	<u>6,736,596</u>	<u>6,516,117</u>	<u>220,479</u>	<u>3.4 %</u>
Other sources				
Transfer from Lottery	397,321	364,974	32,347	8.9 %
Other transfers	67,878	73,354	(5,476)	(7.5)%
Total revenues and other sources	<u>\$ 7,201,795</u>	<u>\$ 6,954,445</u>	<u>\$ 247,350</u>	<u>3.6 %</u>

Fiscal 2019 personal income taxes rose from fiscal 2018 levels, increasing \$52.1 million or 3.9%. Final payments, payments made with a return and extension payments, increased by 26.7% while estimated payments fell by 11.3% when compared to fiscal 2018. It is believed that the \$10,000 cap on the deductibility of state and local taxes (SALT) for federal income tax purposes has disincentivized upper income taxpayers from making estimated payments in December of the tax year, shifting those payments to April when they are recorded as final payments. The rate of growth in personal income tax withholding payments fell to 2.6% in fiscal 2019, down two percentage points from fiscal 2018. Personal income tax refunds and adjustments rose a modest 2.6% in fiscal 2019 vs. fiscal 2018, an increase of \$8.8 million. Finally, the personal income tax net accrual increased 7.1% or \$1.1 million in fiscal 2019.

The State's unemployment rate declined to 3.9% in fiscal 2019, according to IHS Markit, from 4.3% in fiscal 2018. Nominal personal income growth declined 20% in fiscal 2019 to 4.0% from a solid 5.0% growth in fiscal 2018. General sales and use tax revenues posted a substantive increase of 3.3% in fiscal 2019 over fiscal 2018, bolstered by increased sales tax collections from remote sellers and continued strength in the state's housing market. Fiscal 2019 use tax payments paid at the time of registration of a new motor vehicle increased by 5.7%, up from the 1.7% rate of growth between fiscal 2017 and fiscal 2018. Sales taxes collected from the provision of prepared meals and beverages increased 0.8% in fiscal 2019 reaching just under \$200.0 million in tax revenues.

General business tax revenues increased by 1.6% in fiscal 2019, driven by outsized gains in business corporation taxes of 27.5%. This increase was offset by year-over-year decreases in public utilities gross earnings tax, financial institutions tax, and insurance company gross premiums tax revenues, with financial institutions tax and insurance company gross premiums tax revenues down double digits on a percentage basis, -27.5% and -10.2% respectively, from fiscal 2018.

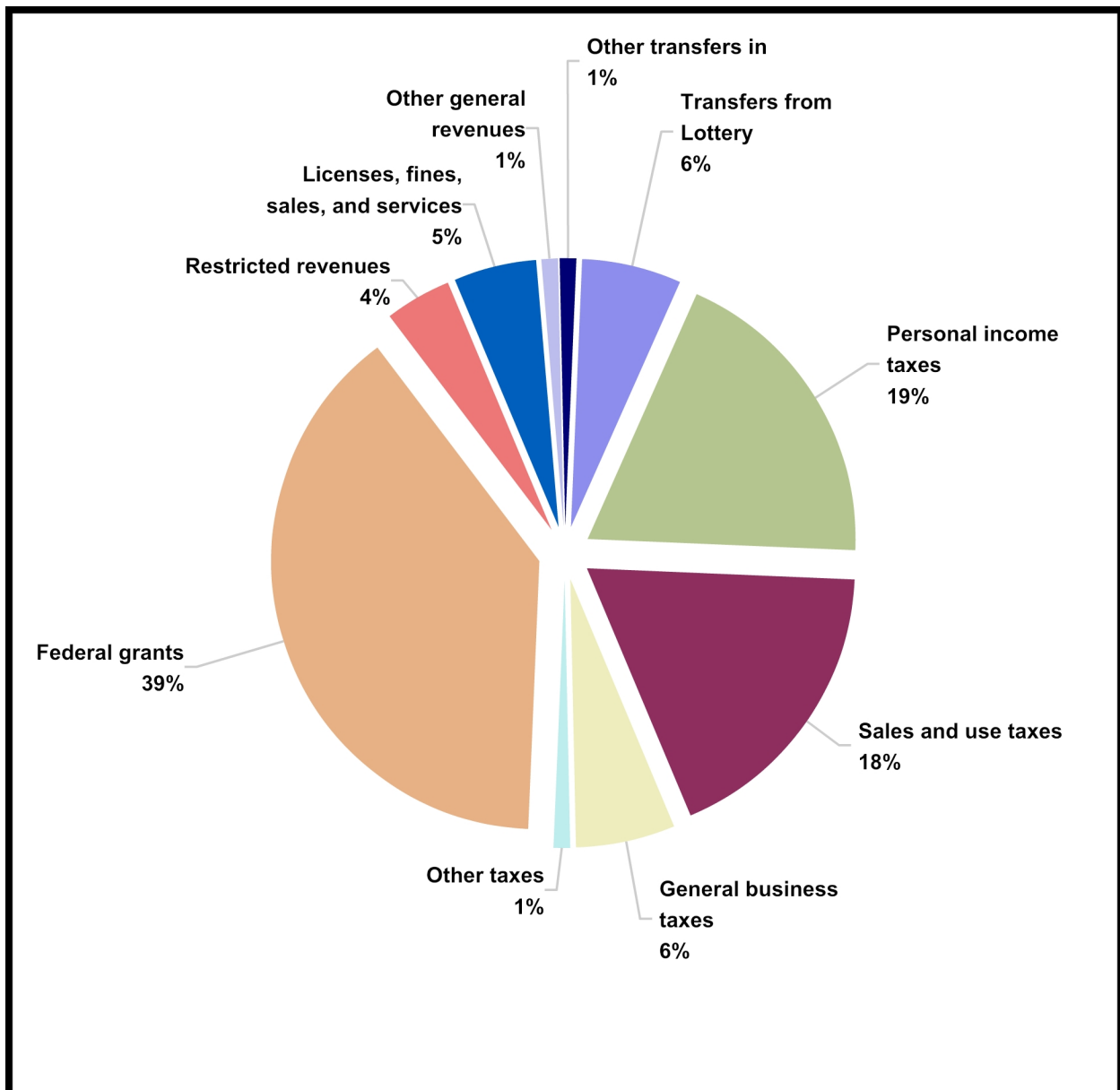
Other taxes fell by 5.2% from fiscal 2018. Estate and transfer tax revenues declined by 6.6% from fiscal year 2018 levels, due to the receipt of large estate and transfer tax payment(s) in fiscal 2018 that did not

repeat at the same levels in fiscal 2019. Realty transfer taxes fell 0.7% from fiscal 2018 levels, indicating the plateauing of the state's housing market at the record high levels attained in fiscal 2018.

Finally, the R.I. Lottery's transfer to the General Fund was up at 8.9% in fiscal 2019 vs fiscal year 2018. Sales of traditional lottery products were up 1.9% year-over-year, due in large part to a \$750 million Powerball jackpot and a \$1.5 billion Mega-Millions jackpot in October 2018. Video lottery net terminal income revenues increased by 8.6% in fiscal 2019 as the opening of the Tiverton Casino Hotel boosted slot gaming in the state. Net revenues from the operation of table games jumped 12.1% as the offering of table games was expanded from only the Twin River Casino Hotel in fiscal 2018 to both the Twin River Casino Hotel and the Tiverton Casino Hotel in fiscal 2019. Finally, on-site sports betting was introduced at both Twin River and Tiverton in November and December 2018 respectively which increased the lottery transfer by \$3.0 million in fiscal 2019 vis-à-vis fiscal 2018.

Chart 4 depicts the General Fund's revenues and other sources for fiscal 2019.

**Chart 4 - Revenues and Other Sources - General Fund**





Expenditures and transfers out totaled \$7,193.3 million in fiscal 2019, an increase of \$207.6 million, or 2.97%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):

	2019	2018	Increase (decrease) from 2018	
			Amount	Percent
General government	\$ 539,520	\$ 510,206	\$ 29,314	5.75 %
Human services	4,034,359	3,928,845	105,514	2.69 %
Education	1,641,632	1,579,577	62,055	3.93 %
Public safety	577,168	555,393	21,775	3.92 %
Natural resources	81,986	80,820	1,166	1.44 %
Debt Service:				
Principal	120,488	131,903	(11,415)	(8.65)%
Interest	60,806	59,409	1,397	2.35 %
Total expenditures	7,055,959	6,846,153	209,806	3.06 %
Transfers out	137,346	139,590	(2,244)	-1.61 %
Total expenditures and transfers out	\$ 7,193,305	\$ 6,985,743	\$ 207,562	2.97 %

The year-over-year increase of approximately \$29.3 million in the General Government function is primarily attributable to changes in aid to local communities. The Motor Vehicle Excise Tax Phase-Out program is intended to phase-out the tax assessed by local communities on motor vehicles. This phase-out was enacted by the 2017 General Assembly with the goal of eliminating this tax at the local level by fiscal 2024. The fiscal 2019 enacted budget provided \$21.7 million more than fiscal 2018 to continue this phase-out. The Payment-in-lieu-of-Taxes (PILOT) program, plus the Property Revaluation reimbursement program added \$1.0 million to the year-over-year change. The fiscal 2019 Budget also reflected the move of the Fire Marshal program from the Department of Public Safety to the Department of Business Regulation, which accounted for an increase in spending in the General Government function of approximately \$5.6 million, with a corresponding decrease in the Public Safety function.

The year-over-year increase of \$105.5 million in the Human Services function is attributable to several factors. Spending in the Medicaid program increased by approximately \$85.2 million due to increased caseloads and continued general growth in healthcare costs. The new Veterans' Home accounted for increased spending of \$3.3 million, primarily due to higher staffing level requirements and operating costs. Spending for Child Welfare programs within the Department of Children, Youth and Families increased by over \$10.6 million due to a sharp rise in caseloads, particularly in more expensive congregate care settings.

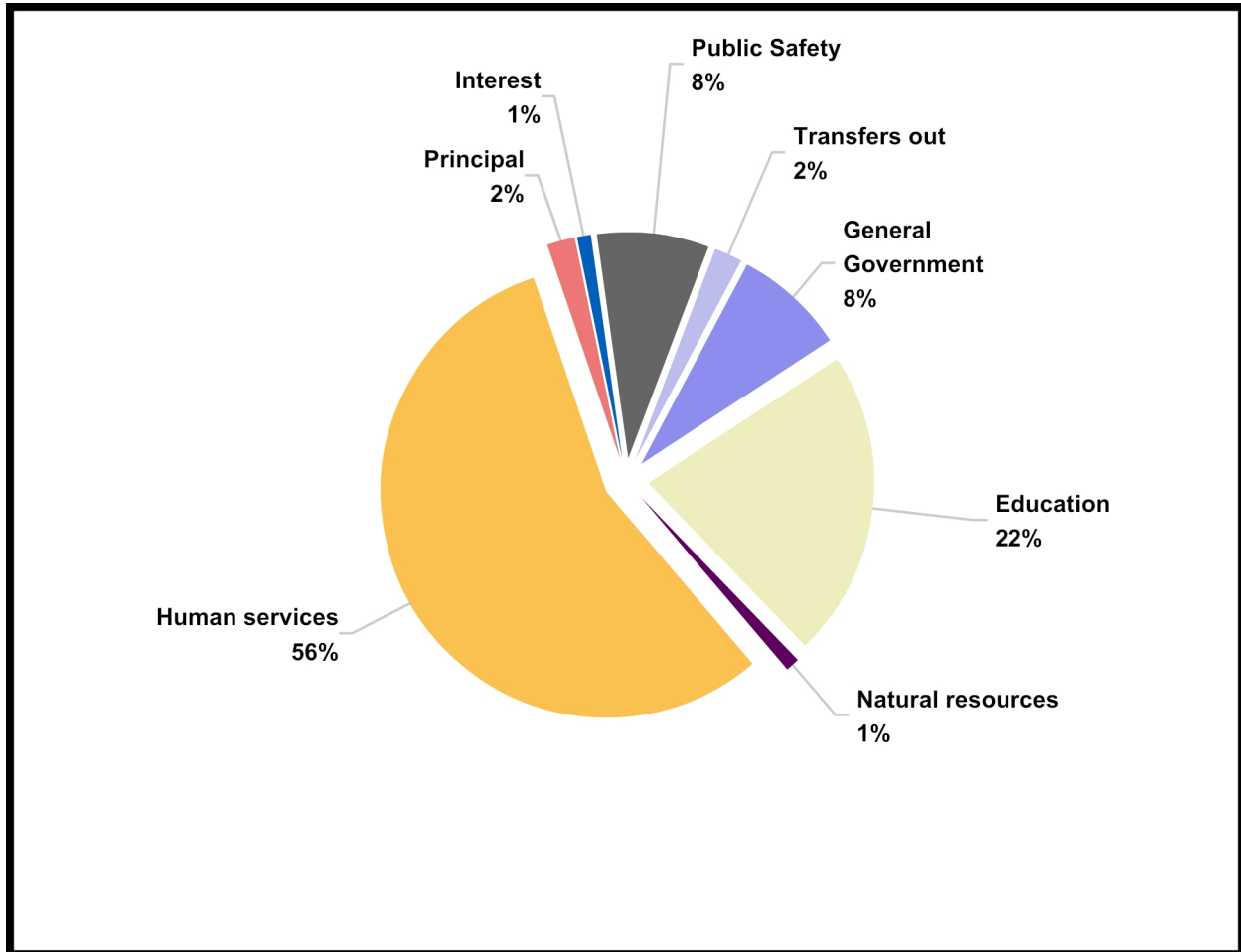
The primary driver of the increase in Education function expenditures of \$62.1 million is the continued transition to the Education Funding Formula, which required almost \$19.8 million in additional funding in fiscal 2019 compared to fiscal 2018. The State's share for Teacher Retirement costs, plus funding for State-operated schools, increased spending by \$5.5 million. Additional federal funds expended within the Department of Elementary and Secondary Education accounted for \$23.7 million of the year-over-year increase in spending. Finally, additional state support of \$6.9 million was provided for the three institutions of higher education, including \$2.6 million for the continuation of the Governor's RI Promise scholarship program.

The year-over-year increase of \$21.8 million in the Public Safety function is due to federal spending for capital projects under the National Guard (\$6.8 million); disaster reimbursement expenses under the Emergency Management Agency (\$5.1 million); Crime Victims' Assistance and federal forfeiture spending within the Department of Public Safety (\$5.1 million) and additional spending of \$4.2 million in the Department of Corrections due to increased personnel costs.

The decrease in debt service of \$(10.0) million from fiscal 2018 to fiscal 2019 is the result of several offsetting items. First, the final payment of \$21.6 million on the 2009 debt issuance for the Historic Structures Tax Credit program was made in fiscal 2018. Second, new debt service costs of approximately \$2.0 million were incurred from the issuance of Certificates of Participation debt during fiscal 2018 for the Garrahy Courthouse Garage and the Eleanor Slater Hospital Renovations. Third, the 2018 issuance of general obligation bonds added about \$10.8 million to debt service expenditures.

Chart 5 depicts the General Fund's expenditures and other uses for fiscal 2019.

**Chart 5 - Expenditures and Other Uses - General Fund**



*Intermodal Surface Transportation Fund*

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that accounts for the collection of gasoline tax, motor vehicle registration and licensing fees, tolls, federal grants, Rhode Island Capital Plan funds, and bond proceeds that are used for maintenance, upgrading, and construction of the State's surface transportation systems. It also accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, and related expenditures. The components of the fund balance of the IST fund are as follows (expressed in thousands):

	2019	2018 (restated)	Increase (decrease) from 2018	
			Change	Percent
Restricted	\$ 237,741	\$ 340,464	\$ (102,723)	(30.17)%
Unrestricted				
Committed	86,735	76,391	10,344	13.54 %
Unassigned (deficit)	(694)	(1,130)	436	(38.58)%
Total	<u>\$ 323,782</u>	<u>\$ 415,725</u>	<u>\$ (91,943)</u>	<u>(22.12)%</u>

The net decrease of \$102.7 million in the restricted portion of the fund balance is primarily related to the expenditure of proceeds of bonds issued in prior years for significant bridge and road replacements and upgrades under the RhodeWorks program. The net increase of \$10.3 million in the committed portion of the unrestricted fund balance resulted from multiple factors including an increase in the RI Highway Maintenance Account.

**General Fund Budgetary Highlights - General Revenue Sources**

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 97% of available general revenue sources. These sources consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue is transferred to the State Budget Reserve Account which is in the General Fund. If the balance in the Reserve exceeds 5% of the total general revenues and opening surplus, the excess is transferred to the R.I. Capital Plan Fund to be used for capital projects. 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 appropriation from the General Assembly, provided a need is established.

Adjustments to general revenue receipt estimates resulted in an increase of \$20.4 million between the original budget and the final budget. General revenue appropriations increased from the original budget by \$25.6 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General Fund Budgetary Highlights  
General Revenue Sources  
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual*	Final Budget vs. Actual Variance
Revenues and other sources:				
Taxes:				
Personal income	\$ 1,385,593	\$ 1,384,000	\$ 1,396,963	\$ 12,963
General business	485,822	449,100	441,683	(7,417)
Sales and use	1,264,473	1,279,200	1,286,024	6,824
Other taxes	47,700	61,650	61,918	268
Departmental revenue	404,148	422,170	416,730	(5,440)
Other sources:				
Lottery transfer	391,700	400,100	397,321	(2,779)
Unclaimed property	9,700	11,200	11,579	379
Miscellaneous	9,349	11,437	12,362	925
Total revenues and other sources	<u>3,998,485</u>	<u>4,018,857</u>	<u>4,024,580</u>	<u>5,723</u>
Expenditures and other uses:				
General government	489,786	487,680	481,918	(5,762)
Human services	1,462,735	1,494,015	1,491,726	(2,289)
Education	1,423,030	1,425,064	1,424,283	(781)
Public safety	488,055	482,957	482,023	(934)
Natural resources	44,601	44,118	44,100	(18)
Total expenditures and other uses	<u>3,908,207</u>	<u>3,933,834</u>	<u>3,924,050</u>	<u>(9,784)</u>
Excess of revenues and other sources over expenditures and other uses	<u>\$ 90,278</u>	<u>\$ 85,023</u>	<u>\$ 100,530</u>	<u>\$ 15,507</u>

\*See Note 1 on the General Fund Budgetary Comparison Schedule

The positive variance between the fiscal 2019 actual revenues and the fiscal 2019 final budget for personal income taxes was attributable to a number of items including surpluses in the estimated payments of \$5.5 million, final payments of \$2.4 million, and refunds and adjustments of \$1.6 million. These overages were off set by a shortfall in personal income tax withholding payments of \$6.3 million. Relative to the original enactment of the fiscal 2019 budget in July 2018, actual fiscal 2019 personal income tax revenues ended up \$11.4 million higher, with final payments of \$60.8 million more than originally enacted and estimated and withholding tax payments a combined \$51.1 million less than originally enacted.

Actual fiscal 2019 general business taxes came in \$7.4 million below the final enacted budget but \$44.1 million less than the original budget due to actual business corporation tax, insurance company gross premiums tax, and health care provider assessment revenues coming in a combined \$43.5 million lower than the estimated amount included in the original budget. At the time of final enactment in July 2019, the revenue estimates for these items had been reduced such that the difference between actual fiscal 2019 revenues and final enacted fiscal 2019 revenues for these items was a positive \$2.9 million.

Sales and use and excise tax revenues received in fiscal 2019 were \$21.6 million more than estimated sales and use tax revenues included in the fiscal year 2019 original budget led by a surplus in sales and use tax revenues of \$24.5 million. The surplus in sales and use tax revenues remained when compared to the final

enacted fiscal 2019 budget with actual sales and use tax revenues coming in \$6.8 million above the estimate. The strength in sales and use tax revenues in fiscal 2019 is likely the result of the state's successful efforts in getting remote sellers to collect and remit the sales tax on taxable sales made into the state.

Actual fiscal 2019 other tax revenues were substantively higher than in the original budget and in line with the final budget estimate. In the case of the former, the difference was \$14.2 million while in the case of the latter the difference was \$0.3 million. The large positive variance between actual fiscal 2019 and the original budget is due to the receipt of higher estate and transfer tax payment(s) of \$15.9 million over the course of the fiscal year, payments, the receipt of which, are difficult to predict in number and amount. By the time the final budget was enacted, all payments such as these had been received and estate and transfer tax payments exceeded expectations by \$19,188. In addition, actual realty transfer tax revenues in fiscal 2019 ended up more than expected in the final budget by \$198,199 but trailed the amount included in the original budget by \$1.8 million.

Finally, the actual fiscal 2019 Lottery transfer to the General Fund was \$2.8 million below the revenue estimate contained in the final budget but was \$5.6 million above the estimated Lottery transfer to the General Fund contained in the fiscal 2019 original budget. The opening of the state's newest casino, the Tiverton Casino Hotel, and the closure of Newport Grand generated \$21.0 million more than originally estimated in the transfer of net terminal income from video lottery terminals installed at Twin River and Tiverton. However, the final fiscal 2019 transfer of net terminal income ended up \$3.0 million below the final enacted estimate. This large swing in the transfer of net terminal income was the mirror opposite of that for sports betting at Twin River and Tiverton, which went from a shortfall of \$20.5 million when compared to the original budget to a surplus of \$823,106 when compared to final enacted estimate for fiscal 2019.

The positive expenditure variance in the General Government function of approximately \$5.8 million was primarily due to a surplus in one agency, offset by deficits in two agencies. The Legislature's budget ended the fiscal year with a positive variance of \$9.7 million, which under Rhode Island law is fully reappropriated to fiscal 2019. The Legislature has carried forward a similar sized reappropriation for several years. Offsetting this surplus were deficits of \$1.6 million in the Department of Administration and \$3.2 million in the Department of Revenue. The Department of Administration deficit was due to unachieved Fraud and Waste savings that were budgeted within the agency as a negative appropriation. Significant savings that were achieved during the fiscal year were assigned to the Medicaid program within the Office of Health and Human Services, but unachieved savings remained in the Department of Administration, thus resulting in an overall deficit for the agency. The Department of Revenue deficit was the result of a reclassification of expenditures for contingency-based services provided by the Division of Taxation technology vendor that were not accounted for in the enacted appropriation.

The positive variance in the Human Services function of approximately \$2.3 million was due to positive variances of \$1.6 million in the Office of Health and Human Services (OHHS) and \$2.4 million in the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH), offset by a deficit of \$3.3 million in the Department of Children, Youth and Families (DCYF). The OHHS positive variance was primarily in the managed care and nursing facilities portions of the Medicaid program. The BHDDH positive variance was primarily in the Central Management program due to personnel savings and in the Developmentally Disabled program. The DCYF deficit was due to higher caseloads of children under the Department's care than anticipated in the final enacted budget.

The positive variance in the Public Safety function of \$0.9 million was spread among the Judicial Department, Military Staff and Department of Public Safety. As with the General Assembly, under Rhode Island law the Judicial surplus is fully reappropriated to fiscal 2020. The surplus in the Military Staff was primarily due to injured-on-duty expenses for Quonset Firefighters being less than budgeted. In the Department of Public Safety, surpluses occurred in the E-911 and Sheriffs programs, offset by deficits for Capital Police and State Police.

## 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, 2019 amounts to \$4,626.6 million, net of accumulated depreciation of \$3,486.1 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 4.37% of net book value. This increase is primarily related to investments for the construction and rehabilitation of highways and bridges as well as other infrastructure, new buildings and major software modernization initiatives.

Actual expenditures to purchase or construct capital assets were \$422.6 million for the year. Of this amount, \$324.0 million was used to construct or reconstruct highways. Depreciation charges for the year totaled \$255.8 million.

State of Rhode Island's Capital Assets as of June 30, 2019 and 2018

(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2019	2018	2019	2018	2019	2018
Capital assets not being depreciated or amortized						
Land	\$ 392,804	\$ 391,854	\$ 46,808	\$ 46,808	\$ 439,612	\$ 438,662
Works of Art	4,385	4,340	—	—	4,385	4,340
Intangibles	179,816	177,770	—	—	179,816	177,770
Construction in progress	464,272	285,410	31,633	5,511	495,905	290,921
Total capital assets not being depreciated or amortized	1,041,277	859,374	78,441	52,319	1,119,718	911,693
Capital assets being depreciated or amortized						
Land improvements	8,381	8,380	—	—	8,381	8,380
Buildings	865,400	871,696	234,377	234,377	1,099,777	1,106,073
Building improvements	458,383	432,920	—	—	458,383	432,920
Equipment	353,106	348,416	41,382	33,034	394,488	381,450
Intangibles	341,951	341,951	175	175	342,126	342,126
Infrastructure	4,689,755	4,505,862	—	—	4,689,755	4,505,862
	6,716,976	6,509,225	275,934	267,586	6,992,910	6,776,811
Less: Accumulated depreciation or amortization	3,289,813	3,070,222	196,254	185,496	3,486,067	3,255,718
Total capital assets being depreciated or amortized	3,427,163	3,439,003	79,680	82,090	3,506,843	3,521,093
Total capital assets (net)	\$ 4,468,440	\$ 4,298,377	\$ 158,121	\$ 134,409	\$ 4,626,561	\$ 4,432,786

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

### Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of \$50 thousand 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.

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At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of \$2.4 billion, of which \$1,221.2 million is general obligation debt, \$594.5 million is special obligation debt and \$622.3 million is debt of the blended component units. Additionally, accreted interest of \$109.9 million has been recognized for debt of one blended component unit, which is not scheduled to be paid until 2052. On an overall basis the State's total bonded debt increased by \$72.7 million during fiscal 2019. This increase consists of a \$61.2 million increase in general obligation debt, an increase of \$31.2 in special obligation debt, and a decrease of \$19.7 million in the blended component units' debt.

The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaling \$308.8 million and \$1.21 billion are supported by pledged revenue. These obligations are discussed in Notes 6 and 12.

In April 2019 the State issued \$148.6 million of general obligation bonds with interest rates ranging from 3.00% to 5.00%, maturing from 2020 through 2039. The aggregate premium paid on these bonds was \$13.2 million. Pursuant to law this premium was transferred to the Rhode Island Infrastructure Bank.

The State's assigned general obligation bond ratings are as follows: AA (Stable) by Standard & Poor's Ratings Services (S&P), Aa2 (Stable) by Moody's Investor Service, Inc., and AA (Stable) by Fitch Ratings. The State does not have any debt limitation.

Bonds authorized by the voters that remain unissued as of June 30, 2019 amounted to \$464.4 million; other obligations that are authorized but unissued totaled \$64.8 million and are described in Note 6. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

## Conditions Expected to Affect Future Operations

### Fiscal Year 2020 Budget

The first quarter report for fiscal 2020 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter, as well as caseload and Medical Assistance expenditure estimates and revenue estimates adopted at the November 2019 Caseload and Revenue Estimating Conferences. The fiscal 2020 balance, based upon these assumptions, is estimated to reflect a \$4.1 million general revenue deficit at year end in the General Fund.

In the first quarter report for fiscal 2020 several departments in the Human Service area projected significant deficits. Any changes recommended by the Governor in the fiscal 2020 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which must be submitted to the General Assembly in early 2020.

The November Revenue Estimating Conference's estimates reflect recent revenue trends and expected collections based upon the current economic forecast. On the revenue side, general revenue receipts are expected to be about the same as enacted for fiscal 2020. Taxes are expected to be \$38.4 million more than the enacted estimates due primarily to increases in personal income taxes and inheritance taxes, while departmental revenues and other sources are expected to be \$38.3 million less than enacted estimates due to an expected shortfall in Lottery revenue of \$35.7 million.

The November Caseload Estimating Conference estimates reflect, in comparison to the fiscal 2020 enacted budget, decreased general revenue funding for fiscal 2020 of \$12.5 million. This is due to a number of factors including decreased costs for the Medicaid program.

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## **RIbridges / Unified Health Infrastructure Project ("UHIP")**

The RIBridges system, also known as the Unified Health Infrastructure Project or UHIP, is Rhode Island's integrated eligibility system for various health and human services programs and the State's Health Insurance Exchange established pursuant to the ACA. The system implementation has resulted in challenges in determining and/or re-determining eligibility for the programs administered through the new system. Efforts to address the implementation issues continue and have resulted in improved system functionality at June 30, 2019 and subsequently. However, there are contingencies related to UHIP which are further discussed in Note 16, Contingencies.

## **Lottery Revenue**

The General Fund derives more than 9% of general revenue from the Rhode Island Lottery.

The Lottery faces increasing competition from casinos in nearby states. Efforts to compete effectively will undoubtedly increase and may involve enhanced player incentives and ensuring new games and gambling options are offered to patrons. Following the recent introduction of sports betting, a mobile sports betting option has been implemented in fiscal 2020. Additional mobile gaming options are anticipated.

## **Pension Benefits**

The State's financial statements include the net pension liability for the various defined benefit pension plans covering state employees and teachers. Please see Note 17 for information about each of the State's pension plans.

Future operations will continue to be affected by the amounts actuarially required to responsibly fund pensions consistent with statutory and actuarial requirements. Similarly, the State's overall net position will continue to be affected by market conditions affecting the fair value of assets accumulated for future pension benefits and the accounting measures reflecting the changes in those pension liabilities from year to year.

In addition to the comprehensive pension reform measures adopted in prior years, the State continues to responsibly manage its pension liabilities through investment management and adoption of appropriate actuarial assumptions.

In May 2017, the Employees' Retirement System of Rhode Island Board voted to lower the investment rate of return assumption from 7.5% to 7% which has been reflected in the determination of the net pension liability for the various plans administered by the System beginning with the June 30, 2017 measurement date valuations. Funding valuations performed as of June 30, 2017 reflected the lower investment return assumption and will impact required employer contributions beginning in fiscal 2020.

## **Other Postemployment Benefits (OPEB)**

The State's financial statements include the net OPEB liability or asset for the various OPEB plans which provide healthcare benefits to retired State employees.

Future operations will continue to be affected by the amounts actuarially required to responsibly fund OPEB consistent with statutory and actuarial requirements. Similarly, the State's overall net position will continue to be affected by market conditions affecting the fair value of assets accumulated for future OPEB benefits and the accounting measures reflecting the changes in those liabilities from year to year.

The State has managed its OPEB liabilities through plan design provisions including options for Medicare eligible retirees and establishing minimum age eligibility requirements. Through contribution of 100% of the actuarially determined contribution since 2011, net position of the OPEB trusts continues to increase reflecting the commitment to responsibly fund these obligations.



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### **Transportation Funding Initiative**

In order to address Rhode Island's continuing issues with deteriorating roads and bridges, a new initiative proposed by the Governor, called RhodeWorks, was enacted by the General Assembly in 2016. RhodeWorks calls for investing an additional \$1 billion above current plans in transportation infrastructure to fix more than 150 structurally deficient bridges and make repairs to another 500 bridges to prevent them from becoming structurally deficient. The plan also refocuses efforts to expand transit. The plan is financed by 1) user fees on large commercial trucks, 2) \$300 million of new GARVEE debt that will be repaid with federal funds, and 3) \$129 million of federal funds made available sooner by restructuring existing federally-funded debt. The plan is expected to save nearly \$1 billion over 10 years by addressing transportation infrastructure problems on a more proactive basis.

### **Information Technology Security and Cybersecurity**

The State relies upon a large and complex technology environment to conduct its operations and faces multiple cybersecurity threats and potential attacks on its computing and other digital networks and systems. To mitigate the risk of impact to State operations and damage from cybersecurity incidents or cyber-attacks, the State has prioritized and increased investments in multiple forms of cybersecurity and operational safeguards based on strategies developed by the State's Chief Information Security Officer and Director of Homeland Security.

### **School Building Authority**

The Rhode Island School Building Task Force issued a report in December 2017 recommending specific actions to address Rhode Island's school facilities deficiencies. The Task Force recommended that the State, in partnership with municipalities and school districts, embark on a once-in-a generation investment in upgrading public-school buildings. In response to a task force recommendation, voters approved \$250 million in general obligation bonds to finance improvements to school facilities across Rhode Island. A similar voter referendum for an additional \$250 million is planned for 2022.

### **State Takeover of Providence Public School District**

The State, acting through the Board of Education and the Rhode Island Department of Education ("RIDE"), oversees the performance of schools and school districts that receive education aid funding. This oversight role includes adopting statewide standards for student performance, and annually assessing the performance of individual schools and school districts against such statewide standards. Pursuant to RIGL Section 16-7.1-5 (the "Crowley Act"), the State is required to intervene when a school or school district continually falls short of performance standards. State intervention initially consists of support and technical assistance.

In connection with its oversight role, RIDE identified the Providence Public School District (the "PPSD") as consistently among the lowest performing districts in the State, based on objective criteria such as academic proficiency, absenteeism and graduation rates. Pursuant to the Crowley Act, the State, in collaboration with the PPSD, attempted to improve the PPSD through operational, policy and financial support, all of which were unsuccessful.

In May 2019, following the release of standardized test scores showing low levels of English and math proficiency among PPSD students, RIDE engaged the Institute for Education Policy at Johns Hopkins University (the "Institute") to conduct a review of the PPSD to identify the challenges impeding reform efforts. The Institute's review included a study of academic outcomes, observation of classroom instruction and interviews with students, teachers, administrators and community members. After completing its review, the Institute released a report in June 2019 (the "Hopkins Report"), which identified systemic deficiencies in the performance of the PPSD, including with respect to governance structure, management, health and safety, facilities, curriculum and academic instruction. The Hopkins Report concluded that such deficiencies were the cause of widespread unsatisfactory academic outcomes for PPSD students and demoralized teachers, staff, administrators and parents.

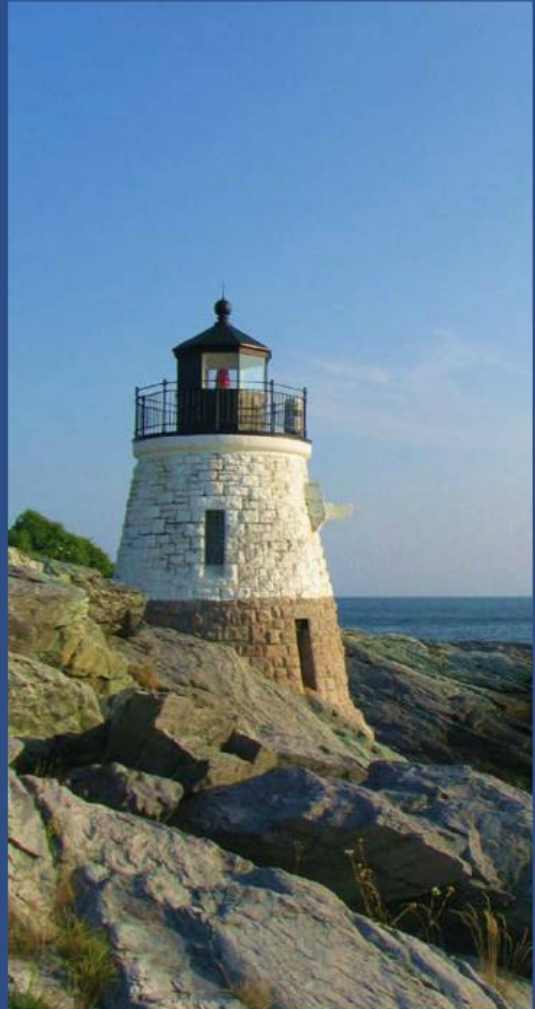
Pursuant to a decision and order of the Commissioner of RIDE dated October 15, 2019 in response to the Hopkins Report, the State assumed governance and management responsibility for the PPSD effective November 1, 2019. The State will appoint a "turnaround superintendent" to manage PPSD operations and develop and implement a long-term improvement plan for at least the next five years.

In connection with its takeover of the PPSD, the State may be responsible for budget deficits and other costs relative to the PPSD, subject to the State appropriations and budget process. The extent of such costs is unknown at this time.

## Requests for Information

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

# Basic Financial Statements



**State of Rhode Island**

Fiscal Year Ended  
June 30, 2019



**State of Rhode Island and Providence Plantations**  
**Statement of Net Position**  
**June 30, 2019**  
**(Expressed in Thousands)**

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Total	
<b>Assets and deferred outflows of resources</b>				
Current assets:				
Cash and cash equivalents	\$ 656,120	\$ 35,718	\$ 691,838	\$ 391,365
Funds on deposit with fiscal agent	329,206	492,861	822,067	—
Investments	—	—	—	2,159
Receivables (net)	870,416	77,039	947,455	105,357
Restricted assets:	—	—	—	—
Cash and cash equivalents	51,450	18,275	69,725	772,544
Investments	—	—	—	264,579
Receivables (net)	—	—	—	91,683
Other assets	—	—	—	38,359
Due from primary government	—	—	—	30,296
Due from component units	9,148	—	9,148	3,536
Internal balances	2,299	(2,299)	—	—
Due from other governments and agencies	390,518	1,250	391,768	783
Inventories	2,097	1,128	3,225	8,419
Other assets	10,725	587	11,312	9,675
Total current assets	2,321,979	624,559	2,946,538	1,718,755
Noncurrent assets:				
Investments	—	—	—	230,641
Receivables (net)	19,950	—	19,950	127,100
Due from other governments and agencies	18,672	—	18,672	—
Restricted assets:	—	—	—	—
Cash and cash equivalents	—	—	—	78,785
Investments	—	—	—	311,818
Receivables (net)	—	—	—	1,163,792
Other assets	—	—	—	1,456,854
Due from component units	47,929	—	47,929	1,413
Net OPEB Asset	4,355	—	4,355	—
Capital assets - nondepreciable	1,041,277	78,441	1,119,718	468,860
Capital assets - depreciable (net)	3,427,163	79,680	3,506,843	1,841,362
Other assets	—	246	246	166,280
Total noncurrent assets	4,559,346	158,367	4,717,713	5,846,905
Total assets	6,881,325	782,926	7,664,251	7,565,660
<b>Deferred outflows of resources</b>	813,673	10,693	824,366	95,845

(Continued)

**State of Rhode Island and Providence Plantations**  
**Statement of Net Position**  
**June 30, 2019**  
**(Expressed in Thousands)**

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Total	
<b>Liabilities and deferred inflows of resources</b>				
Current Liabilities:				
Accounts payable	879,125	28,261	907,386	112,162
Due to primary government	—	—	—	9,148
Due to component units	30,296	—	30,296	3,640
Due to other governments and agencies	—	1,560	1,560	—
Accrued expenses	—	6,360	6,360	—
Unearned revenue	32,673	—	32,673	32,329
Other current liabilities	109,925	595	110,520	452,327
Current portion of long-term debt	267,319	21,070	288,389	238,076
Obligation for unpaid prize awards	—	11,639	11,639	—
Total current liabilities	1,319,338	69,485	1,388,823	847,682
Noncurrent Liabilities:				
Due to primary government	—	—	—	47,929
Net pension liability	2,272,383	17,142	2,289,525	300,637
Net pension liability-special funding situation	1,357,444	—	1,357,444	—
Net OPEB liability	496,691	3,876	500,567	189,661
Unearned revenue	—	2,367	2,367	5,687
Due to component units	—	—	—	1,267
Notes payable	—	—	—	175,082
Loans payable	—	—	—	13,331
Obligations under capital leases	173,839	—	173,839	1,934
Compensated absences	9,316	446	9,762	22,411
Bonds payable	2,581,395	208,182	2,789,577	2,717,632
Other liabilities	77,954	—	77,954	390,680
Total noncurrent liabilities	6,969,022	232,013	7,201,035	3,866,251
Total liabilities	8,288,360	301,498	8,589,858	4,713,933
<b>Deferred inflows of resources</b>	163,488	726	164,214	33,864
<b>Net position (deficit)</b>				
Net investment in capital assets	3,517,242	(42,225)	3,475,017	1,532,936
Restricted for:				
Capital Projects	267,614	—	267,614	—
Debt	93,191	2,430	95,621	317,281
Assistance to other entities	145,323	—	145,323	—
Employment security programs	144,854	559,171	704,025	—
Other	199,628	—	199,628	899,103
Nonexpendable	174	—	174	214,691
Unrestricted	(5,124,876)	(27,981)	(5,152,857)	(50,303)
Total net position (deficit)	\$ (756,850)	\$ 491,395	\$ (265,455)	\$ 2,913,708

(Concluded)

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

**State of Rhode Island and Providence Plantations**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2019**  
**(Expressed in Thousands)**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Totals	
<b>Primary government:</b>								
Governmental activities:								
General government	\$ 841,779	\$ 273,477	53,874	\$ 1,205	\$ (513,223)	\$ —	\$ (513,223)	\$ —
Human services	4,063,865	294,852	2,453,185	1,167	(1,314,661)	—	(1,314,661)	—
Education	1,803,273	45,262	212,179	19	(1,545,813)	—	(1,545,813)	—
Public safety	580,367	35,122	49,520	26,802	(468,923)	—	(468,923)	—
Natural resources	103,477	30,579	22,334	2,722	(47,842)	—	(47,842)	—
Transportation	426,522	34,663	26,820	264,064	(100,975)	—	(100,975)	—
Interest and other charges	99,971	—	—	—	(99,971)	—	(99,971)	—
Total governmental activities	7,919,254	713,955	2,817,912	295,979	(4,091,408)	—	(4,091,408)	—
Business-type activities:								
State Lottery	680,356	1,077,063	—	—	—	396,707	396,707	—
Convention Center	51,698	30,142	—	—	—	(21,556)	(21,556)	—
Employment Security	148,430	225,706	1,278	—	—	78,554	78,554	—
Total business-type activities	880,484	1,332,911	1,278	—	—	453,705	453,705	—
Total primary government	\$ 8,799,738	\$ 2,046,866	\$ 2,819,190	\$ 295,979	(4,091,408)	453,705	(3,637,703)	—
<b>Component units:</b>	\$ 1,467,412	\$ 780,980	\$ 609,748	\$ 238,512				161,828
<b>General Revenues:</b>								
Taxes:								
Personal income					1,396,808	—	1,396,808	—
General business					432,643	—	432,643	—
Sales and use					1,288,043	—	1,288,043	—
Gasoline					167,246	—	167,246	—
Other					324,687	—	324,687	—
Interest and investment earnings					19,028	639	19,667	75,717
Miscellaneous revenue					101,495	11,461	112,956	11,672
Gain (loss) on sale of capital assets					(1,977)	—	(1,977)	—
<b>Transfers (net)</b>					368,236	(368,236)	—	—
Total general revenues and transfers					4,096,209	(356,136)	3,740,073	87,389
Change in net position					4,801	97,569	102,370	249,217
<b>Net position (deficit) - beginning as restated</b>					(761,651)	393,826	(367,825)	2,664,491
<b>Net position (deficit) - ending</b>					\$ (756,850)	\$ 491,395	\$ (265,455)	\$ 2,913,708

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, 2019**  
**(Expressed in Thousands)**

	<u>General</u>	<u>Intermodal Surface Transportation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>				
Cash and cash equivalents	\$ 203,829	\$ 119,382	\$ 284,693	\$ 607,904
Funds on deposit with fiscal agent	—	229,571	99,635	329,206
Restricted cash equivalents	—	—	51,450	51,450
Receivables (net)	793,207	15,978	71,418	880,603
Due from other funds	—	1,452	824	2,276
Due from component units	—	—	—	—
Due from other governments and agencies	362,560	37,386	—	399,946
Loans to other funds	29,858	—	113,960	143,818
Other assets	3,444	—	—	3,444
Total assets	<u>\$ 1,392,898</u>	<u>\$ 403,769</u>	<u>\$ 621,980</u>	<u>\$ 2,418,647</u>
<b>Liabilities, deferred inflows of resources and fund balances</b>				
<b>Liabilities</b>				
Accounts payable	767,179	57,202	26,088	850,469
Due to other funds	3,353	—	3,936	7,289
Due to component units	7,454	3,848	16,128	27,430
Loans from other funds	113,960	—	18,508	132,468
Unearned revenue	32,404	—	—	32,404
Other liabilities	79,086	9,291	459	88,836
Total liabilities	<u>1,003,436</u>	<u>70,341</u>	<u>65,119</u>	<u>1,138,896</u>
Deferred inflows of resources	<u>18,430</u>	<u>9,646</u>	<u>—</u>	<u>28,076</u>
<b>Fund Balances</b>				
Nonspendable	1,558	—	174	1,732
Restricted	119,677	237,741	556,311	913,729
Unrestricted				
Committed	5,206	86,735	376	92,317
Assigned	37,255	—	—	37,255
Unassigned	207,336	(694)	—	206,642
Total fund balances	<u>371,032</u>	<u>323,782</u>	<u>556,861</u>	<u>1,251,675</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,392,898</u>	<u>\$ 403,769</u>	<u>\$ 621,980</u>	<u>\$ 2,418,647</u>

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

**State of Rhode Island and Providence Plantations**  
**Reconciliation of the Balance Sheet of the Governmental Funds**  
**to the Statement of Net Position**  
**June 30, 2019**  
**(Expressed in Thousands)**

Fund balance - total governmental funds \$ 1,251,675

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.

Capital assets	7,750,706	
Accumulated depreciation	(3,285,540)	
	4,465,166	4,465,166

Deferred outflows of resources 813,673

Bonds, notes, certificates of participation, accrued interest, net pension liabilities and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.

Compensated absences	(71,990)	
Bonds payable	(2,535,381)	
Net premium/discount	(198,941)	
Obligations under capital leases	(187,930)	
Premium	(16,175)	
Interest payable	(34,033)	
Net pension liabilities	(3,629,827)	
Net OPEB liability	(496,691)	
Other liabilities	(78,673)	
	(7,249,641)	(7,249,641)

Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

Receivables	10,458	
Due from component units	54,010	
Net OPEB asset	4,355	
Unavailable revenue	28,076	
	96,899	96,899

Deferred inflows of resources (163,488)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net position of the internal service funds is reported with governmental activities. 28,866

Net position - total governmental activities \$ (756,850)

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



**State of Rhode Island and Providence Plantations**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2019**  
**(Expressed in Thousands)**

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Taxes	\$ 3,173,291	\$ 240,099	\$ 190,107	\$ 3,603,497
Licenses, fines, tolls, sales, and services	398,221	31,975	420	430,616
Departmental restricted revenue	281,236	2,660	—	283,896
Federal grants	2,826,622	287,303	—	3,113,925
Income from investments	3,678	8,063	6,813	18,554
Other revenues	53,548	1,246	41,724	96,518
Total revenues	6,736,596	571,346	239,064	7,547,006
<b>Expenditures:</b>				
Current:				
General government	539,520	—	206,054	745,574
Human services	4,034,359	—	—	4,034,359
Education	1,641,632	—	1,132	1,642,764
Public safety	577,168	—	—	577,168
Natural resources	81,986	—	—	81,986
Transportation	—	592,255	1,733	593,988
Capital outlays	—	—	267,151	267,151
Debt service:				
Principal	120,488	37,839	21,234	179,561
Interest and other charges	60,806	25,582	28,208	114,596
Total expenditures	7,055,959	655,676	525,512	8,237,147
Excess (deficiency) of revenues over (under) expenditures	(319,363)	(84,330)	(286,448)	(690,141)
<b>Other financing sources (uses):</b>				
Issuance of bonds and notes	—	—	255,820	255,820
Debt issuance premiums	—	—	16,588	16,588
Transfers in	465,199	43,494	118,869	627,562
Transfers out	(137,346)	(51,107)	(70,873)	(259,326)
Total other financing sources (uses)	327,853	(7,613)	320,404	640,644
Net change in fund balances	8,490	(91,943)	33,956	(49,497)
Fund balances - beginning as restated	362,542	415,725	522,905	1,301,172
Fund balances - ending	\$ 371,032	\$ 323,782	\$ 556,861	\$ 1,251,675

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

**State of Rhode Island and Providence Plantations**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**of the Governmental Funds to the Statement of Activities**  
**For the Fiscal Year Ended June 30, 2019**  
**(Expressed in Thousands)**

Net change in fund balances - total governmental funds \$ (49,497)

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	416,953	
Depreciation expense	(244,438)	
	172,515	172,515

Bond, note, and certificate of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Position. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Principal paid on debt	179,561	
Accrued interest and other charges	(168)	
Proceeds from sale of debt	(255,820)	
Deferral of premium/discount	(16,588)	
Amortization of premium/discount	36,511	
Accreted interest	(12,369)	
Amortization of refunding gains/losses	(9,348)	
	(78,221)	(78,221)

Revenues, expense reductions, and (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds. In the current period, the net adjustments consist of:

Compensated absences	(3,623)	
Pension expenses, net of related deferred outflows	(47,335)	
OPEB expenses, net of related deferred outflows	11,093	
Program expenses	(3,214)	
Program and miscellaneous revenue	5,326	
Operating and capital grant revenue	(34)	
General revenue - taxes	5,932	
	(31,855)	(31,855)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is reported with governmental activities. (8,141)

Change in net position - total governmental activities \$ 4,801

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

**State of Rhode Island and Providence Plantations**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2019**  
**(Expressed in Thousands)**

	Business-type Activities- Enterprise Funds			Governmental Activities	
	R.I.			Totals	Internal Service Funds
	R.I. Lottery	Convention Center	Employment Security		
<b>Assets and deferred outflows of resources</b>					
Current assets:					
Cash and cash equivalents	\$ 27,665	\$ 6,143	\$ 1,910	\$ 35,718	\$ 48,219
Restricted cash and cash equivalents	—	18,275	—	18,275	—
Funds on deposit with fiscal agent	—	—	492,861	492,861	—
Receivables (net)	10,650	1,307	65,082	77,039	8,788
Due from other funds	—	157	—	157	7,687
Due from other governments and agencies	—	—	1,250	1,250	—
Loans to other funds	—	—	—	—	—
Inventories	1,128	—	—	1,128	2,097
Other assets	54	533	—	587	7,281
Total current assets	<u>39,497</u>	<u>26,415</u>	<u>561,103</u>	<u>627,015</u>	<u>74,072</u>
Noncurrent assets:					
Capital assets - nondepreciable	—	78,441	—	78,441	—
Capital assets - depreciable (net)	353	79,327	—	79,680	3,273
Other assets	—	246	—	246	—
Total noncurrent assets	<u>353</u>	<u>158,014</u>	<u>—</u>	<u>158,367</u>	<u>3,273</u>
Total assets	<u>39,850</u>	<u>184,429</u>	<u>561,103</u>	<u>785,382</u>	<u>77,345</u>
<b>Deferred outflows of resources</b>	<u>4,132</u>	<u>6,561</u>	<u>—</u>	<u>10,693</u>	<u>—</u>
<b>Liabilities and deferred inflows of resources</b>					
Current liabilities:					
Accounts payable	18,399	9,859	3	28,261	27,986
Due to other funds	2,088	—	368	2,456	375
Due to other governments and agencies	—	—	1,560	1,560	—
Loans from other funds	—	—	—	—	11,350
Accrued expenses	6,360	—	—	6,360	—
Unearned revenue	625	5,550	—	6,175	—
Other current liabilities	594	—	1	595	8,768
Bonds payable	—	14,570	—	14,570	—
Compensated absences	325	—	—	325	—
Obligation for unpaid prize awards	11,639	—	—	11,639	—
Total current liabilities	<u>40,030</u>	<u>29,979</u>	<u>1,932</u>	<u>71,941</u>	<u>48,479</u>
Noncurrent liabilities:					
Net pension liability	17,142	—	—	17,142	—
Net OPEB liability	3,876	—	—	3,876	—
Unearned revenue	1,875	492	—	2,367	—
Bonds payable	—	208,182	—	208,182	—
Compensated absences	446	—	—	446	—
Total noncurrent liabilities	<u>23,339</u>	<u>208,674</u>	<u>—</u>	<u>232,013</u>	<u>—</u>
Total liabilities	<u>63,369</u>	<u>238,653</u>	<u>1,932</u>	<u>303,954</u>	<u>48,479</u>
<b>Deferred inflows of resources</b>	<u>726</u>	<u>—</u>	<u>—</u>	<u>726</u>	<u>—</u>
<b>Net Position (Deficit)</b>					
Net investment in capital assets	353	(42,578)	—	(42,225)	3,273
Restricted for:					
Debt	—	2,430	—	2,430	—
Employment insurance programs	—	—	559,171	559,171	—
Unrestricted	(20,466)	(7,515)	—	(27,981)	25,593
Total net position (deficit)	<u>\$ (20,113)</u>	<u>\$ (47,663)</u>	<u>\$ 559,171</u>	<u>\$ 491,395</u>	<u>\$ 28,866</u>

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 Position**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2019**  
**(Expressed in Thousands)**

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I.			Internal	
	R.I. Lottery	Convention Center	Employment Security	Totals	Service Funds
<b>Operating revenues:</b>					
Charges for services	\$ —	\$ 29,965	\$ 221,205	\$ 251,170	\$ 422,492
Lottery sales	263,277	—	—	263,277	—
Video lottery, net	522,755	—	—	522,755	—
Table games	163,443	—	—	163,443	—
Sports Book	127,588	—	—	127,588	—
Federal grants	—	—	1,278	1,278	—
Miscellaneous	—	177	4,501	4,678	—
Total operating revenues	1,077,063	30,142	226,984	1,334,189	422,492
<b>Operating expenses:</b>					
Personal services	10,856	16,940	—	27,796	55,037
Supplies, materials, and services	386,680	13,863	—	400,543	375,616
Prize awards, net of prize recoveries	282,687	—	—	282,687	—
Depreciation and amortization	133	11,040	—	11,173	217
Benefits paid	—	—	148,430	148,430	—
Total operating expenses	680,356	41,843	148,430	870,629	430,870
<b>Operating income (loss)</b>	396,707	(11,701)	78,554	463,560	(8,378)
<b>Nonoperating revenues (expenses):</b>					
Interest revenue	553	86	—	639	473
Other nonoperating revenues (expenses)	892	—	10,569	11,461	(236)
Interest expense	—	(9,855)	—	(9,855)	—
Total nonoperating revenue (expenses)	1,445	(9,769)	10,569	2,245	237
Income (loss) before transfers	398,152	(21,470)	89,123	465,805	(8,141)
<b>Transfers in</b>	—	28,990	95	29,085	—
<b>Transfers out</b>	(397,321)	—	—	(397,321)	—
Change in net position	831	7,520	89,218	97,569	(8,141)
<b>Net position (deficit) - beginning</b>	(20,944)	(55,183)	469,953	393,826	37,007
<b>Net position (deficit) - ending</b>	\$ (20,113)	\$ (47,663)	\$ 559,171	\$ 491,395	\$ 28,866

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

**State of Rhode Island and Providence Plantations**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2019**

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I. Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
<b>Cash flows from operating activities:</b>					
Cash received from gaming activities	\$ 1,075,840	\$ —	\$ —	\$ 1,075,840	\$ —
Cash received from customers	—	31,897	220,868	252,765	432,890
Cash received from grants	—	—	1,278	1,278	—
Cash payments for gaming activities	(658,885)	—	—	(658,885)	—
Cash payments to suppliers	(4,890)	(13,249)	—	(18,139)	(373,212)
Cash payments to employees	(10,903)	(16,686)	—	(27,589)	(54,853)
Cash payments for benefits	—	—	(147,874)	(147,874)	—
Other operating revenue (expense)	—	—	4,369	4,369	(231)
Net cash provided by operating activities	401,162	1,962	78,641	481,765	4,594
<b>Cash flows from noncapital financing activities:</b>					
Loans from other funds	—	—	—	—	5,773
Repayment of loans to other funds	—	—	—	—	5,899
Repayment of loans from other funds	—	—	—	—	(3,078)
Transfers in	—	28,832	1,256	30,088	—
Transfers out	(393,792)	—	(492)	(394,284)	—
Net transfers from (to) fiscal agent	—	—	(79,738)	(79,738)	—
Net cash provided by (used for) noncapital financing activities	(393,792)	28,832	(78,974)	(443,934)	8,594
<b>Cash flows from capital and related financing activities:</b>					
Principal paid on capital obligations	—	(10,785)	—	(10,785)	—
Interest paid on capital obligations	—	(10,099)	—	(10,099)	—
Acquisition of capital assets	(171)	(31,793)	—	(31,964)	(959)
Net cash provided by (used for) capital and related financing activities	(171)	(52,677)	—	(52,848)	(959)
<b>Cash flows from investing activities:</b>					
Interest on investments	553	86	—	639	474
Net cash provided by investing activities	553	86	—	639	474
Net increase (decrease) in cash and cash equivalents	7,752	(21,797)	(333)	(14,378)	12,703
Cash and cash equivalents, July 1	19,913	46,215	2,243	68,371	35,516
Cash and cash equivalents, June 30	\$ 27,665	\$ 24,418	\$ 1,910	\$ 53,993	\$ 48,219
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>					
Operating income (loss)	396,707	(11,701)	78,554	463,560	(8,378)
<b>Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:</b>					
Depreciation and amortization	133	11,040	—	11,173	217
Other revenue (expense) and transfers in (out)	267	(13)	685	939	(231)
Net changes in assets and liabilities:					
Receivables, net	(2,360)	84	(336)	(2,612)	9,284
Inventory	327	—	—	327	36
Deferred outflows of resources	(283)	—	—	(283)	—
Prepaid items	(11)	(52)	—	(63)	(1,000)
Due to / due from transactions	(74)	—	(240)	(314)	—
Accounts and other payables	3,228	919	3	4,150	4,206
Accrued expenses	256	—	(11)	245	460
Net pension liability	274	—	—	274	—
Net OPEB liability	13	—	—	13	—
Deferred inflows of resources	(209)	—	—	(209)	—
Unearned revenue	422	1,685	(14)	2,093	—
Prize awards payable	2,472	—	—	2,472	—
Total adjustments	4,455	13,663	87	18,205	12,972
Net cash provided by (used for) operating activities	\$ 401,162	\$ 1,962	\$ 78,641	\$ 481,765	\$ 4,594

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

**State of Rhode Island and Providence Plantations**  
**Statement of Fiduciary Net Position**  
**Fiduciary Funds**  
**June 30, 2019**  
(Expressed in Thousands)

	Pension and Other Employee Benefit Trusts	Investment Trust Ocean State Investment Pool	Private Purpose Trusts	Agency Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 10,839	\$ —	\$ 6,117	\$ 16,742
Deposits held as security for entities doing business in the State	—	—	—	53,944
Advance held by claims processing agent	811	—	—	—
Receivables				
Contributions	35,165	—	—	—
Due from State for teachers	20,322	—	—	—
Other	1,278	—	—	—
Miscellaneous	9	2,539	375	4,219
Total receivables	56,774	2,539	375	4,219
Prepaid expenses	3,928	—	—	—
Due from other plans	1,453	—	—	—
Investments, at fair value				
Equity in short-term investment fund	—	31,236	—	—
Equity in pooled trusts	8,846,878	—	—	—
Other investments	1,024,125	—	5,691,369	—
Total investments	9,871,003	31,236	5,691,369	—
Total assets	9,944,808	33,775	5,697,861	\$ 74,905
<b>Liabilities</b>				
Accounts payable	5,916	30	14,398	7,490
Due to other plans	1,453	—	—	—
Incurred but not reported claims	1,575	—	—	—
Other	4,515	—	—	—
Deposits held for others	—	—	—	67,415
Total Liabilities	13,459	30	14,398	\$ 74,905
<b>Net position</b>				
Restricted for:				
Pension benefits	9,593,105	—	—	
Other postemployment benefits	338,244	—	—	
External investment pool participants	—	33,745	—	
Tuition savings program	—	—	5,680,457	
Other	—	—	3,006	
Total net position	\$ 9,931,349	\$ 33,745	\$ 5,683,463	

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 Position**  
**Fiduciary Funds**  
**For the Fiscal Year Ended June 30, 2019**  
**(Expressed in Thousands)**

	<b>Pension and Other Employee Benefit Trusts</b>	<b>Investment Trust Ocean State Investment Pool</b>	<b>Private Purpose Trusts</b>
<b>Additions</b>			
Contributions			
Member contributions	\$ 211,069	\$ —	\$ —
Employer contributions	500,178	—	—
Supplemental employer contributions	511	—	—
State contributions for teachers	102,239	—	—
Interest on service credits purchased	52	—	—
Service credit transfers	8,499	—	—
From program participants	—	140,332	266,565
Total contributions	<u>822,548</u>	<u>140,332</u>	<u>266,565</u>
Other income	<u>1,380</u>	<u>—</u>	<u>—</u>
Investment income			
Net appreciation in fair value of investments	570,429	—	51,963
Interest	72,067	674	—
Dividends	61,963	—	190,090
Other investment income	184	—	—
	<u>704,643</u>	<u>674</u>	<u>242,053</u>
Less: investment expense	84,332	37	—
Net investment income	<u>620,311</u>	<u>637</u>	<u>242,053</u>
Total additions	<u>1,444,239</u>	<u>140,969</u>	<u>508,618</u>
<b>Deductions</b>			
Retirement benefits	959,808	—	—
Death benefits	3,434	—	—
Distributions	19,843	123,610	—
Program participant redemptions	—	—	830,891
Refund of contributions	6,801	—	—
Administrative expense	10,117	—	29,729
Service credit transfers	8,499	—	—
OPEB benefits	31,365	—	—
Total deductions	<u>1,039,867</u>	<u>123,610</u>	<u>860,620</u>
Change in net position restricted for:			
Pension benefits	344,542	—	—
Other postemployment benefits	59,830	—	—
External investment pool participants	—	17,358	—
Tuition Savings Program	—	—	(352,062)
Other	—	—	60
<b>Fiduciary net position - beginning</b>	<u>9,526,977</u>	<u>16,387</u>	<u>6,035,465</u>
<b>Fiduciary net position - ending</b>	<u>\$ 9,931,349</u>	<u>\$ 33,745</u>	<u>\$ 5,683,463</u>

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

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2019**  
**(Expressed in Thousands)**

	<u>RIAC</u>	<u>RICC</u>	<u>I-195 RDC</u>	<u>RIPTA</u>	<u>RITBA</u>
<b>Assets and deferred outflows of resources</b>					
Current Assets:					
Cash and cash equivalents	\$ 67,414	\$ 8,169	\$ 62	\$ 12,378	\$ 7,191
Investments	—	—	—	1,681	—
Receivables (net)	7,752	1,597	—	8,271	204
Restricted assets:					
Cash and cash equivalents	24,409	88,256	15,630	—	16,127
Investments	—	4,186	—	—	76,445
Receivables (net)	—	18	—	—	—
Other assets	—	—	—	—	1,253
Due from primary government	596	1,223	1,026	5,656	1,516
Due from other governments	—	—	—	—	—
Due from other component units	—	38	44	—	—
Inventories	—	—	—	2,071	37
Other assets	562	161	57	170	153
Total current assets	<u>100,733</u>	<u>103,648</u>	<u>16,819</u>	<u>30,227</u>	<u>102,926</u>
Noncurrent Assets:					
Investments	—	721	—	2,931	2,896
Receivables (net)	—	4,496	—	—	—
Restricted assets:					
Cash and cash equivalents	59,706	10,569	—	—	—
Investments	9,304	10,007	—	—	—
Receivables (net)	1,923	202	—	—	—
Other assets	—	540	—	—	—
Capital assets - nondepreciable	53,822	557	—	15,314	2,816
Capital assets - depreciable (net)	482,087	696	—	104,344	213,022
Due from other component units	—	—	—	—	—
Other assets, net of amortization	763	—	285	—	—
Total noncurrent assets	<u>607,605</u>	<u>27,788</u>	<u>285</u>	<u>122,589</u>	<u>218,734</u>
Total assets	<u>708,338</u>	<u>131,436</u>	<u>17,104</u>	<u>152,816</u>	<u>321,660</u>
<b>Deferred outflows of resources</b>	<u>783</u>	<u>616</u>	<u>—</u>	<u>19,659</u>	<u>—</u>

(Continued)



**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2019**  
**(Expressed in Thousands)**

	<u>RIAC</u>	<u>RICC</u>	<u>I-195 RDC</u>	<u>RIPTA</u>	<u>RITBA</u>
<b>Liabilities and deferred inflows of resources</b>					
Current liabilities:					
Accounts payable	1,507	1,753	88	18,347	860
Due to primary government	—	—	—	2,468	1,256
Due to other component units	2,035	—	—	—	—
Unearned revenue	924	1,342	60	153	5,370
Other liabilities	9,636	933	608	8,957	7,149
Current portion of long-term debt	18,826	3,236	1,540	—	4,385
Total current liabilities	<u>32,928</u>	<u>7,264</u>	<u>2,296</u>	<u>29,925</u>	<u>19,020</u>
Noncurrent liabilities:					
Due to primary government	110	—	—	10,095	—
Due to other component units	1,267	—	—	—	—
Unearned revenue	—	5,491	—	—	—
Notes payable	—	—	—	—	—
Loans payable	—	—	—	—	—
Obligations under capital leases	1,697	—	—	—	—
Net pension liability	1,928	309	—	64,095	—
Net OPEB liability	434	69	—	75,091	—
Other liabilities	—	27,064	—	12,055	—
Compensated absences	—	—	—	238	—
Bonds payable	291,604	12,592	35,440	—	167,882
Total noncurrent liabilities	<u>297,040</u>	<u>45,525</u>	<u>35,440</u>	<u>161,574</u>	<u>167,882</u>
Total liabilities	<u>329,968</u>	<u>52,789</u>	<u>37,736</u>	<u>191,499</u>	<u>186,902</u>
<b>Deferred inflows of resources</b>	<u>300</u>	<u>660</u>	<u>—</u>	<u>4,296</u>	<u>—</u>
<b>Net position (deficit)</b>					
Net investment in capital assets	250,820	1,250	—	108,481	58,710
Restricted for:					
Debt	9,407	—	—	—	70,935
Other	53,770	—	16,519	2,667	—
Other nonexpendable	—	86,554	—	—	—
Unrestricted	64,856	(9,201)	(37,151)	(134,468)	5,113
Total net position (deficit)	<u>\$ 378,853</u>	<u>\$ 78,603</u>	<u>\$ (20,632)</u>	<u>\$ (23,320)</u>	<u>\$ 134,758</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2019**  
**(Expressed in Thousands)**

	URI	RIC	CCRI	Other Component Units	Totals
<b>Assets and deferred outflows of resources</b>					
Current Assets:					
Cash and cash equivalents	\$ 151,742	\$ 20,185	\$ 16,078	\$ 108,146	\$ 391,365
Investments	—	—	—	478	2,159
Receivables (net)	54,224	4,776	2,870	25,663	105,357
Restricted assets:					
Cash and cash equivalents	—	—	253	627,869	772,544
Investments	—	—	—	183,948	264,579
Receivables (net)	—	—	—	91,665	91,683
Other assets	—	—	—	37,106	38,359
Due from primary government	8,208	1,822	466	9,783	30,296
Due from other governments	—	—	—	783	783
Due from other component units	1,557	—	—	1,897	3,536
Inventories	3,193	—	679	2,439	8,419
Other assets	2,386	78	521	5,587	9,675
Total current assets	<u>221,310</u>	<u>26,861</u>	<u>20,867</u>	<u>1,095,364</u>	<u>1,718,755</u>
Noncurrent Assets:					
Investments	186,450	33,312	4,331	—	230,641
Receivables (net)	18,224	1,829	2	102,549	127,100
Restricted assets:					
Cash and cash equivalents	4,657	1,288	—	2,565	78,785
Investments	—	—	—	292,507	311,818
Receivables (net)	—	—	—	1,161,667	1,163,792
Other assets	76,893	1,095	—	1,378,326	1,456,854
Capital assets - nondepreciable	234,575	42,077	6,449	113,250	468,860
Capital assets - depreciable (net)	602,852	150,060	79,545	208,756	1,841,362
Due from other component units	—	—	—	1,413	1,413
Other assets, net of amortization	1,946	—	—	163,286	166,280
Total noncurrent assets	<u>1,125,597</u>	<u>229,661</u>	<u>90,327</u>	<u>3,424,319</u>	<u>5,846,905</u>
Total assets	<u>1,346,907</u>	<u>256,522</u>	<u>111,194</u>	<u>4,519,683</u>	<u>7,565,660</u>
<b>Deferred outflows of resources</b>	<u>36,861</u>	<u>11,404</u>	<u>8,692</u>	<u>17,830</u>	<u>95,845</u>

(Continued)

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Net Position**  
**Component Units**  
**June 30, 2019**  
**(Expressed in Thousands)**

	URI	RIC	CCRI	Other Component Units	Totals
<b>Liabilities and deferred inflows of resources</b>					
Current liabilities:					
Accounts payable	57,549	6,886	5,146	20,026	112,162
Due to primary government	2,607	1,595	750	472	9,148
Due to other component units	1,557	—	—	48	3,640
Unearned revenue	15,358	2,532	2,626	3,964	32,329
Other liabilities	6,670	6,340	5,012	407,022	452,327
Current portion of long-term debt	12,554	1,070	290	196,175	238,076
Total current liabilities	<u>96,295</u>	<u>18,423</u>	<u>13,824</u>	<u>627,707</u>	<u>847,682</u>
Noncurrent liabilities:					
Due to primary government	22,331	14,618	775	—	47,929
Due to other component units	—	—	—	—	1,267
Unearned revenue	—	—	—	196	5,687
Notes payable	—	622	—	174,460	175,082
Loans payable	411	—	—	12,920	13,331
Obligations under capital leases	26	—	—	211	1,934
Net pension liability	123,705	42,651	31,485	36,464	300,637
Net OPEB liability	49,930	25,512	19,546	19,079	189,661
Other liabilities	12,387	3,129	—	336,045	390,680
Compensated absences	18,465	983	162	2,563	22,411
Bonds payable	291,588	13,885	1,236	1,903,405	2,717,632
Total noncurrent liabilities	<u>518,843</u>	<u>101,400</u>	<u>53,204</u>	<u>2,485,343</u>	<u>3,866,251</u>
Total liabilities	<u>615,138</u>	<u>119,823</u>	<u>67,028</u>	<u>3,113,050</u>	<u>4,713,933</u>
<b>Deferred inflows of resources</b>	<u>11,596</u>	<u>5,292</u>	<u>4,387</u>	<u>7,333</u>	<u>33,864</u>
<b>Net position (deficit)</b>					
Net investment in capital assets	568,179	160,347	82,943	302,206	1,532,936
Restricted for:					
Debt	—	—	—	236,939	317,281
Other	95,030	15,907	2,944	712,266	899,103
Other nonexpendable	105,954	19,654	2,529	—	214,691
Unrestricted	(12,129)	(53,097)	(39,945)	165,719	(50,303)
Total net position (deficit)	<u>\$ 757,034</u>	<u>\$ 142,811</u>	<u>\$ 48,471</u>	<u>\$ 1,417,130</u>	<u>\$ 2,913,708</u>

(Concluded)

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

**State of Rhode Island and Providence Plantations**  
**Combining Statement of Activities**  
**Component Units**  
**For the Fiscal Year Ended June 30, 2019**  
**(Expressed in Thousands)**

	<b>RIAC</b>	<b>RICC</b>	<b>I-195 RDC</b>	<b>RIPTA</b>	<b>RITBA</b>	<b>URI</b>	<b>RIC</b>	<b>CCRI</b>	<b>Other Component Units</b>	<b>Totals</b>
<b>Expenses</b>	\$ 85,688	\$ 35,965	\$ 11,746	\$ 135,273	\$ 33,039	\$ 559,014	\$ 158,783	\$ 129,032	\$ 318,872	\$ 1,467,412
<b>Program revenues:</b>										
Charges for services	81,247	5,116	1,050	24,817	22,084	340,532	64,601	37,992	203,541	780,980
Operating grants and contributions	—	34,250	4,112	86,851	—	211,598	77,650	86,708	108,579	609,748
Capital grants and contributions	10,539	—	—	9,775	17,111	91,598	19,100	5,582	84,807	238,512
Total program revenues	91,786	39,366	5,162	121,443	39,195	643,728	161,351	130,282	396,927	1,629,240
Net (Expenses) Revenues	6,098	3,401	(6,584)	(13,830)	6,156	84,714	2,568	1,250	78,055	161,828
<b>General revenues:</b>										
Interest and investment earnings	2,826	3,012	309	178	2,181	9,555	1,791	495	55,370	75,717
Miscellaneous revenue	14	6,761	—	—	619	—	2,082	—	2,196	11,672
Total general revenue	2,840	9,773	309	178	2,800	9,555	3,873	495	57,566	87,389
Change in net position	8,938	13,174	(6,275)	(13,652)	8,956	94,269	6,441	1,745	135,621	249,217
<b>Net position (deficit) - beginning as restated</b>	369,915	65,429	(14,357)	(9,668)	125,802	662,765	136,370	46,726	1,281,509	2,664,491
<b>Net position (deficit) - ending</b>	\$ 378,853	\$ 78,603	\$ (20,632)	\$ (23,320)	\$ 134,758	\$ 757,034	\$ 142,811	\$ 48,471	\$ 1,417,130	\$ 2,913,708

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 defines component units as legally separate organizations for which the elected officials of the primary government (such as the State) are financially accountable. In addition, component units can be other organizations for which the nature and significance of their relationship with the State are such that exclusion from the State's financial statements would cause the statements to be misleading.

GASB has set forth criteria to be considered in determining financial accountability. The primary government (the State) is financially accountable if it appoints a voting majority of the entity's governing body **and** (1) it is able to impose its will on that entity **or** (2) there is a potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State. Also, the State is financially accountable if an entity is fiscally dependent on the State and there is the potential for the entity to provide specific financial benefits to, or to impose specific financial burdens on, the State, regardless of the State's appointment power over the governing body.

In accordance with GAAP, entities such as local school districts, charter schools, and other local authorities that may only partially meet the criteria for inclusion in this report have not been included. The State's financial support for the public education system is reported in the General Fund.

### Blended Component Units

A component unit is reported as part of the primary government and blended into the appropriate funds in any of the following circumstances:

- The component unit provides services entirely or almost entirely to the primary government, or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it; or
- The component unit's governing body is substantively the same as the governing body of the primary government and (a) there is a financial benefit or burden relationship between the primary government and the component unit, or (b) management of the primary government has operational responsibility for the component unit; or
- The component unit's total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government.

For each blended component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. Also, for the blended component units included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards.

The following component units are reported as part of the primary government in both the fund and government-wide financial statements.

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*Rhode Island Convention Center Authority (RICCA)*

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veterans Memorial Auditorium Arts and Cultural Center located in Providence. RICCA is dependent upon annual State appropriations of lease revenue by the General Assembly to fund debt service on its outstanding bonds; therefore RICCA's total debt outstanding, including leases, is expected to be repaid entirely with the resources of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One LaSalle Square, Providence, RI 02903 or at [www.riconvention.com](http://www.riconvention.com).

*Tobacco Settlement Financing Corporation (TSFC)*

TSFC was organized in June 2002 as a public corporation by the State. TSFC is legally separate and provides services exclusively to the State through the purchase of its future tobacco settlement revenues. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose.

The Corporation recognizes receivables and revenue with respect to Tobacco Settlement Revenues (TSRs) based on the domestic shipment of cigarettes. The Corporation accrues at June 30th for TSRs that are derived from estimated sales of cigarettes from January 1 to June 30. This accrual is estimated based upon the historical TSR payments for the prior three fiscal years.

The GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* (the Statement), effective for financial statement periods beginning on or after December 15, 2006. The Statement required restatement of prior period financial statements, except for the deferral requirements relative to sales of future revenues which were permitted to be applied prospectively.

As allowed under GASB Statement No. 48, the Corporation and the State elected to not retroactively apply the deferral requirements to its 2002 and 2007 TSR sales completed prior to the effective date. In accordance with accounting standards in effect at the time of the 2002 and 2007 TSR sales, the State fully recognized the amount received for its sale of future TSRs to the TSFC as revenue in those years.

For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02908.

*Rhode Island Public Rail Corporation (RIPRC)*

This corporation was created and established for the purpose of enhancing and preserving the viability of commuter rail operations in the State. Currently its primary purpose, as outlined in the State's General Laws, is to provide indemnity for rail service operating within the State. The State is fully responsible for reimbursing RIPRC for all costs associated with the purchase of such insurance coverage. RIPRC provides services exclusively to the State. Separately issued financial statements are not available for RIPRC.

**Discretely Presented Component Units**

Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading.

For each discretely presented component unit the potential exists for a financial burden or benefit to be imposed on the State as a result of the existence of the component unit. For the discretely presented component units included in the State's CAFR, the State, generally acting through the Governor, appoints a voting majority of the component units' governing boards. These discretely presented component units primarily serve or benefit those outside of the primary government.

The State distinguishes between major and nonmajor component units based upon the nature and significance of the component unit's relationship to the State. The factors underlying this determination include the type and dollar value of services provided to the citizens of the State, the presence of significant transactions with the State, and a significant benefit or burden relationship with the State. Discretely presented component units, grouped by major and nonmajor categories, are as follows:

### **Major Component Units**

#### *Rhode Island Airport Corporation (RIAC)*

This corporation was created in 1992 and its purpose is to undertake the management, operation, maintenance and improvements of the six airports in the State. Revenues of RIAC include airline and concession contract revenues, federal grants, licenses, and permits. RIAC leases the land on which the State's largest airport is located from the State and reimburses the State annually for general obligation proceeds utilized for certain airport projects. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Rhode Island Airport Corporation, 2000 Post Road, Warwick, RI 02886 or at [www.pvdairport.com](http://www.pvdairport.com).

#### *Rhode Island Commerce Corporation (RICC)*

This corporation was created in 1995 and its purpose is to promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the State, so as to promote economic development. RICC has the power to issue tax-exempt bonds to accomplish its corporate purpose. RICC has one component unit, the Small Business Loan Fund Corporation, which was created for the purpose of granting secured and unsecured loans to Rhode Island's small business community. RICC's activities are largely supported by State appropriations and RICC has used its debt issuance authority to finance various economic development initiatives on behalf of 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. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at [www.commerceri.com](http://www.commerceri.com).

#### *I-195 Redevelopment District Commission (I-195 RDC)*

This commission was created in 2011 by the Rhode Island General Assembly, to oversee, plan, implement, and administer the development of land reclaimed from the Interstate 195 relocation project and the Washington Bridge project. The I-195 RDC issued debt and utilized the proceeds to reimburse the State for the fair value of the land acquired. The State appropriates amounts to the I-195 RDC for debt service and operating assistance until sufficient land sale proceeds are available to fund these expenses. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R. I. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at [www.195district.com](http://www.195district.com).

#### *Rhode Island Public Transit Authority (RIPTA)*

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include passenger revenue, a portion of the tax on gasoline and operating assistance grants from the State and federal governments. In addition to significant operating assistance, the State has also forgiven certain debt service obligations owed to the State as a means to provide additional financial assistance to the Authority. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 705 Elmwood Avenue, Providence, RI 02907, or at [www.ripta.com](http://www.ripta.com).

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### *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. RITBA is responsible for the maintenance and operation of the Claiborne Pell, Mount Hope, Jamestown, and Sakonnet River Bridges which are a vital segment of the State's infrastructure. In addition, the Authority is responsible for the collection of toll revenue from the users of the Claiborne Pell Bridge and provides back office functions for the State's truck tolling initiative that began on June 11, 2018. Title relating to the Jamestown and Sakonnet River bridges has remained with the State, thus those capital assets are reported within the primary government on the State's government-wide financial statements. The Claiborne Pell and Mount Hope bridges are reported as capital assets of RITBA. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437, or at [www.ritba.org](http://www.ritba.org).

### *University and Colleges*

The Board of Education has oversight responsibility for the University of Rhode Island, Rhode Island College and the Community College of Rhode Island. The university and colleges are funded through State appropriations, tuition, federal grants, and private donations and grants. For more detailed information, a copy of the financial statements can be obtained by writing to Office of the Controller, University of Rhode Island, 75 Lower College Road, Kingston, RI 02881; Office of the Controller, Rhode Island College, 600 Mount Pleasant Avenue, Providence, RI 02908; and Office of the Controller, Community College of Rhode Island, 400 East Avenue, Warwick, RI 02886-1805. The financial statements can also be viewed at [www.riopc.edu](http://www.riopc.edu).

### ***Nonmajor Component Units***

#### *Central Falls School District*

The Central Falls School District (the District) is governed by a seven member board of trustees that is appointed by the State's Board of Education (Board). As a result of the enactment of Chapter 312 of Rhode Island Public Laws of 1991, the State assumed responsibility for the administration and operational funding of the District effective July 1, 1991. In June 2002, Chapter 16-2 of the Rhode Island General Laws established the board of trustees to govern the District in a manner consistent with most local school committees. In addition, the Commissioner of Elementary and Secondary Education and the Board have oversight over the development and approval of the District's operating budget and for other significant operating decisions and contracts. The District, which provides elementary and secondary education to residents of the City of Central Falls, is funded primarily through State appropriations and federal grant funds. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 949 Dexter Street – Lower Level, Central Falls, RI 02863-1715.

#### *Division of Higher Education Assistance (DHEA)*

DHEA was established on July 1, 2015 by an Act of the Rhode Island General Assembly for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law to the Division. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Office of Postsecondary Commissioner, Division of Higher Education Assistance, 560 Jefferson Boulevard, Warwick, RI 02886, or at [www.riopc.edu](http://www.riopc.edu).

#### *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. Certain debt issued by RIHMFC is secured in part by capital reserve funds. The General Assembly may, but is not required to, appropriate funding of any deficiencies in such reserves. For more detailed information,

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a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721, or at [www.rihousing.com](http://www.rihousing.com).

*Rhode Island Industrial Facilities Corporation (RIIFC)*

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

*Rhode Island Industrial-Recreational Building Authority (RIIRBA)*

This authority is authorized to insure first mortgages and first security agreements granted by financial institutions and the Rhode Island Industrial Facilities Corporation for companies conducting business in the State. RIIRBA's insurance of first mortgages and first security agreements is backed by a pledge of the full faith and credit of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at [www.commerceri.com](http://www.commerceri.com).

*Rhode Island Resource Recovery Corporation (RIRRC)*

This corporation was established in 1974 in order to provide and/or coordinate solid waste management services to municipalities and persons within the State. RIRRC has the power to issue negotiable bonds and notes to achieve its corporate purpose. RIRRC coordinates and administers a statewide recycling program and has periodically transferred amounts to the State's general fund as operating assistance. The State is one of several potentially responsible parties for the costs of remedial actions at RIRRC's superfund site. For more detailed information, a copy of the financial statements can be obtained by writing to R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919, or at [www.rirrc.org](http://www.rirrc.org).

*Quonset Development Corporation (QDC)*

This corporation was established in 2004 as a real estate development and management company for the Quonset Point/Davisville Industrial Park. Its purpose is to promote the preservation, expansion, and development of new and existing industry and business, in order to stimulate and support diverse employment opportunities in the State. The State has provided funding for certain capital improvements required at the industrial park to aid in its expansion and development. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Director, Quonset Development Corporation, 95 Cripe Street, North Kingstown, RI 02852 or at [www.quonset.com](http://www.quonset.com).

*The Metropolitan Regional Career and Technical Center*

The Metropolitan Regional Career and Technical Center (The Met) is a State funded, local education agency established by the R.I. Department of Education under the Rhode Island General Laws. The Met serves approximately 800 students statewide in grades 9-12. It is governed by a board of trustees that is appointed by the State's Board of Education. The Met is funded primarily through State appropriations and federal grant funds. In addition, it conducts its operations in facilities that are owned by the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, The Metropolitan Regional Career and Technical Center, 325 Public Street, Providence, RI 02905.

*Rhode Island Infrastructure Bank (RIIB)*

This agency was established in 1989 as the R.I. Clean Water Finance Agency for the purpose of providing financial assistance in the form of loans to municipalities, businesses and homeowners in the State for the

construction or upgrading of water pollution abatement, energy efficiency, brownfield remediation and climate resiliency projects. RIIB receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. In conjunction with the creation of the Municipal Road and Bridge Revolving Fund (MRBRF) which was established to provide municipalities with low-cost financial assistance for road and bridge projects, the agency name was changed to the Rhode Island Infrastructure Bank. RIIB is considered to be a discretely presented component unit due in large part to its management of the MRBRF on behalf of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Infrastructure Bank, 235 Promenade Street, Suite 119, Providence, RI 02908 or at [www.riib.org](http://www.riib.org).

#### *Rhode Island Health and Educational Building Corporation (RIHEBC)*

RIHEBC was established to assist eligible institutions in the educational and healthcare fields in Rhode Island in gaining access to capital. RIHEBC also remains proactive in developing cost-effective programs, offering staff assistance, and providing technical resources that benefit these institutions. RIHEBC also assists the State in administering the School Building Authority Capital Fund (SBACF) in order to address high priority local school capital projects in communities with limited financial resources. RIHEBC has administrative duties related to the management and custody of monetary assets of the SBACF, including establishing a trust to hold related funds, creating and maintaining SBACF's accounting records and the distribution and management of SBACF's award and loan programs. RIHEBC was determined to be a discretely presented component unit largely due to its support in administering the SBACF.

For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, Rhode Island Health and Educational Building Corporation, 50 Dorrance Street, Suite 300, Providence, RI 02903 or at [www.rihebc.com](http://www.rihebc.com).

#### **Related Organizations**

The Rhode Island Student Loan Authority and Narragansett Bay Commission are "related organizations" of the State under GAAP as defined by GASB. The State is responsible for appointing a voting majority of the members of each entity's board, however, the State's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the State and therefore are not included in these financial statements.

### **C. Financial Statement Presentation**

#### **Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position 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 Position presents the reporting entity's nonfiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. The net position is reported in three categories:

**Net investment in capital assets** – This category reflects the portion of net position associated with capital assets, net of accumulated depreciation and the amount of outstanding bonds and other debt attributable to the acquisition, construction or improvement of those assets.

**Restricted** – This category represents the portion of net position whose use is subject to constraints that are either a) imposed externally by creditors, grantors or contributors, or b) imposed by law through constitutional provisions or enabling legislation.

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**Unrestricted** – This category represents the portion of net position that does not meet the definition of the two preceding categories. The use of the unrestricted net position is often subject to constraints imposed by management, but such constraints can be removed or modified.

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

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

### **Fund Financial Statements**

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

The State reports the following fund types:

#### **Governmental Fund Types**

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

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

*Debt Service Funds* - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated or when financial resources are being accumulated for principal and interest maturing in future years.

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

#### **Proprietary Fund Types**

*Internal Service Funds* - These funds account for, among other things, employee medical benefits, State fleet management, unemployment and workers' compensation for State employees, human resources administration, facilities maintenance, information technology, prison industry operations, surplus property, telecommunications and other utilities, and records maintenance.

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

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## Fiduciary Fund Types

### *Pension and Other Employee Benefit Trust Funds*

*Pension Trust Funds* - These funds account for the activities of the Employees' Retirement System, Municipal Employees' Retirement System, State Police Retirement Benefit Trust, Judicial Retirement Benefit Trust, Rhode Island Judicial Retirement Fund Trust, State Police Retirement Fund Trust, Teachers' Survivors Benefit Plan, FICA Alternative Retirement Income Security Program, and the defined contribution retirement plan, which all accumulate resources for pension benefit payments to eligible retirees.

*Other Employee Benefit Trust Funds* - These funds account for the activities of the Rhode Island State Employees' and Electing Teachers OPEB System, which accumulates resources to provide postemployment health care benefits to eligible retirees.

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

### *Private Purpose Trust Funds*

The Rhode Island Higher Education Savings Trust (RIHEST) administers the CollegeBound Saver fund which was established as part of the Rhode Island Tuition Savings Program (Program) to enable residents of any state to save money on a tax-advantaged basis, to pay qualified higher education expenses of their designated beneficiaries. All assets of the Program are held for the benefit of Program participants.

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

*Agency Funds* - These funds account for assets held by the State pending distribution to others, assets pledged to the State as required by statute, and health insurance for certain employees and retirees of a component unit.

In accordance with GAAP for government as prescribed by the GASB, the focus in the fund financial statements is on major and nonmajor funds rather than on fund type. The general fund is a major fund. Other governmental funds and enterprise funds are evaluated on these criteria:

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

## Major Funds

### Governmental Funds:

#### *General Fund*

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

#### *Intermodal Surface Transportation Fund*

This fund accounts for the collection of the gasoline tax, federal grants, bond proceeds, Rhode Island Capital Plan funds, tolls and certain motor vehicle registration and licensing surcharges, that are used in maintenance,



upgrading, and construction of the State's highway system. It also accounts for the proceeds from the Grant Anticipation Revenue Vehicle (GARVEE) bonds, the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, the Mission 360 Loan Program, RI Bridge Maintenance Fund tolls, and related expenditures. Management considers this a major fund regardless of the above criteria.

Proprietary Funds:

*Rhode Island Lottery*

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

*Rhode Island Convention Center Authority (RICCA)*

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

*Employment Security Fund*

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

**D. Measurement Focus and Basis of Accounting**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Taxes, grants and donations are nonexchange transactions, in which the State receives value without directly giving equal value in exchange. Tax revenue is recognized in the fiscal year in which the related sales, wages, or activity being taxed occurred.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

All proprietary and trust funds are accounted for using the economic resources measurement focus. With this measurement focus, all assets, liabilities, deferred outflows of resources, and deferred inflows of resources associated with the operations of these funds are included on their respective statements of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

All proprietary and trust funds are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

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

Agency funds are a type of fiduciary fund used to account for the assets held for distribution by the State as an agent for another entity for which the government has custodial responsibility and accounts for the flow of assets. Agency funds have no measurement focus. In an agency fund financial statement, assets equal liabilities and there is no net position.

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

#### **E. Cash and Cash Equivalents**

Cash represents amounts in demand deposit accounts with financial institutions. Cash equivalents are highly liquid investments with a maturity of three months or less at the time of purchase. Cash equivalents are stated at cost, which approximates fair value except for those of the Ocean State Investment Pool and other money market mutual funds which are stated at amortized cost, which approximates fair value.

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

#### **F. Funds on Deposit with Fiscal Agent**

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

#### **G. Investments**

Investments have a maturity of more than three months and are generally stated at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

#### **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 (amounts not expected to be collected in the next twelve months) is also reflected.

#### **I. Due From Other Governments and Agencies**

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

#### **J. Interfund Activity**

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity, on the government-wide financial statements. However, in order to avoid distorting

the direct costs and program revenues of the applicable functions, interfund services provided and used between different functional categories have not been eliminated.

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

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

**K. Inventories**

Inventory type items acquired by governmental funds are accounted for as expenditures at the time of purchase. Inventories of the proprietary funds are stated at cost (first-in, first-out). Certain inventories of the University and Colleges are held for resale, and are stated at the lower of cost or market (retail inventory method). Other University and Colleges' inventory consists of supplies and are stated at cost (first in, first out). All inventories of the University and Colleges consist primarily of bookstore and dining, health and residential life services items. Inventories of all other component units are stated at cost.

**L. Capital Assets**

Capital assets, which include land, intangible assets not being amortized, construction in progress, land improvements, buildings, building improvements, furniture and equipment (which also includes subcategories for vehicles and computer systems), depreciable intangibles (computer software), and infrastructure (e.g., roads, bridges, dams, piers) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets, donated works of art and similar items are reported at acquisition value. Acquisition value is defined as the price that would be paid to acquire an asset with equivalent service potential in an orderly market transaction at the acquisition date. Intangible assets not being amortized consist mostly of perpetual land rights such as conservation, recreational, and agricultural easements.

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

<u>Asset Category</u>	<u>Capitalization Thresholds</u>	<u>Estimated Useful Lives</u>
Capital Assets (Depreciable)		
Land improvements	\$1 million	20 years
Buildings	No minimum	20 - 50 years
Building Improvements	\$1 million	10 - 20 years
Furniture and equipment	\$5 thousand	3 - 10 years
Intangibles (including computer software)	\$2 million	5 - 10 years
Infrastructure	\$1 million	7 - 75 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest incurred during the construction of capital facilities is not capitalized, with the exception of the Convention Center Authority, an enterprise fund.

Capital assets acquired in the governmental funds are recorded as capital outlay expenditures in capital projects funds and current expenditures by function in other governmental fund financial statements. Depreciation and amortization are recorded in the government-wide financial statements, proprietary funds, fiduciary funds and component unit financial statements. Capital assets of the primary government are depreciated using the straight-line method over the assets' estimated useful lives.

The State has recorded its investment in intangible assets, which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized. Intangible assets also include computer software, which is amortized over a 5-10 year period. The State has included its investment in intangible assets within Note 5, Capital Assets.

The State recognizes and records liabilities and deferred outflows of resources related to legal obligations to perform future asset retirement activities in accordance with GASB Statement No. 83 *Certain Asset Retirement Obligations*. The related deferred outflows of resources are amortized over the estimated useful remaining life of the underlying assets.

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

#### **M. Bonds Payable**

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

For proprietary fund types and component units, bond discounts, premiums and deferred gains and losses on refundings are generally deferred and amortized over the term of the bonds using the interest method.

Bond premiums and discounts are presented as adjustments to the face amount of the bonds payable. Deferred gains and losses on refundings are presented as either deferred inflows of resources or deferred outflows of resources.

#### **N. Obligations Under Capital Leases**

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

#### **O. Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) cost-sharing plan and the single-employer plans administered by the Employees' Retirement System of Rhode Island (System) and the additions to and deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the System. The primary government's proportionate share of pension amounts were further allocated to proprietary funds (the Lottery) based on the amount of employer contributions paid by each proprietary fund. For this purpose, benefit payments (including refunds of employee contributions), are recognized when due and payable and in accordance with the benefit terms. Investments are recorded at fair value.

As more fully explained in Note 17, a special funding situation exists with respect to local teachers for which the State funds 40% of actuarially determined contributions to the ERS plan. Accordingly, the financial statements reflect the State's proportionate share of the net pension liability, pension expense and deferred inflows/outflows related to this special funding situation.

As of the June 30, 2018 measurement date, the State administered one non-contributory (pay-as-you-go) plan covering certain retired judges. For the plan, the provisions of GASB Statement No. 73 have been implemented which are largely consistent with the provisions of GASB Statement No. 68 regarding recognition of the pension liability, pension expense and deferred inflows/outflows except there is no fiduciary net position accumulated to offset the total pension liability, and no employer contributions are made other than the amount needed to provide benefits on a pay-as-you-go basis. See Note 17 for complete details of the State's reporting of this plan.

For certain employees participating in the LIUNA defined benefit pension plan (a non-governmental union sponsored plan), there is no required employer contribution and no pension expense is recorded in the financial statements. Consistent with the provisions of GASB Statement No. 78, which provides an exception for non-governmental sponsored plans, no determination of the proportionate net pension liability, pension expense, or deferred inflows or outflows, if any, is made for this cost-sharing defined benefit pension plan.

#### **P. Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability (asset), deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Employees' and Electing Teachers OPEB System of the State of Rhode Island (the System) and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, the System recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments that have a maturity at the time of purchase of one year or less, which are reported at amortized cost which approximates fair value.

#### **Q. Compensated Absences**

Vacation pay may be discharged, subject to limitations as to carry-over from year to year, by future paid leave or by cash payment upon termination of service. Sick pay may be discharged by payment for an employee's future absence caused by illness or, to the extent of vested rights, by cash payment upon death or retirement. Also, an additional category of leave obligation has been established as a result of pay reductions taken by certain classes of employees. For governmental fund types, such obligations are recognized when paid. For the government-wide financial statements and proprietary fund types, they are recorded as liabilities when earned.

#### **R. Other Assets and Liabilities**

Other assets reported within the primary government mainly consist of deposits required by contract with the State's healthcare claims administrator. Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, and arbitrage and interest payable for the component units.

#### **S. Fund Balances**

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

- Nonspendable – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, or (c) by law through enabling legislation enacted by the General Assembly.
- Committed – amounts that can only be used for specific purposes as established through the enactment of legislation by the General Assembly, and that remain binding unless modified or

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rescinded through subsequent legislative action. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.

- Assigned – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor.
- Unassigned – the residual classification for the State's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

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

#### T. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2019, the State adopted the following new accounting standards issued by GASB:

- GASB Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- GASB Statement No. 90, *Majority Equity Interests-an amendment of GASB Statements No. 14 and No. 61*

The implementation of GASB Statement No. 83 improves accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize the deferred outflow of resources and a corresponding liability based on the guidance in this Statement. At June 30, 2019 the State has recorded ARO liabilities and related deferred outflows of resources as required by GASB Statement No. 83. This statement required restatement of beginning balances.

GASB Statement No. 88 defines debt for purposes of disclosure in financial statement notes and clarifies which liabilities governments should include when disclosing information related to debt, including direct borrowings and direct placements. The Statement also requires additional footnote disclosure related to debt including that existing and additional information be provided separately for direct borrowings and direct payments of debt. This statement had no material impact on the Primary Government's fiscal 2019 financial statements but did impact the financial statement disclosures for certain discretely presented component units.

The implementation of GASB Statements No. 90 had no material impact on the State's financial statements.

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

GASB Statement No. 84, *Fiduciary Activities*, will be effective for reporting periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

GASB Statement No. 87, *Leases*, will be effective for reporting periods beginning after December 15, 2019. This Statement requires a lessee to recognize a lease liability and an intangible right to use leased assets. The lessor is required to recognize a lease receivable and a deferred inflow of resources.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, will be effective for reporting periods beginning after December 15, 2019. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period. Additionally, the standard simplifies accounting for interest cost incurred before the end of a construction period.

GASB Statement No. 91, *Conduit Debt Obligations*, will be effective for reporting periods beginning after December 15, 2020. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with commitments extended by issuers, arrangements associated with conduit debt obligations, and related note disclosures. Additionally, this Statement improves the comparability of financial reporting for issuers by eliminating the option to recognize a liability for a conduit debt obligation.

Management has not yet determined the effect that the above GASB statements will have on the financial statements.

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

### A. Primary Government-Governmental and Business-Type Activities

#### Cash Deposits

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

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to 100% 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 100% of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2019 pursuant to this statutory provision. However, the State Investment Commission has instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to amounts ranging from 100%-102% of the balance of uninsured deposits. The percentage of collateral required is determined by the underlying classification of the collateral. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments require collateral ranging from 100%-102% of the outstanding balance. The percentage of collateral required is determined by the underlying classification of the collateral. The lone exception to the full collateralization requirement is the Ocean State Investment Pool Trust (OSIP or the Trust), which follows the 60 day time deposit rule, but otherwise does not require full collateralization. The investment objective of the OSIP's Cash Portfolio is to seek to obtain as high a level of current income as is generally consistent with the preservation of principal and liquidity within the OSIP's investment guidelines which are consistent with GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. While investment in the pool is not guaranteed or fully collateralized, certain investments within the pool are collateralized. At June 30, 2019, of the \$431.4 million invested, \$60.3 million were Collateralized Repurchase Agreements.

All of the bank balances of the primary government and its blended component units were either covered by federal depository insurance, collateralized by securities held by an independent third party in the State's or the blended component unit's name, or collateralized by a Federal Home Loan Bank Letter of Credit in the State's or the blended component unit's name.

#### Cash Equivalents and Investments

The State Investment Commission (Commission) is responsible for the investment of all State funds. Pursuant to Chapter 35-10 of the General Laws, the Commission may, in general, "invest in securities as would be

acquired by prudent persons of discretion and intelligence in these matters who are seeking a reasonable income and the preservation of their capital.”

The Ocean State Investment Pool Cash Portfolio (the Cash Portfolio) is a portfolio of the Ocean State Investment Pool Trust, which is an investment pool established by the General Treasurer of the State of Rhode Island under Declaration of Trust, dated January 25, 2012, under the Rhode Island Local Government Investment Pool Act, G.L. 35-10.2, of the Rhode Island General Laws as amended, for the purpose of investing funds of, and funds under custody of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State of Rhode Island. The Cash Portfolio, which began operations on March 6, 2012, is not registered with the Securities and Exchange Commission (SEC) as an investment company, but maintains a policy to operate in a manner consistent with GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*.

OSIP has met the criteria outlined in GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants* to permit election to report its investments at amortized cost which approximates fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool is not to exceed 60 days. OSIP transacts with its participants at a stable net asset value (“NAV”) per share. Investments reported at NAV are not subject to the fair value hierarchy. There are no participant withdrawal limitations.

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

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

### **Fair Value of Financial Instruments**

GASB Statement No. 72—*Fair Value Measurement and Application*—establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available, of how the market would price the asset or liability. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 - Unadjusted quoted priced in active markets that are accessible at the measurement date for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices in active markets for identical assets and liabilities that are observable either directly or indirectly for substantially the full term of the asset or liability.
- Level 3 - Unobservable inputs for the asset or liability (supported by little or no market activity). Level 3 inputs include management's own assumption about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk).

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.



Following is a description of the State's cash equivalents and investments (expressed in thousands) at June 30, 2019:

**Pooled cash equivalents (at amortized cost)**

Financial Company Commercial Paper	\$ 205,069
Other Commercial Paper	12,985
Asset Backed Commercial Paper	48,029
U.S. Government Agency Repurchase Agreement	46,288
U.S. Treasury repurchase agreement	12,000
Other Repurchase Agreements	2,000
U.S. Treasury Debt	3,996
Certificates of Deposit	23,916
Non-Negotiable Time Deposit	41,000
Other Instruments	4,000
Total Investments	<u>399,283</u>
Add: receivable for investments sold	32,204
Less: other liabilities in excess of other assets	(134)
Total investment pool	<u>431,353</u>

**Less: funds held by fiduciary funds and discretely presented component units**

Amounts held by fiduciary trust funds:

OPEB trust	1,253
Pension trust	104

Amounts held by discretely presented component units:

URI	38,620
RIIB	15,620
RIC	5,120
RIIRBA	756
RIHEBC	7,119
RIPTA	4,301

Amounts held for external parties

33,745

**Primary government pooled cash equivalents**

\$ 324,715

**Add: other primary government cash equivalents and investments**

Money Market Mutual Funds	54,214
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**Total primary government cash equivalents and investments**

\$ 378,929

Cash equivalents and investments	\$ 378,929
Cash deposits and interest bearing deposits	382,634
Total cash, cash equivalents and investments	<u>\$ 761,563</u>

Statement of Net Position

Cash and cash equivalents	\$ 691,838
Restricted cash and cash equivalents	69,725
Total cash, cash equivalents and investments	<u><u>\$ 761,563</u></u>

Of the State's restricted cash and cash equivalents totaling \$69.7 million, \$51.4 million is held by the Tobacco Settlement Financing Corporation and \$18.3 million is held by the R.I. Convention Center Authority. Both entities are blended component units.

Investments held within the OSIP pooled trust are valued and net asset value per unit (NAV) is calculated daily. The OSIP pooled trust categorizes the inputs to valuation techniques used to value its investments into a disclosure hierarchy consisting of three levels as described previously. The securities held within the OSIP pooled trust are valued at amortized cost, which approximates fair value. Securities held within the OSIP pooled trust are generally high quality and liquid; however, they are reflected as Level 2 in the hierarchy because the inputs used to determine fair value are not quoted prices in an active market.

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

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

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

As of June 30, 2019, information about the State's exposure to interest rate risk for pooled cash equivalents and investments (expressed in thousands) is as follows:

Investment Maturities (in days)

Investment Type	Fair Value	Amortized Cost	0-30	31-90	91-180	181-397
Financial Company Commercial Paper	\$205,099	\$ 205,069	\$ 12,624	\$124,492	\$ 41,953	\$ 26,000
Other Commercial Paper	12,982	12,985	12,985	—	—	—
Asset Backed Commercial Paper	48,028	48,029	7,232	38,810	1,987	—
U.S. Government Agency Repurchase Agreements	46,288	46,288	46,288	—	—	—
U.S. Treasury Repurchase Agreement	12,000	12,000	12,000	—	—	—
Other Repurchase Agreements	2,000	2,000	2,000	—	—	—
U.S. Treasury Debt	3,997	3,996	2,298	1,698	—	—
Certificates of Deposit	23,916	23,916	23,916	—	—	—
Non-Negotiable Time Deposit	41,000	41,000	41,000	—	—	—
Other Instruments	4,000	4,000	4,000	—	—	—
	<u>\$399,310</u>	<u>\$ 399,283</u>	<u>\$164,343</u>	<u>\$165,000</u>	<u>\$ 43,940</u>	<u>\$ 26,000</u>

At June 30, 2019 information on investment ratings for pooled cash equivalents and investments (expressed in thousands) is as follows:

Investment Type	Quality Ratings (1)				
	At Fair Value	Total Amortized Cost	A-1+	A-1	A-2
Financial Company Commercial Paper	\$ 205,099	\$ 205,069	\$ 133,397	\$ 71,672	\$ —
Other Commercial Paper	12,982	12,985	—	10,986	1,999
Asset Backed Commercial Paper	48,028	48,029	—	48,029	—
U.S. Government Agency Repurchase Agreements	46,288	46,288	38,288	8,000	—
U.S. Treasury Repurchase Agreements	12,000	12,000	9,000	3,000	—
Other Repurchase Agreements	2,000	2,000	2,000	—	—
U.S. Treasury Debt	3,997	3,996	3,996	—	—
Certificates of Deposit	23,916	23,916	18,916	5,000	—
Non-Negotiable Time Deposit	41,000	41,000	26,000	15,000	—
Other Instruments	4,000	4,000	4,000	—	—
	<u>\$ 399,310</u>	<u>\$ 399,283</u>	<u>\$ 235,597</u>	<u>\$ 161,687</u>	<u>\$ 1,999</u>

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

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

As of June 30, 2019, information about the State's exposure to interest rate risk and credit risk for non-pooled cash equivalents and investments (expressed in thousands) is as follows:

All the non-pooled cash equivalents and investments have a maturity date of less than one year.

Issuer	Fair Value (in thousands)	Type of Investment	Moody's Rating	Average Maturities in Days
Money Market Mutual Funds				
Fidelity Institutional Money Market Government Portfolio Class I and III	\$ 2,427	Money Market	AAA-mf	24
BlackRock Federal Fund Institutional Shares	99	Money Market	Aaa-mf	32
GS Financial Square Treasury Instruments Fund	51,688	Money Market	Aaa-mf	44
	<u>\$ 54,214</u>			

Money market mutual funds are used as temporary cash management investments. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable \$1 per unit. The underlying investments, which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

### Funds on Deposit with Fiscal Agent

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

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2019 and the breakdown by maturity are as follows:

Investment Type	Fair Value	Less Than 1 year	1-5 years
U.S. Treasuries	\$ 20,983	\$ 20,983	\$ —
U.S. Government Agencies	34,431	34,431	—
Money Market Funds	91,417	91,417	—
Commercial Paper	46,415	46,415	—
Negotiable Certificates of Deposit	35,870	35,870	—
Investment Contracts	2,682	2,682	—
	<u>\$ 231,798</u>	<u>\$ 231,798</u>	<u>\$ —</u>
Cash	97,408		
Funds on Deposit with fiscal agent	<u>\$ 329,206</u>		

Cash includes \$97.2 million in uninsured and uncollateralized cash reserve funds on deposit with the fiscal agent.

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

Issuer	Fair Value	Moody's Rating	Maturities in Days
U.S. Treasury Notes/Bonds	\$ 20,983	Aaa	see detail above
U.S. Government Agency Securities	34,431	Aaa	see detail above
Money Market Funds			
Dreyfus Government Cash Management Fund	70,446	Aaa-mf	15
Dreyfus Treasury & Agency Cash Management	2,333	Aaa-mf	13
Fidelity Investments Money Market Government Portfolio - Class III	6,896	Aaa-mf	24
First American Government Obligations Fund Class D	11,730	Aaa-mf	19
Invesco Government & Agency Portfolio - Short-Term	12	Aaa-mf	17
Commercial Paper			
Natixis NY BRH DISC CO	6,492	P-1	17
Prudential FDG LLC DISC	9,000	P-1	15
Bank Montreal Chicago	8,989	P-1	16
BNP Paribas New York	6,483	P-1	37
MUFG Bank New York	5,967	P-1	85
Toyota Motor Corporation	9,484	P-1	25
Certificates of Deposit			
Royal BK CDA NY BRH INSTL	5,001	P-1	16
Cooperatieve Centrale Raiff	6,019	P-1	29
Norinchukin BK NEW YORK BRH	2,100	P-1	8
Norinchukin BK NEW YORK BRH	3,000	P-1	82
Sumitomo Mitsui Banking Corporation	3,750	P-1	67
Sumitomo Mitsui Banking Corporation	3,500	P-1	18
Toronto Dominion Bank	6,000	P-1	37
Societe Generale	6,500	P-1	37
Investment Contracts			
FSA Capital Management GIC	2,682	N/A	N/A
	<u>\$ 231,798</u>		

The following (expressed in thousands) represents the fair value of investments by type held by the fiscal agent at June 30, 2019:

		<u>Quoted Prices in Active Markets for Identical Assets</u>	<u>Significant Other Observable Inputs</u>
		(Level 1)	(Level 2)
<b><u>Investments at Fair Value</u></b>			
<b>Debt Securities</b>			
U.S. Treasuries	\$ 20,983	\$ 20,983	\$ —
U.S. Government Agencies	34,431	—	34,431
Commercial Paper	46,415	—	46,415
Negotiable Certificates of Deposit	35,870	—	35,870
Total investments by fair value level	\$ 137,699	<u>\$ 20,983</u>	<u>\$ 116,716</u>
<b>Investments Measured at Net Asset Value (NAV)</b>			
Money Market Mutual Funds	91,417		
<b>Investments not Subject to Leveling Requirements</b>			
Guaranteed Investment Contract	<u>2,682</u>		
Total Funds on Deposit with Fiscal Agent	<u>\$ 231,798</u>		

Money market mutual funds are used as temporary cash management investments. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable \$1 per unit. The underlying investments, which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

Funds on deposit with fiscal agent also include approximately \$493 million held by the Federal Unemployment Insurance Trust Fund within the Business-Type Activities-Employment Security Fund.

## B. Concentration of Credit Risk

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

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

Type	Issuer	Amount	Percentage
Money Market Funds	Dreyfus Government Cash Management Fund	\$ 70,446	11.53%
Money Market Funds	GS Financial Square Treasury Instruments Fund	\$ 51,688	8.46%

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## C. Pension Trusts

### Summary of Significant Accounting Policies

**Investments** - Investment transactions are recorded on a trade date basis. Gains or losses on foreign currency exchange contracts are included in income consistent with changes in the underlying exchange rates. Dividend income is recorded on the ex-dividend date.

**Method Used to Value Investments** - Investments are recorded in the financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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

Commingled funds include institutional domestic equity index and international equity index funds. The fair value of these commingled funds is based on the reported net asset value (NAV) based upon the fair value of the underlying securities or assets held in the fund.

Derivative investments (e.g., futures contracts and credit default swaps) are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

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

Other investments that are not traded on a national security exchange (primarily private equity, real estate, hedge funds, infrastructure investments, and Crisis Protection Class - Trend Following) are valued based on the reported Net Asset Value (NAV) by the fund manager or general partner. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner following U.S. generally accepted accounting principles. Financial Accounting Standards Board ASC Topic 820, *Fair Value Measurements and Disclosures*, requires the limited partnership general partners for these investment types to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information.

Hedge funds, private equity, real estate, infrastructure and crisis protection class - trend following investments represented 6.8%, 9.6%, 6.0%, 2.0%, and 3.8% respectively of the total reported fair value of all pooled pension trust investments at June 30, 2019.

**Investment Expenses** - Investment expenses include investment consultant fees, custodial fees, direct investment expenses paid to managers, and certain indirect expenses allocated by managers to fund or partnership investors. Certain Office of the General Treasurer expenses associated with oversight of the pooled investment trust are also allocated and included as investment expenses. When indirect investment expenses for certain types of investments (e.g., hedge funds, private equity, real estate, infrastructure, and crisis protection class), are not reported separately to System management and the investment custodian, additional information is obtained to allow reporting of the System's share of such indirect investment expenses on a gross fee basis.

Net investment income within the defined contribution plan is reported on a net-of-fees basis.

At June 30, 2019, the carrying amount of pension trust cash deposits was approximately \$4.4 million and the bank balance was approximately \$4.5 million. The bank and book balances represent the plans' deposits in short-term trust accounts, which include demand deposit accounts and interest-bearing, collateralized

bank deposit accounts. The bank balances, include interest-bearing collateralized bank deposits and are either federally insured or collateralized (102%) with U.S. Treasury, agencies, and federal home loan bank letters of credit held by a third party custodian.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to 100% 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 100% of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2019 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance unless FHLB letters of credit are used as collateral, in which case those are required at 100%.

**Investments**

**(a). General**

The custodian bank holds assets of the Employees' Retirement System in a Pooled Investment Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

**Investment Policy** - The State Investment Commission (SIC) oversees all investments made by the State of Rhode Island, including those made for the System's Pooled Investment Trust. The establishment of the SIC, its legal authority and investment powers are outlined in Chapter 35-10 of the Rhode Island General Laws.

The SIC has adopted a Defined Benefit Investment Policy Statement which includes specific asset allocation targets and asset class policies. The most recent policy statement was adopted by the SIC on June 27, 2018 and may be amended by a majority vote of SIC members. The SIC's asset allocation policy seeks to achieve the assumed rate of return adopted by the System over the long-term while reducing risk through the prudent diversification of the portfolio across various asset classes.

The following was the SIC's adopted asset allocation policy targets for the Employees' Retirement System as of June 30, 2019:

Asset Class	Target Asset Allocation
<b><i>GROWTH</i></b>	
Global Equity	40.0%
Private Growth	15.0%
<b><i>INCOME</i></b>	
	8.0%
<b><i>STABILITY</i></b>	
Crisis Protection Class	8.0%
Inflation Protection	8.0%
Volatility Protection	21.0%
<b>Total</b>	<b>100.0%</b>

Consistent with a target asset allocation model adopted by the State Investment Commission (SIC), the System directs its separate-account investment managers to maintain, within the mandate specified by



the SIC, diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

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

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

The following table presents the fair value of investments by type that are held within the Pooled Investment Trust for the defined benefit plans at June 30, 2019:

<b>Investment Type</b>	<b>Fair Value (in thousands)</b>
Cash and Cash Equivalents:	
US Cash	\$ 15,274
Commercial Paper	19,787
Non-US Cash	10,820
Money Market Mutual Funds	102,404
US Government Securities	904,742
US Government Agency Securities	250,252
Non-US Government Securities	4,994
Collateralized Mortgage Obligations	19,444
Corporate Bonds	557,534
Term Loans	158,517
Commingled Funds - International Equity	1,225,772
Domestic Equity Securities	2,214,826
International Equity Securities	493,377
Private Equity	814,975
Real Estate	510,417
Hedge Funds	581,552
Crisis Protection Class - Trend Following - Limited partnerships	323,714
Infrastructure	286,580
Derivatives:	
Futures	1,390
Credit Default Swaps	190
Total Return Swaps	56
<b>Investments at Fair Value</b>	<b>\$ 8,496,617</b>
Investment receivable	284,200
Investment payable	(269,465)
<b>Total Pooled Investment Trust</b>	<b>\$ 8,511,352</b>

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**(b) Fair Value Hierarchy**

The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels:

Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 inputs are other than quoted prices included within Level 1-that are observable for an asset or liability, either directly or indirectly.

Level 3 includes unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

**Investments and Derivative Instruments Measured at Fair Value**

Investments at Fair Value	Fair Value June 30, 2019	Quoted Prices in Active Market for Identical Assets (level 1)	Significant Other Observable Inputs (level 2)	Significant Unobservable Inputs (level 3)
<b><u>Equity Investments</u></b>				
Global Equity	\$ 2,708,259	\$ 2,708,259	\$ —	\$ —
Infrastructure-publicly traded	115,646	115,646	—	—
	<u>\$ 2,823,905</u>	<u>\$ 2,823,905</u>	<u>\$ —</u>	<u>\$ —</u>
<b><u>Fixed Income</u></b>				
US Government Securities	\$ 904,742	\$ 904,742	\$ —	\$ —
US Government Agency Securities	250,252	—	250,252	—
Non - US Government Securities	4,994	—	4,994	—
Corporate Bonds	557,534	—	557,534	—
Collateralized Mortgage Obligations	19,444	—	19,444	—
Term loans	158,517	—	—	158,517
	<u>\$ 1,895,483</u>	<u>\$ 904,742</u>	<u>\$ 832,224</u>	<u>\$ 158,517</u>
<b><u>Derivative Investments</u></b>				
Equity and Fixed Income Index Futures	\$ 1,390	\$ 1,390	\$ —	\$ —
Other Derivatives	190	—	190	—
	<u>\$ 1,580</u>	<u>\$ 1,390</u>	<u>\$ 190</u>	<u>\$ —</u>
<b>Commercial Paper</b>	<u>\$ 19,787</u>	<u>\$ —</u>	<u>\$ 19,787</u>	<u>\$ —</u>
<b>Total Investment at Fair Value Level</b>	<u>\$ 4,740,755</u>	<u>\$ 3,730,037</u>	<u>\$ 852,201</u>	<u>\$ 158,517</u>
<b><u>Investments Measured at Net Asset Value (NAV)</u></b>				
Money Market Mutual Funds	\$ 102,404			
Commingled Funds - International Equity	1,225,772			
Hedge Funds	581,552			
Private Equity	814,975			
Real Estate	510,417			
Private Infrastructure	170,934			
Crisis Protection Class - Trend Following	323,714			
	<u>\$ 3,729,768</u>			
<b><u>Cash and Cash Equivalents</u></b>				
US Cash	\$ 15,274			
Non US Cash	10,820			
	<u>\$ 26,094</u>			
<b>Net Investment Receivable</b>	<u>14,735</u>			
<b>Total Pooled Investment Trust</b>	<u>\$ 8,511,352</u>			

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Term loans classified in Level 3 are valued using consensus pricing.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates and foreign exchange rates.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

	Fair Value	Unfunded Commitments	Redemption (if currently eligible)	Redemption Notice Period
Money Market Mutual Funds(1)	\$ 102,404	\$ —	daily	none
Commingled Funds - International Equity (2)	1,225,772	—	daily	see note below
Hedge Funds (3)	581,552	—	see note below	see note below
Private Equity (4)	814,975	750,987	see note below	see note below
Real Estate (5)	510,417	92,820	see note below	see note below
Infrastructure Investments (6)	170,934	128,670	see note below	see note below
Crisis Protection Class - Trend Following (7)	323,714	—	see note below	see note below
	<u>\$ 3,729,768</u>	<u>\$ 972,477</u>		

- (1) **Money market mutual funds** - these investments are used as temporary cash management investments for amounts pending investment or for amounts liquidated from investments pending distribution for pension benefits. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable \$1 per unit. The underlying investments which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no withdrawal limitations for the money market mutual funds.
- (2) **Commingled funds** - consist of three international equity index funds which are intended to replicate the performance of a specific index; e.g., MSCI EAFE. The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the commingled fund manager which reflects the exchange pricing of the equity holdings within each fund. The international equity commingled funds may only be redeemed at scheduled intervals twice per month.
- (3) **Hedge funds** - this portfolio is comprised of 7 limited partnerships divided into two sub-categories: global equity and absolute return. Global equity funds are designed to benefit from the stock market with considerably less risk. They own stakes in companies they expect to outperform and also sell short stocks that they expect to underperform. Absolute return hedge funds employ strategies that seek to generate long-term returns and mitigate risk, regardless of broader market moves. The funds invest across asset classes, including government bonds, other fixed income securities, equity indexes, commodities, and currencies.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2019. Of the underlying holdings within the hedge funds approximately 64% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments).

The system's investments in hedge funds are generally subject to "lock-up" provisions that limit (subject to certain exceptions) the ability to withdraw amounts previously invested for a period of one to three years after the initial investment. At June 30, 2019, investments totaling approximately \$1.5 million are subject to these withdrawal limitation provisions. The remainder of hedge fund assets is available for redemption on a month-end, quarter-end, semi-annual or annual basis, and is subject to notice periods which vary by fund and range from 2 days to 75 days.

- (4) **Private equity** - these 93 limited partnership funds provide the portfolio exposure to private companies through equity and/or debt investments. Private equity fund managers invest in private companies with the goal of enhancing their value over the long-term.

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The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2019.

Private equity - the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

- (5) **Real Estate** - these 15 limited partnerships investments are comprised of two different private real estate equity components, Core and Non-Core, which generally refer to the relative levels of risk in the underlying assets. Core investments include existing, substantially leased, income-producing properties located principally in economically diversified metropolitan areas. Non-Core investments represent those properties and/or investment strategies that require specialized acquisition and management expertise and skill to mitigate the business and leasing risks that may be associated with individual investments. Non-Core investments, which may be referred to as Value Added and Opportunistic investments, are expected to be held for shorter periods, have greater volatility compared to Core investments, and as such, are expected to provide yields higher than those associated with Core investments.

These funds acquire, manage and sell physical properties, including office, retail, apartment, and industrial buildings as well as more niche property types, such as student housing, self-storage and hotels. The primary goals of this asset class are to provide current income, risk-adjusted total returns, and diversification.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2019.

With the exception of four core open-end funds which allow for quarterly redemptions, the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

- (6) **Infrastructure** - These seven funds provide inflation-protection and current income to the portfolio through investments in facilities and services required for an economy to function including electricity production and distribution, pipelines, sewers and waste management, airports, roads, bridges, ports, railroads, telephone and cable networks, and hospitals. The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2019.

With the exception of one open-end core fund which allows for quarterly liquidity, the investments cannot be redeemed. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

- (7) **Crisis Protection Class - Trend Following** - These three funds were created as limited liability companies with the Employees' Retirement System of the State of Rhode Island as the sole member. The investment managers' principal investment objectives for the companies include:

- providing diversified exposure to market trends across asset classes, geographies and time horizons to generate sizable profits during the periods when growth-risk exposed assets decline significantly;
- generating significant medium-term capital growth independent of overall movements in traditional stock and bond markets within a rigorous risk management framework; and
- outperforming the Credit Suisse Liquid Alternative Beta Managed Futures Index (CLABT18 Index) over a 5-year period.

The fair values of the investments in this type have been determined using the NAV per share of the investments as reported by the general partner at June 30, 2019. As the Employees' Retirement System of the State of Rhode Island is the sole member, the limited liability company could be liquidated

at its option. The nature of these investments provides for distributions through the liquidation of the underlying assets or net operating cash flows.

**(c) Rate of Return**

For the year ended June 30, 2019, the annual money-weighted returns on investments within each of the plans, net of investment expense, are shown in the following table. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

	ERS	TSB	MERS	SPRBT	JRBT	RIJRFT	SPRFT
Money-weighted rate of return - year ended June 30, 2019	6.54%	6.54%	6.56%	6.62%	6.60%	4.72%	8.91%

**(d) 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 sensitivity to fair value changes arising from changes in the level of interest rates. It is the weighted average maturity of a bond's cash flows.

The State Investment Commission has adopted a Defined Benefit Investment Policy Statement which includes specific asset allocation targets and asset class policies. While the policy statement includes guidelines governing interest rate risk for certain asset classes, fixed income managers are given specific guidelines regarding duration and investment maturity based on their specific investment objective. These guidelines reflect the manager's strategy and the System's overall asset allocation targets and related objectives.

The System 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 System are:

- Barclays US Aggregate Index
- Barclays US Treasury Inflation Notes - 1-10 Year Index
- Liquid Credit Custom BM: 50% BofA US High Yield Index + 50% Credit Suisse Leveraged Loan Index
- Long Duration BM: Barclays Long Duration US Treasury Index

At June 30, 2019, no fixed income manager was outside of their policy guidelines.

The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2019:

Investment Type	Fair Value (in thousands)	Effective Duration
US Government Agency Securities	\$ 250,252	2.88
US Government Securities	904,742	9.28
Non-US Government Securities	4,994	5.50
Collateralized Mortgage Obligations	19,444	2.84
Corporate Bonds	557,534	4.71
Commercial Paper	19,787	0.16
Term Loans	158,517	0.21
Total Fixed Income	<u>\$ 1,915,270</u>	6.20

The System had investments at June 30, 2019 totaling \$102 million in money market mutual funds including \$104 thousand in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer.

OSIP has met the criteria outlined in GASB Statement No. 79 - *Certain External Investment Pools and Pool Participants* to permit election to report its investments at amortized cost which approximates fair value. OSIP transacts with its participants at a stable net asset value (NAV) per share. Investments reported at the NAV are not subject to the leveling categorization as described above. There are no participant withdrawal limitations. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

The System's remaining money market mutual fund investments consisted of a short-term money market mutual fund that is not rated and held investments with a weighted average maturity of 80 days at June 30, 2019. The fund, by policy, holds only high-grade, highly liquid cash equivalent-type investments.

The System's investment in commercial paper totaling \$19,787,035 at June 30, 2019 had maturities ranging from 15 to 141 days.

The System invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only 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 System may invest in interest-only and principal-only strips in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to 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.

**(e) Credit Risk**

The State Investment Commission has adopted a Defined Benefit Investment Policy Statement which includes specific asset allocation targets and asset class policies. While the policy statement includes guidelines governing credit risk for certain asset classes, fixed income managers are given specific

guidelines regarding credit quality based on their specific investment objective. These guidelines reflect the manager's strategy and the System's overall asset allocation targets and related objectives.

The System manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for their portfolios and by establishing limits on the percentage of the portfolios that are invested in non-investment grade securities. The System's exposure to credit risk as of June 30, 2019 is as follows:

Rating	Collateralized	US Government			Non-US
	Mortgage Obligations	Agency Obligations	Corporate Bonds	Term Loans	Government Obligations
<b>Aaa</b>	\$ 19,444	\$ 239,100	\$ 25,718	\$ —	\$ —
<b>Aa</b>	—	—	49,090	—	3,252
<b>A</b>	—	—	133,667	—	1,742
<b>Baa</b>	—	840	209,229	5,762	—
<b>Ba</b>	—	—	62,285	64,572	—
<b>B</b>	—	—	48,365	82,531	—
<b>Caa</b>	—	—	16,759	1,731	—
<b>Ca</b>	—	—	—	—	—
<b>C</b>	—	—	44	—	—
<b>D</b>	—	—	242	—	—
<b>Not Rated</b>	—	10,312	12,135	3,921	—
<b>Fair Value</b>	<u>\$ 19,444</u>	<u>\$ 250,252</u>	<u>\$ 557,534</u>	<u>\$ 158,517</u>	<u>\$ 4,994</u>

*Ratings provided by Moody's Investors Service*

Investments in commercial paper totaling \$19,787,035 at June 30, 2019 were rated P1 except \$1.9 million is non-rated.

**(f) Concentration of Credit Risk**

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

**(g) Custodial Credit Risk**

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2019, all securities were registered in the name of the System (or in the nominee name of its custodial agent) and were held in the possession of the System's custodial bank, Bank of New York Mellon.

**(h) Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk. The System may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments.



The System's exposure to foreign currency risk at June 30, 2019, is detailed in the following table. In addition to the foreign currency exposure highlighted in the following table, certain hedge fund investments may have foreign currency exposure.

**Foreign Currency Risk**

Currency	Commingled Funds	Equities	Private Equity	Cash and Cash Equivalents	Non US Government Securities	Corporate Bonds	Term Loans	Futures	Total
Australian Dollar	\$ 52,288	\$ 33,540	\$ —	\$ 744	\$ —	\$ —	\$ —	\$ —	\$ 86,572
Brazilian Real	33,065	—	—	—	—	—	—	—	33,065
Canadian Dollar	66,325	54,342	2,835	1,028	—	—	—	(1)	124,529
Chilean Peso	3,953	—	—	—	—	—	—	—	3,953
Chinese Yuan	2,977	—	—	—	—	—	—	—	2,977
Colombian Peso	1,959	—	—	—	—	—	—	—	1,959
Czech Republic Koruna	725	—	—	—	—	—	—	—	725
Danish Krone	11,855	10,929	—	53	—	—	—	—	22,837
Egyptian Pound	539	—	—	—	—	—	—	—	539
Euro Currency	217,888	124,694	50,710	2,426	3,252	405	1,618	(2)	400,991
Great Britain Pound	114,221	71,782	—	2,149	—	—	—	(1)	188,151
Hong Kong Dollar	121,287	9,808	—	341	—	—	—	(1)	131,435
Hungarian Forint	1,295	—	—	—	—	—	—	—	1,295
Indian Rupee	39,212	—	—	—	—	—	—	—	39,212
Indonesia Rupiah	9,151	—	—	—	—	—	—	—	9,151
Israeli Shekel	2,447	3,035	—	41	—	—	—	—	5,523
Japanese Yen	160,675	96,835	—	1,948	—	—	—	(5)	259,453
Malaysian Ringgit	9,243	—	—	—	—	—	—	—	9,243
Mexican Peso	10,849	—	—	—	—	—	—	—	10,849
New Taiwan Dollar	46,359	—	—	—	—	—	—	—	46,359
New Zealand Dollar	1,829	2,931	—	225	—	—	—	—	4,985
Norwegian Krone	4,716	5,216	—	99	—	—	—	—	10,031
Pakistani Rupee	86	—	—	—	—	—	—	—	86
Philippine Peso	4,902	—	—	—	—	—	—	—	4,902
Polish Zloty	4,993	—	—	—	—	—	—	—	4,993
Qatari Real	4,304	—	—	—	—	—	—	—	4,304
Russian Ruble	12,370	—	—	—	—	—	—	—	12,370
Saudi Riyal	6,159	—	—	—	—	—	—	—	6,159
Singapore Dollar	9,789	18,457	—	427	—	—	—	—	28,673
Swedish Krona	18,219	10,685	—	425	—	—	—	—	29,329
Swiss Franc	63,040	51,124	—	912	—	—	—	—	115,076
South African Rand	24,798	—	—	—	—	—	—	—	24,798
South Korean Won	53,341	—	—	—	—	—	—	—	53,341
Thailand Baht	12,889	—	—	—	—	—	—	—	12,889
Turkish Lira	2,202	—	—	—	—	—	—	—	2,202
United Arab Emirates Dirham	2,894	—	—	—	—	—	—	—	2,894
<b>Total</b>	<b>\$ 1,132,844</b>	<b>\$ 493,378</b>	<b>\$ 53,545</b>	<b>\$ 10,818</b>	<b>\$ 3,252</b>	<b>\$ 405</b>	<b>\$ 1,618</b>	<b>\$ (10)</b>	<b>\$ 1,695,850</b>
United States Dollar	92,929								
<b>Grand Total</b>	<b>\$ 1,225,773</b>								

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(i) **Derivatives and Other Similar Investments**

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

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

**Forward foreign currency contracts** - The System 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. If not offset by a corresponding position with the opposite currency exposure, these contracts involve risk in excess of the amount reflected in the System's Statements of Fiduciary Net Position. The face or contract amount in U.S. dollars reflects the total exposure the System has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

**Futures contracts** - The System uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost-effective manner and to narrow the gap between the System's actual cash exposures and the target policy exposures. Using futures contracts in this fashion is designed to reduce (or hedge) the risk of the actual plan portfolio deviating from the policy portfolio more efficiently than by using cash securities. The program is only used to manage intended exposures and asset allocation rebalancing.

Buying futures tends to increase the System's exposure to the underlying instrument. Selling futures tends to decrease the System's exposure to the underlying instrument or hedge other System investments. Losses may arise due to movements in the underlying or reference markets.

**Credit Default Swaps** - A credit manager may use credit default swaps in the portfolio to either obtain exposure to the high yield market efficiently (i.e. by selling protection) at a similar or better price than what can be obtained in cash bonds, or to hedge the credit risk of the portfolio (i.e. buying protection).

**Total Return Swaps** - A credit manager may use total return swaps as an efficient means to gain exposure to an index or market sector.

Through commingled funds, the System also indirectly holds derivative type instruments, primarily equity index futures.

The System 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 Section (d) *Interest Rate Risk*.

The System may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the System when the

price of a security underlying the short sale increases and the System is obligated to deliver the security in order to cover the position.

The following summarize the System's exposure to specific derivative investments at June 30, 2019.

Investment Derivative Instruments	Change in fair value included in investment income	Fair Value at June 30, 2019	Notional Amount
Fixed income futures - long	\$ 300	\$ 861	\$ 103,630
Fixed income futures -short	78	—	—
Equity index futures - long	892	527	28,181
Equity index futures - short	(337)	3	(48,005)
Credit default swaps	(41)	190	
Total return swaps	56	56	
<b>Total</b>	<b>\$ 948</b>	<b>\$ 1,637</b>	
Foreign currency forward contracts:			
Pending payable (liability)		\$ 84	
Pending receivable (asset)		(63)	
		<b>\$ 21</b>	

The System is exposed to counterparty risk on foreign currency contracts that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2019 was \$20,845. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

The System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Aa3 (Moody's) or better, two counterparties were not rated by Moody's but were rated A+ or better by Fitch.

### Other Investments - Defined Contribution Plan

The State Investment Commission selected various investment options for defined contribution plan participants with the overall objective of offering low-cost, strategic, and long-term oriented investment products. Plan participants can choose one or more of the various options and can change options at any time. Plan participants who do not elect a specific option default to a target date retirement fund consistent with their anticipated Social Security retirement eligibility date.

The majority (99%) of investments held by participants in the defined contribution plan are target date retirement funds and equity index or fixed income mutual funds. The target retirement date funds provide for diversified portfolios of equities and bonds that become progressively more conservative as the fund's associated target retirement date approaches. Equity index mutual funds replicate the price and yield performance of a particular index.

The target retirement date and equity and fixed income mutual funds are priced daily based on the traded prices of the underlying securities held within the funds. There are no withdrawal limitations for these mutual funds. These funds are classified as Level 1 investments (quoted prices in active markets for identical assets) within the fair value hierarchy. Annuities are reported at contract value, which approximates fair value. Annuities held by participants within the defined contribution plan are classified as Level 3 investments (significant unobservable inputs) within the fair value hierarchy.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2019, all assets and securities were registered in the name of TIAA-CREF as the Defined Contribution Plan's record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

The majority of the defined contribution plan investment options are mutual funds that invest in diversified portfolios of securities including equity and fixed-income investments. For investment options that are solely fixed income, weighted-average maturity or duration have been disclosed as a measure of interest rate risk.

Fixed income mutual funds and variable annuity accounts are subject to interest rate, inflation and credit risks. Target-date retirement mutual funds share the risks associated with the types of securities held by each of the underlying funds in which they invest including equity and fixed income funds. Mutual funds may have exposure to foreign currency risk through investment in non-US denominated securities.

#### D. OPEB Trusts

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

#### Summary of Significant Accounting Policies

**Investments** - Investment transactions are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date.

**Method Used to Value Investments** - Investments are recorded in the financial statements at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Commingled funds consist of an institutional domestic equity index fund. The fair value of the commingled fund is based on the reported net asset value (NAV) based upon the fair value of the underlying securities or assets held in the fund.

**Investment Expenses** - Investment management expenses are presented separately as a component of net investment income and include investment consultants, custodial fees and direct investment expenses allocated by managers. In some instances, investment related costs are not readily separable from investment income and consequently investment income is recorded net of related expenses.

#### Cash Deposits and Cash Equivalents

At June 30, 2019, the carrying amount of the OPEB System's cash deposits was approximately \$6.4 million and the bank balance was \$6.4 million. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include fully insured demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to 100% 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 100% of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to amounts ranging from 100% - 102% of the uninsured deposit

amounts. The percentage of collateral required is determined by the underlying classification of the collateral. At June 30, 2019, the OPEB System's cash deposits were either federally insured or collateralized.

## Investments

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

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

Consistent with a target asset allocation model adopted by the State Investment Commission, the OPEB System maintains a diversified portfolio by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds. The SIC's adopted asset allocation policy targets of Domestic Equity and Fixed Income of 65% and 35%, respectively, for fiscal year 2019.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2019 (expressed in thousands):

<b>Investments at Fair Value</b>	<b>June 30, 2019</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Debt Securities</b>				
US Government Securities	\$ 42,673	\$ 42,673	\$ —	\$ —
US Government Agency Securities	30,868	—	30,868	—
Corporate Bonds	37,857	—	37,857	—
Collateralized Mortgage Obligations	1,979	—	1,979	—
Total investments by fair value level	<u>\$ 113,377</u>	<u>\$ 42,673</u>	<u>\$ 70,704</u>	<u>\$ —</u>
<b>Investments measured at the net asset value (NAV)</b>				
Commingled Funds	\$ 218,213			
Money Market Mutual Funds	4,452			
	<u>\$ 222,665</u>			
<b>Net investment payable</b>	<u>(516)</u>			
<b>Total Pooled Investment Trust</b>	<u>\$ 335,526</u>			

**Commingled funds** – consist of one domestic equity index fund which is intended to replicate the performance of a specific index; e.g., S&P 500. The fair values of the investments have been determined using the NAV per share of the investments as reported by the commingled fund manager which reflects the exchange pricing of the equity holdings. There are no withdrawal limitations for the domestic equity index fund.

Money market mutual funds are used as temporary cash management investments. The fair value of these money market funds reflects the net asset value reported by the fund administrator which is a stable \$1 per

unit. The underlying investments, which are short-term cash equivalent type investments are generally carried at amortized cost which approximates fair value. There are no participant withdrawal limitations.

### Interest Rate Risk

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

The following table shows the OPEB System's fixed income investments by type, fair value and the effective duration at June 30, 2019 (expressed in thousands):

<u>Investment Type:</u>	<u>Fair Value</u>	<u>Effective Duration</u>
US Government Securities	\$ 42,673	6.94
US Government Agency Securities	30,868	2.26
Corporate Bonds	37,857	6.77
Collateralized Mortgage Obligations	1,979	3.31
Total Fixed Income	<u>\$ 113,377</u>	5.22

The OPEB System's investment in the Fidelity Investments Money Market Government Portfolio, a money market mutual fund, had an average maturity of 24 days at June 30, 2019 and which was rated AAAMf by Moody's Investors Service.

### Credit Risk

The OPEB System generally manages exposure to credit risk by adhering to an overall target weighted average credit quality for the portfolio. The OPEB System's exposure to credit risk on corporate bonds as of June 30, 2019 is as follows (expressed in thousands):

<u>Quality Rating (1)</u>	<u>US Government Agency Securities</u>	<u>Corporate Bonds</u>	<u>Collateralized Mortgage Obligations</u>
<b>Aaa</b>	\$ 30,868	\$ 3,769	\$ 1,979
<b>Aa</b>	—	1,095	—
<b>A</b>	—	14,235	—
<b>Baa</b>	—	17,369	—
<b>Ba</b>	—	1,146	—
<b>Not rated</b>	—	243	—
<b>Fair Value</b>	<u>\$ 30,868</u>	<u>\$ 37,857</u>	<u>\$ 1,979</u>

(1) Moody's Investors Service Ratings

### Concentration of Credit Risk

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

### Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the OPEB System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2019, all securities were registered in the name of the OPEB

System (or in the nominee name of its custodial agent) and were held in the possession of its custodial bank, Bank of New York Mellon.

### Derivatives and Other Similar Investments

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

### E. Private Purpose Trusts

The Tuition Savings Program had investments of approximately \$5.7 billion in a number of mutual funds and other investment vehicles as of June 30, 2019. These investments are categorized as Level 1 of the fair value hierarchy, with the exception of investment contracts totaling \$1.1 billion which are reported at contract value and therefore not subject to the fair value hierarchy.

The Touro Jewish Synagogue Fund had investments of approximately \$3.0 million in the Fidelity Balanced Fund as of June 30, 2019. These investments are categorized in Level 1 of the fair value hierarchy.

### F. Agency Funds

As of June 30, 2019, all of the bank balances of Agency Funds were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

### Note 3. Receivables

Receivables at June 30, 2019 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Gross Receivables	Less: Allowance for Uncollectibles	Total Receivable, Net	Due from Other Governments and Agencies
Governmental receivables	\$ 599,523	\$ 486,457	\$ 5,584	\$ 1,091,564	\$ (201,198)	\$ 890,366	\$ 409,190
Less current portion	587,029	480,521	2,172	1,069,722	(199,306)	870,416	390,518
Noncurrent portion	\$ 12,494	\$ 5,936	\$ 3,412	\$ 21,842	\$ (1,892)	\$ 19,950	\$ 18,672
Business-type activities	\$ 66,514	\$ 27,896	\$ —	\$ 94,410	\$ (17,371)	\$ 77,039	\$ 1,250
Less current portion	66,514	27,896	—	94,410	(17,371)	77,039	1,250
Noncurrent portion	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

**Note 4. Intra-Entity Receivables and Payables**

Intra-entity receivables and payables as of June 30, 2019 are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable	Description
Governmental Funds			
Major Funds			
General	\$ —	\$ 3,353	Operating expenses
Intermodal Surface Transportation	1,452	—	Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance	—	486	Operating expenses
Historic Tax Credit Financing	781	—	
Permanent School	43	—	
RI Clean Water Act.	—	750	
Bond Capital	—	1,324	Project funding
RI Capital Plan	—	1,376	Project funding
Total Non-Major Funds	<u>824</u>	<u>3,936</u>	
Total Governmental Funds	<u>2,276</u>	<u>7,289</u>	
Proprietary Funds			
Enterprise			
RI Lottery	—	2,088	Net income owed to General Fund
RI Convention Center	157	—	
Employment Security Trust	—	368	Benefit payments
Total Enterprise Funds	<u>157</u>	<u>2,456</u>	
Internal Service	<u>7,687</u>	<u>375</u>	Settlement of services rendered
Total Primary Government	<u>\$ 10,120</u>	<u>\$ 10,120</u>	



**Note 5. Capital Assets**

The capital asset activity of the reporting entity for the year ended June 30, 2019 consists of the following (expressed in thousands):

## Primary Government

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated or amortized:				
Land	\$ 391,854	\$ 1,224	\$ (274)	\$ 392,804
Works of Art	4,340	45	—	4,385
Intangibles	177,770	2,046	—	179,816
Construction in progress	285,410	388,422	(209,560)	464,272
Total capital assets not being depreciated or amortized	859,374	391,737	(209,834)	1,041,277
Capital assets being depreciated or amortized:				
Land improvements	8,380	1	—	8,381
Buildings	871,696	102	(6,398)	865,400
Building Improvements	432,920	25,463	—	458,383
Furniture and equipment	348,416	26,508	(21,818)	353,106
Intangibles**	341,951	—	—	341,951
Infrastructure	4,505,862	183,893	—	4,689,755
Total capital assets being depreciated or amortized	6,509,225	235,967	(28,216)	6,716,976
Less accumulated depreciation or amortization for:				
Land improvements	3,789	259	—	4,048
Buildings	331,022	16,780	(3,355)	344,447
Building Improvements	205,163	15,831	—	220,994
Furniture and equipment	272,738	24,841	(21,709)	275,870
Intangibles**	54,672	32,791	—	87,463
Infrastructure	2,202,838	154,153	—	2,356,991
Total accumulated depreciation or amortization	3,070,222	244,655	(25,064)	3,289,813
Total capital assets being depreciated or amortized, net	3,439,003	(8,688)	(3,152)	3,427,163
Governmental activities capital assets, net ***	\$ 4,298,377	\$ 383,049	\$ (212,986)	\$ 4,468,440

\*\*Including information system development costs.

\*\*\* Net governmental activities capital assets includes Internal Service Fund net capital assets totaling \$3,273 thousand at June 30, 2019.

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

General government	\$ 19,657
Human services	32,762
Education	7,483
Public safety	21,001
Natural resources	6,167
Transportation	157,585
Total depreciation or amortization expense - governmental activities	\$ 244,655

<b>Business-type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 46,808	\$ —	\$ —	\$ 46,808
Construction in progress	5,511	27,789	(1,667)	31,633
Total capital assets not being depreciated	52,319	27,789	(1,667)	78,441
Capital assets being depreciated:				
Buildings	234,377	—	—	234,377
Machinery and equipment	33,034	8,763	(415)	41,382
Intangibles	175	—	—	175
Total capital assets being depreciated	267,586	8,763	(415)	275,934
Less accumulated depreciation for:				
Buildings	158,373	8,182	—	166,555
Machinery and equipment	26,983	2,966	(415)	29,534
Intangibles	140	25	—	165
Total accumulated depreciation	185,496	11,173	(415)	196,254
Total capital assets being depreciated, net	82,090	(2,410)	—	79,680
Business-type activities capital assets, net	<u>\$ 134,409</u>	<u>\$ 25,379</u>	<u>\$ (1,667)</u>	<u>\$ 158,121</u>
<b>Discretely Presented Component Units</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets not being depreciated or amortized:				
Land	\$ 125,475	\$ 1,163	\$ (397)	\$ 126,241
Construction in progress *	151,904	220,792	(30,327)	342,369
Other	250	—	—	250
Total capital assets not being depreciated or amortized	277,629	221,955	(30,724)	468,860
Capital assets being depreciated or amortized:				
Buildings	2,436,535	29,392	7,630	2,473,557
Land Improvements	276,406	22,275	1,032	299,713
Leasehold Improvements *	89	319	—	408
Machinery and equipment *	490,493	23,780	(14,824)	499,449
Infrastructure	298,853	10,992	557	310,402
Total capital assets being depreciated or amortized	3,502,376	86,758	(5,605)	3,583,529
Less accumulated depreciation or amortization for:				
Buildings	1,017,140	75,892	(926)	1,092,106
Land Improvements	160,250	14,402	901	175,553
Leasehold Improvements	34	5	—	39
Machinery and equipment	340,777	33,152	(14,314)	359,615
Infrastructure	103,798	11,239	(183)	114,854
Total accumulated depreciation or amortization	1,621,999	134,690	(14,522)	1,742,167
Total capital assets being depreciated or amortized, net	1,880,377	(47,932)	8,917	1,841,362
Total capital assets, net	<u>\$ 2,158,006</u>	<u>\$ 174,023</u>	<u>\$ (21,807)</u>	<u>\$ 2,310,222</u>

\* Beginning balances have been reclassified.

**Note 6. Long-Term Liabilities**

**A. Changes in Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2019 are presented in the following table:

	<b>Long-term Liabilities</b>					
	(Expressed in Thousands)					
	Beginning Balance*	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
<b>Governmental Activities</b>						
<i>Bonds Payable</i>						
General Obligation bonds (see section B)	\$ 1,159,995	\$ 148,600	\$ (87,420)	\$ 1,221,175	\$ 99,045	\$ 1,122,130
RICC Grant Anticipation Revenue bonds	476,205	—	(33,975)	442,230	35,525	406,705
RICC Rhode Island Motor Fuel Tax Revenue bonds	35,020	—	(3,605)	31,415	3,790	27,625
Tobacco Settlement asset-backed bonds	642,003	—	(19,740)	622,263	11,020	611,243
Accreted interest on TSFC bonds	97,468	12,413	—	109,881	—	109,881
RICC Historic Tax Credit bonds	51,995	76,925	(8,090)	120,830	15,960	104,870
Net unamortized premium/discount	218,134	13,236	(32,429)	198,941	—	198,941
Bonds payable, net	<u>2,680,820</u>	<u>251,174</u>	<u>(185,259)</u>	<u>2,746,735</u>	<u>165,340</u>	<u>2,581,395</u>
Obligation under capital leases (see section E)	184,573	30,295	(26,938)	187,930	30,266	157,664
Net unamortized premium/discount	16,905	3,352	(4,082)	16,175	—	16,175
Obligation under capital leases, net	<u>201,478</u>	<u>33,647</u>	<u>(31,020)</u>	<u>204,105</u>	<u>30,266</u>	<u>173,839</u>
Net pension liability (see note 17) **	2,267,701	4,682	—	2,272,383	—	2,272,383
Net pension liability-special funding (see note 17)**	1,357,577	—	(133)	1,357,444	—	1,357,444
Net OPEB liability (see note 18 C) **	511,649	—	(14,958)	496,691	—	496,691
Job Creation Guaranty Program obligation (see sec. H)	15,182	—	(2,435)	12,747	—	12,747
Compensated absences (see section J)**	74,581	77,551	(73,538)	78,594	69,278	9,316
Pollution remediation (see section I)	2,125	4,541	(794)	5,872	1,235	4,637
Other (see section N) *	59,450	8,479	(6,159)	61,770	1,200	60,570
Total Governmental Long-term Liabilities	<u>\$ 7,170,563</u>	<u>\$ 380,074</u>	<u>\$ (314,296)</u>	<u>\$ 7,236,341</u>	<u>\$ 267,319</u>	<u>\$ 6,969,022</u>
<b>Business-type Activities</b>						
Revenue bonds (see section B)	\$ 231,595	\$ —	\$ (10,785)	\$ 220,810	\$ 14,570	\$ 206,240
Net unamortized premium/discount	2,947	—	(1,005)	1,942	—	1,942
Revenue bonds, net	<u>234,542</u>	<u>—</u>	<u>(11,790)</u>	<u>222,752</u>	<u>14,570</u>	<u>208,182</u>
Net pension liability **	16,869	273	—	17,142	—	17,142
Net OPEB liability **	3,864	12	—	3,876	—	3,876
Unearned revenue	7,495	1,047	—	8,542	6,175	2,367
Compensated absences (see section J)**	694	77	—	771	325	446
Total Business-type Long-term Liabilities	<u>\$ 263,464</u>	<u>\$ 1,409</u>	<u>\$ (11,790)</u>	<u>\$ 253,083</u>	<u>\$ 21,070</u>	<u>\$ 232,013</u>
<b>Component Units</b>						
Bonds payable (see section B)	\$ 2,553,762	\$ 349,478	\$ (278,804)	\$ 2,624,436	\$ 135,010	\$ 2,489,426
Bonds payable - direct placements	142,813	—	(12,122)	130,691	19,974	110,717
Net unamortized premium/discount	126,305	16,991	(14,310)	128,986	11,497	117,489
Bonds payable, net	<u>2,822,880</u>	<u>366,469</u>	<u>(305,236)</u>	<u>2,884,113</u>	<u>166,481</u>	<u>2,717,632</u>
Notes payable (see section C)	113,247	30,300	(1,107)	142,440	—	142,440
Notes payable -direct borrowings	95,386	322,235	(316,201)	101,420	68,778	32,642
Loans payable (see section D)	10,845	6,455	(1,879)	15,421	2,090	13,331
Obligations under capital leases	4,948	330	(2,618)	2,660	726	1,934
Net pension liability**	305,356	2,624	(7,343)	300,637	—	300,637
Net OPEB liability**	188,906	4,870	(4,115)	189,661	—	189,661
Compensated absences (see section J)**	31,926	2,498	(1,492)	32,932	10,521	22,411
Due to primary government (see section L)	49,548	13,309	(5,780)	57,077	9,148	47,929
Unearned revenue	42,577	26,130	(30,691)	38,016	32,329	5,687
Due to component units	3,782	3,562	(2,437)	4,907	3,640	1,267
Other Long-term liabilities						
Arbitrage rebate (see section K)	1,298	426	—	1,724	387	1,337
Pollution remediation (see section I)	18,403	—	(2,387)	16,016	873	15,143
Other liabilities (see section N)	360,847	17,227	(1,505)	376,569	2,369	374,200
Total Component Units Long-term Liabilities	<u>\$ 4,049,949</u>	<u>\$ 796,435</u>	<u>\$ (682,791)</u>	<u>\$ 4,163,593</u>	<u>\$ 297,342</u>	<u>\$ 3,866,251</u>

\* Current beginning balances have been reclassified to conform to the current financial statement presentation

\*\*The net pension, net OPEB, and compensated absences liabilities of the governmental activities are liquidated principally in the General Fund, the Intermodal Surface Transportation Fund and individual institutions of higher education according to the applicable employing state agency.

## B. Bonds Payable

At June 30, 2019, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units			
	Governmental Activities		Business Type Activities		Other		Direct Placements	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 165,340	\$ 105,237	\$ 14,570	\$ 9,864	\$ 135,010	\$ 104,641	\$ 19,974	\$ 3,200
2021	165,390	97,910	16,695	9,229	149,388	100,464	12,649	2,926
2022	168,055	90,398	17,465	8,453	138,144	94,972	12,926	2,646
2023	168,305	82,617	16,160	7,627	138,003	80,404	13,228	2,355
2024	172,715	74,817	18,950	6,954	121,533	84,377	16,599	2,018
2025 - 2029	679,500	267,380	73,310	24,207	573,841	347,523	37,684	5,884
2030 - 2034	379,650	134,854	37,005	12,652	511,607	234,243	15,441	1,293
2035 - 2039	186,940	77,949	18,310	3,730	443,149	108,683	2,190	35
2040 - 2044	39,180	51,836	8,345	726	180,440	79,043	—	—
2045 - 2049	85,820	34,144	—	—	167,419	36,289	—	—
2050 - 2054	227,018	1,417,779 *	—	—	63,093	3,874	—	—
2055 - 2059	—	—	—	—	2,809	198	—	—
	<u>\$2,437,913</u>	<u>\$2,434,921</u>	<u>\$220,810</u>	<u>\$ 83,442</u>	<u>\$2,624,436</u>	<u>\$1,274,711</u>	<u>\$ 130,691</u>	<u>\$ 20,357</u>

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

### Primary Government - Governmental Activities

General obligation bonds of the State are serial bonds with interest payable semi-annually.

In April 2019 the State issued \$148.6 million of general obligation bonds with interest rates of 3.00% - 5.00%, maturing from 2020 through 2039. The premium paid on these bonds was \$13.2 million. In accordance with certain bond statutes, net premiums of \$12.5 million were transferred to RI Infrastructure Bank to provide municipalities with low-cost financial assistance for road and bridge projects.

At June 30, 2019, general obligation bonds authorized by the voters and unissued amounted to approximately \$464.4 million. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved, unless extended by the General Assembly.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation.

*RICC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds* - RICC, 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-three cents (\$.33) 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.

Pledged revenues were sufficient to fund fiscal 2019 debt service payments for Grant Anticipation and Motor Fuel Tax Revenue Bonds. These revenues have been pledged for the term of the Grant Anticipation and Motor Fuel Tax Revenue Bonds through fiscal 2027 and 2031, respectively.

*Historic Tax Credit Bonds* - In fiscal years 2009, 2015 and 2019 the R.I. Commerce Corporation (RICC), on behalf of the State, issued \$150 million, \$75 million and \$76.9 million, respectively, of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee, subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. There is remaining authorization to issue up to \$54.3 million of Historic Tax Credit Bonds.

*Tobacco Settlement Asset-Back Bonds and Accreted Interest* - The Corporation has debt service requirements totaling \$2.5 billion at June 30, 2019. The related bonds were structured based upon assumptions in tobacco settlement revenue (TSR) collections prepared by an independent consultant at the time the bonds were issued. The repayment of the bonds is dependent upon the receipt of TSRs from the Master Settlement Agreement, which are based on domestic cigarette sales. Any amounts received in excess of the scheduled principal and interest are applied to turbo maturities (principal and interest paid on the bonds in excess of scheduled principal and interest requirements). Any payment of turbo maturities in future years impacts, potentially significantly, the overall debt service requirements to maturity schedule. The domestic cigarette consumption estimates, and projections are highly sensitive to a variety of assumptions. Since the Corporation's last sale of bonds in fiscal 2015, amounts received by the Corporation pursuant to the Master Settlement Agreement have been less than the amounts projected in the consumption estimates used to structure the debt service requirements. TSRs received by the Corporation in future years that are less than the amounts projected to be received at the time of the sale of bonds could delay the payment of scheduled debt service on the bonds until sufficient TSRs are available to the Corporation.

On June 27, 2002 the Corporation issued \$685,390,000 of Tobacco Settlement Asset-Backed Bonds (2002 Series). The bond proceeds were used to purchase the State's future rights in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement and the Consent Decree and Final Judgment (the MSA). The bonds accrued interest at rates ranging from 5.920% to 6.250% and matured in varying amounts through June 1, 2042. The bonds were subject to early redemption provisions, in whole or in part, at the redemption price of 100% of the principal amount plus accrued interest, without premium. The 2002 Series bonds were fully redeemed on March 19, 2015.

On June 27, 2007 the Corporation issued \$197,005,742 of additional Tobacco Settlement Asset-Backed Bonds (2007 Series). The bond proceeds were used to purchase the State's future rights to residual Tobacco Settlement Revenues which were not purchased under the 2002 purchase agreement. The bonds are Capital Appreciation Bonds, on which no periodic interest payments are made, but which are issued at a deep discount from par and accreting to full value at maturity in the year 2052. At maturity, the bond redemption values represent accreted yields ranging from 6.000% to 6.750%. The bonds are subject to early redemption provisions, in whole or in part, at the redemption price of 100% of the issue amount plus accreted interest, without premium. A portion of the 2007 Series Bonds were redeemed in March 2015 and June 2017.

On March 19, 2015 the Corporation issued \$620,935,000 of Tobacco Settlement Asset-Backed Bonds (Series A and B) that bear interest at annual rates ranging from 0.590% to 5.000% and mature in varying amounts through June 1, 2050. The bonds are subject to a number of early redemption provisions, in whole or in part, at the redemption price of 100% of the principal amount plus accrued interest, without premium. Term Maturities represent the minimum amount of principal that the Corporation has to pay as of specific dates.

The Series 2015 bond indenture contains "Turbo Maturity" provisions, whereby the Corporation is required to apply the funds collected that are in excess of the then current funding requirements of the indenture to the early redemption of certain of the Series 2015 B bonds (based upon a minimum turbo redemption schedule established for the bonds). The amount available for turbo redemptions on the Series 2015 B bonds are credited against the term maturities in ascending chronological order based on a schedule contained in the indenture. Excess turbo funds available, if any, will be used to retire Series 2007 bonds.

The proceeds of the issuance of the Series 2015 bonds, along with the release of debt service funds related to the bonds retired, and the proceeds from the early termination of investment contracts, were used to fully redeem the remaining balance of the 2002 Series bonds, and to repurchase and retire the principal amount of \$76,220,155 of the 2007 Series bonds as well as pay accreted interest of \$13,600,495 on the retired 2007 Series bonds.

A deferred gain on refunding of debt in the aggregate amount of \$34,395,115 on the Series 2002 and Series 2007 bonds, net of \$5,900,115 in cumulative amortization, is reflected as a net unamortized deferred inflow of resources of \$28,495,000 in the accompanying Statement of Net Position.

A reserve account in the amount of \$26,700,250 was established for the Series 2015A bonds. The Corporation is required to maintain this reserve account to the extent of available funds. Amounts on deposit with the trustee in the reserve account are available to pay (i) the principal of sinking fund installments of, and interest on, the Series 2015A bonds to the extent revenues are insufficient for such purpose and (ii) upon the occurrence of an event of default, extraordinary prepayments. Unless an event of default has occurred, amounts withdrawn from the reserve account will be replenished from revenues.

In addition, a reserve account in the amount of \$12,175,975 was established for the Series 2015B bonds. The Corporation is required to maintain this reserve account to the extent of available funds. Amounts on deposit with the trustee in the reserve account are available to pay (i) the principal of sinking fund installments of, and interest on, the Series 2015B bonds to the extent revenues are insufficient for such purpose and (ii) upon the occurrence of an event of default, extraordinary prepayments. Unless an event of default has occurred, amounts withdrawn from the reserve account will be replenished from revenues.

The bonds are payable both as to principal and interest solely out of the assets of the Corporation pledged for such purpose, and neither the faith and credit nor the taxing power of the State of Rhode Island or any political subdivision thereof is pledged to the payment of the principal of or the interest on the bonds. The bonds do not constitute an indebtedness of or a general, legal or "moral" obligation of the State or any political subdivision of the State.

### **Primary Government - Business-Type Activities**

#### *R.I. Convention Center Authority*

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of \$305 million. At June 30, 2019, outstanding bond indebtedness totaled \$220.8 million.

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

Outstanding indebtedness is collateralized by all rents receivable (if any) under a lease and agreement between RICCA and the State covering all property purchased by RICCA for the site, all other revenues and receipts from the project, a mortgage on constructed facilities, land financed by proceeds of the bonds, and amounts held in various accounts into which bond proceeds were deposited. In addition, outstanding indebtedness is insured under certain financial guaranty insurance policies.

Each of the bond resolutions contains certain restrictive covenants. During the year ended June 30, 2019, RICCA was unable to fund the Operating Reserve requirement of the restrictive covenants for the R.I. Convention Center and the DDC pursuant to the indentures.

RICCA and the R.I. Department of Administration have entered into agreements that provide for total appropriations from the RI Capital Plan (RICAP) for various purposes, including funding the Renewal and Replacement requirement of the restrictive covenant for the DDC. Detailed information regarding these agreements is in RICCA's financial statements for the fiscal year ended June 30, 2019.

Concurrent with the issuance of the RICCA's 2009 Series A Bonds, a Debt Service Reserve Fund Facility (the Facility) was issued by Assured Guaranty Municipal Corp., formerly Financial Security Assurance, Inc. (FSA) to meet the Debt Service Reserve Fund requirement. The Facility provides maximum coverage of approximately \$16.2 million. Coverage under the Facility expires at the earlier of May 15, 2027 or the date upon which the 2013 Series A, 2015 Series A and 2017 Series A are no longer outstanding. In June 2019, AGM was rated by Moody's as A2. In June 2019, AGM was rated by S&P as AA.

RICCA maintains an agreement with AMBAC Indemnity Corporation (AMBAC) under which AMBAC provides RICCA with surety bond coverage to meet Debt Service Reserve Fund requirements for the R.I. Convention Center. The surety bond provides a maximum coverage of \$15.2 million. Coverage under the surety bond expires on May 15, 2023. RICCA maintains additional agreements with AMBAC for the R.I. Convention Center under which AMBAC provides RICCA with separate surety bond coverages to meet Debt Service Reserve Fund and Operating Reserve Fund requirements, respectively. The surety bond relating to the Debt Service Reserve Fund requirements replaced mandated investments and provides a maximum coverage of approximately \$8.8 million. The surety bond relating to the Operating Reserve Fund requirements also replaced mandated investments and provides a maximum coverage of approximately \$3.9 million. Coverage under both surety bonds expires on May 15, 2027. The Debt Service and Operating Reserve Fund Facilities are required to have a credit rating in one of the three highest categories by Moody's and S&P. As of June 30, 2019, AMBAC's credit rating did not meet the aforementioned requirement, however, RICCA acquired from Assured Guaranty Corporation a surety bond that meets the Debt Service Reserve Fund requirement for the R.I. Convention Center.

### **Discretely Presented Component Units**

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

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

At June 30, 2019 revenue bonds outstanding were approximately as follows: URI - \$278.6 million, RIC - \$13.9 million, and CCRI - \$1.5 million.

#### *R.I. Airport Corporation*

Revenue bonds are issued by RICC on behalf of RIAC. The proceeds from these bonds are used to finance construction and related costs of certain capital improvements. These bonds, except for the 2006 First Lien Special Facility Bonds, are secured by the net revenues derived from the operation of the airports. The 2006 First Lien Special Facility Bonds are secured solely by the net revenues derived from the InterLink facility.

Per its Master Indenture of Trust and Supplemental Indentures, RIAC has pledged net revenues derived from the operation by RIAC of the Airport and certain general aviation airports to repay approximately \$220.1 million in airport revenue bonds. Proceeds from the bonds were used for various airport improvement projects. Amounts available to pay debt service per the Master Indenture, including pledged passenger facility charges, were approximately \$46.0 million for the year ended June 30, 2019. Principal and interest payments for the year ended June 30, 2019 were approximately \$23.9 million.

In June 2006, the R.I. Airport Corporation (RIAC), R.I. Commerce Corporation (RICC), and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to \$42 million with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). The purpose of the Agreement was to reimburse RICC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the InterLink Facility Project. RIAC was permitted under the Agreement to make requisition of funds for eligible project costs through fiscal year 2013. RIAC began making monthly payments of interest in fiscal year 2012, with interest at a rate of 5.26%. Payments are made on behalf of RICC (the borrower

per the Agreement), and debt service payments commenced in fiscal year 2012 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink. As of June 30, 2019, RIAC had approximately \$40.6 million in borrowings under this agreement.

*I-195 Redevelopment District Commission*

In April 2013, RICC issued Economic Development Revenue Bonds 2013 Series A, and Economic Development Bonds 2013 Series B (federally taxable) in the aggregate principal amounts of \$37.4 million, for which the I-195 RDC is the obligor. The 2013 Series A Bonds mature in April 2033 and bear interest at the lesser of the 30-Day London InterBank Offered Rate (LIBOR) (2.38775% at June 30, 2019) plus applicable margin, or 7.75%. Applicable margin is the rate that corresponds to the lesser of the two long-term bond ratings of the State from Moody's Investors Service (Moody's) and Standard & Poor's (S&P) in the following table:

State Bond Rating (S & P/Moody's):	<u>AA/Aa2 or Higher</u>	<u>AA-/Aa3</u>	<u>A+/A1</u>	<u>A/A2</u>	<u>A-/A3</u>
Applicable Margins, 2013 Series A	1.00%	1.17%	1.37%	1.57%	1.82%

At June 30, 2019, the State's general obligation bonds were rated AA and Aa2 by S&P and Moody's, respectively. As such, at June 30, 2019, the 2013 Series A Bonds bore interest at 3.38775%.

Concurrently with the issuance of the 2013 Series A Bonds, RICC issued Economic Development Bonds, 2013 Series B (federally taxable), in the aggregate principal amount of \$960 thousand, for which the I-195 RDC is the obligor. The 2013 Series B Bonds matured in April 2019, prior to maturity they bore interest at the lesser of the 30-Day LIBOR (2.38775% at June 30, 2019) plus the lesser of the two long-term bond ratings of the State from Moody's and S&P in the following table:

State Bond Rating (S & P/Moody's):	<u>AA/Aa2 or Higher</u>	<u>AA-/Aa3</u>	<u>A/A1</u>	<u>A/A2</u>	<u>A-/A3</u>
Applicable Taxable Margins, 2013 Series B	1.15%	1.32%	1.52%	1.72%	1.97%

The 2013 Series B bonds matured in April 2019. The outstanding balance was \$960,000 as of June 30, 2018.

Proceeds from the 2013 Series A and B bonds were transferred by the I-195 RDC to the State.

Simultaneously with the issuance of the 2013 Series A and B Bonds, the I-195 RDC, RICC, and a Bank entered into a bond purchase agreement under the terms of which the 2013 Series A and B Bonds were purchased by the Bank. The Bank holds a mandatory tender option to sell the bonds to RICC on either April 1, 2023 or April 1, 2028.

Concurrent with the issuance of the 2013 Series A and B Bonds, the State entered into separate rate cap transaction agreements with the Bank for each bond series (the 2013 Series A and B Rate Cap Agreements). Under the terms of the 2013 Series A Rate Cap Agreement, the State paid the Bank \$658,500. In exchange, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR, to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series A Bonds, through April 1, 2023. The interest rate under the 2013 Series A Rate Cap Agreement is capped at 6.75%. Under the terms of the 2013 Series B Rate Cap Agreement, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (2.38775% at June 30, 2019), to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series B Bonds, through April 1, 2019. The State made no payment to the Bank under the terms of that agreement. The interest rate under the 2013 Series B Rate Cap Agreement is capped at 6.85%. At June 30, 2019, the fair value of the 2013 Series A and B Rate Cap Agreements was \$11,659 and is estimated as the amount the Bank would receive to terminate the Rate Cap Agreements at the reporting dates, taking into account current interest rates and the current credit worthiness of the counterparties.



Repayment of the 2013 Series A and B Bonds shall be solely from i) appropriated funds, if any, made available and appropriated by the General Assembly of the State for bond payments, but not for payment of administrative expenses and ii) pledged receipts, which are the net proceeds derived from the sale, lease, transfer, conveyance, or other disposition of any interest in all or any portion of the I-195 land owned by the I-195 RDC.

The I-195 RDC has pledged and granted to RICC a security interest, which has been assigned to the bond trustee, in all pledged receipts and all deposits in the bond, project, expense and credit facility funds established with the bond trustee.

To the extent that the I-195 RDC has insufficient funds to meet its payment obligations under the bonds, it shall seek appropriations from the State; however, there are no assurances that the State will appropriate amounts to fund the I-195 RDC's payment obligations.

*Other Component Units*

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

**C. Notes Payable**

**Discretely Presented Component Units**

Notes payable (expressed in thousands) at June 30, 2019 are as follows:

Component Units:

*Direct Borrowings*

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	\$ 757
R.I. Resource Recovery Corporation note payable to the host municipality with an interest rate of 1.4%, payable in equal installments over the next 12 years	2,393
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 0.00% to 6.25% interest, payable through 2058	98,270
	<u>101,420</u>
Less: current portion	68,778
	<u>\$ 32,642</u>

*Other*

R.I. Housing and Mortgage Finance Corporation federal bank note, 2.239% to 4.640% interest, payable from 2056 through 2059.	<u>\$ 142,440</u>
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**D. Loans Payable**

**Discretely Presented Component Units**

This balance consists of loans payable by the University of Rhode Island and the Quonset Development Corporation of approximately \$524 thousand and \$14.9 million, respectively.

## E. Obligations Under Capital Leases

### Primary Government

The State has entered into capital lease agreements, primarily 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, 2019, consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2019:

Fiscal Year Ending June 30	Certificates of Participation	Other Capital Leases	Total
2020	\$ 35,593	\$ 2,731	\$ 38,324
2021	33,843	2,938	36,781
2022	28,366	943	29,309
2023	28,453	812	29,265
2024	24,431	314	24,745
2025 - 2029	50,477	—	50,477
2030 - 2034	17,343	—	17,343
Total future minimum lease payments	218,506	7,738	226,244
Amount representing interest	(38,226)	(88)	(38,314)
Present value of future minimum lease payments	\$ 180,280	\$ 7,650	\$ 187,930

Each COPS transaction generally covers multiple capital projects supporting multiple functions of the primary government. In general, the amount of capital asset additions funded through COPS is equivalent to the amount of the issuance. The State reports the amortization charge on assets acquired through COPS with depreciation expense on the government-wide financial statements and discloses the amounts in Note 5, Capital Assets.

When issuances also fund component unit projects, the State records the full lease under the obligation and recognizes the related receivable from the component unit for their portion of debt service in the government-wide financial statements.

Assets purchased with capital leases as of June 30, 2019 (expressed in thousands) are as follows:

Category	Cost	Accumulated Depreciation	Net Book Value
Buildings	\$ 215,583	\$ 62,196	\$ 153,387
Building Improvement	86,737	32,703	54,034
Computer Systems	70,186	18,936	51,250
Infrastructure	26,754	8,294	18,460
Equipment	1,327	199	1,128
	<u>\$ 400,587</u>	<u>\$ 122,328</u>	<u>\$ 278,259</u>

## F. Defeased Debt

The State and its component units have defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements.

At June 30, 2019, the following bonds outstanding (expressed in thousands) are considered defeased:

	<u>Amount</u>
Primary government:	
General Obligation Bonds	\$ 113,480
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	48,915
R.I. Infrastructure Bank	83,515
R.I. Airport Corporation	57,430

## G. Conduit Debt

The R.I. Health and Educational Building Corporation has issued various series of revenue bonds, notes, and leases to finance capital expenditures for Rhode Island educational institutions, hospitals, and healthcare providers. The bonds, notes and leases are special obligations of the Corporation, payable from revenues derived solely from the institution for which the project was financed. The bonds, notes, and leases do not constitute a debt or pledge of the faith and credit of the corporation or the State, and accordingly are not reflected in the financial statements. The amount of conduit debt outstanding on June 30, 2019 was \$3.2 billion.

The R.I. Industrial Facilities Corporation and the R.I. Commerce 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, 2019 was \$34.4 million and \$953.5 million for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 16.

The Rhode Island Infrastructure Bank (RIIB) has issued conduit bonds for the express purpose of providing capital financing for a specific third party. RIIB has no obligation for the conduit debt beyond resources provided by a loan with the third party on whose behalf the conduit bonds were issued. As of June 30, 2019, RIIB had seven series of conduit bonds outstanding, with an aggregate principal amount payable of approximately \$70.1 million.

## H. Job Creation Guaranty Program – Moral Obligations

The Job Creation Guaranty Program (JCGP) was established by the General Assembly in 2010 for the purpose of promoting economic development in the State and authorized the issuance of a maximum of \$125 million of obligations by the RI Commerce Corporation (RICC), formerly known as the RI Economic Development Corporation.

In November 2010, RICC issued \$75 million of taxable revenue bonds under the JCGP. The bond proceeds were loaned to 38 Studios, LLC (38 Studios) and provided funding for the relocation of the company's

corporate headquarters to the State and establishment and operation of a video gaming software development studio in Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund were to be used in the event that 38 Studios failed to make any required loan payments. In accordance with the enabling legislation and the agreement between RICC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, RICC has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation by the General Assembly. The General Assembly may, but is not required to, appropriate such amounts.

38 Studios filed for Chapter 7 bankruptcy protection on June 7, 2012. On August 8, 2012, a federal judge allowed assets to be liquidated through the state court in Rhode Island.

The total remaining debt service on the bonds as of June 30, 2019 is approximately \$22.8 million. The maturity dates on the bonds range from 2018 to 2020 with maximum annual debt service of approximately \$12.7 million.

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

Various settlements were reached with the defendants between August 2014 and October 2016 resulting in net recoveries after payments of fees, costs and expenses totaling \$36.6 million were paid to the trustee for the benefit of the bondholders.

The General Assembly has appropriated deficiencies in the Capital Reserve Fund in prior fiscal years. Due to amounts received from the settlements described above, amounts available in the Capital Reserve Fund were sufficient to fund required debt service in fiscal 2019.

The State has recorded a liability of \$12.7 million relating to its moral obligation to the 38 Studios bondholders under the JCGP at June 30, 2019. This amount represents the current estimate of the amount of probable loss by the State and reflects amounts available resulting from the litigation recoveries discussed above. The \$12.7 million, although recorded as a liability for financial statement purposes, is still subject to annual appropriation by the General Assembly. The estimated liability will be reduced in future years as the related debt is extinguished.

Another borrower under the JCGP is in default on a loan with an outstanding principal balance of \$2.25 million and is in the process of negotiating a debt resolution plan.

The General Assembly repealed the authority for RICC to guarantee further loans under the JCGP during the 2013 legislative session.

For additional disclosures regarding the Job Creation Guaranty Program, see the separately issued financial statement of the RI Commerce Corporation.

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## I. Pollution Remediation Liabilities

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

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

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

Additionally, the State may have a pollution remediation obligation for certain sites for which investigations and studies, or related litigation, are still in progress and consequently, associated future costs cannot be estimated.

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State's obligation. As of June 30, 2019, no reasonable estimates of those recoveries can be made. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

## J. Compensated Absences

State employees and those of certain component units are granted vacation and sick leave in varying amounts based upon years of service. Additionally, the State has deferred payment of certain compensation to employees. A liability has been calculated for all earned vacation credits, subject to certain limitations, and vested sick leave credits that are payable at retirement, subject to certain limitations. Payment is calculated at the employees' current rate of pay.

## K. Arbitrage Rebate

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

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## L. Due to the Primary Government

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

## M. Available Lines of Credit

### *R.I. Housing and Mortgage Finance Corporation (RIHMFC)*

As of June 30, 2019, RIHMFC may borrow up to a maximum of \$110 million under various revolving loan agreements expiring between August 2019 and January 2020. Borrowings under the lines of credit are payable on demand and are unsecured. One of the lines of credit, in the outstanding amount \$4,000,000, has a variable interest rate, which was 3.398% at June 30, 2019. The outstanding remaining lines of credit of \$67,009,000 have fixed rates which range from 3.215% - 3.402% at June 30, 2019. The corporation has combined additional availability on the various lines of credit facilities in the amount of \$37,591,000 at June 30, 2019.

## N. Other Long-Term Liabilities

*Governmental Activities* - the liabilities consist primarily of:

- Retainage related to infrastructure construction projects - these amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period.
- Asset Retirement Obligations - these amounts are considered long-term liabilities since the nuclear reactor that the liability relates to has an estimated useful life in excess of one year.

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

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

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

**Note 7. Deferred Outflows of Resources and Deferred Inflows of Resources**

Deferred outflows of resources represent a consumption of net position by the State that is applicable to a future reporting period. Deferred inflows of resources represent an acquisition of net position by the State that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets, and deferred inflows of resources decrease net position, similar to liabilities.

The components of the deferred outflows of resources and deferred inflows of resources related to the primary government and its discretely presented component units as of June 30, 2019 are as follows (expressed in thousands):

	Governmental Activities	Business- Type Activities	Primary Government	Component Units
Deferred outflows of resources:				
Deferred loss on refunding of debt	\$ 30,941	\$ 6,561	\$ 37,502	\$ 12,581
Deferred pension costs - ERS	627,304	3,453	630,757	43,718
Deferred pension costs - single employer plans and other	49,088	—	49,088	18,616
Deferred OPEB costs - multiple employer plans	63,615	679	64,294	19,822
Deferred OPEB costs - single employer plans	10,940	—	10,940	—
Asset Retirement Obligations	31,785	—	31,785	—
Derivatives	—	—	—	1,108
Total deferred outflows of resources	<u>\$ 813,673</u>	<u>\$ 10,693</u>	<u>\$ 824,366</u>	<u>\$ 95,845</u>
Deferred inflows of resources:				
Deferred gain on refunding of debt	\$ 28,491	\$ —	\$ 28,491	\$ 734
Deferred pension credit - ERS	84,385	459	84,844	15,200
Deferred pension credit - single employer plans and other	10,506	—	10,506	2,769
Deferred OPEB credit - multiple employer plans	31,436	267	31,703	15,161
Unavailable Revenue	—	—	—	—
Deferred OPEB credit - single employer plans	8,670	—	8,670	—
Total deferred inflows of resources	<u>\$ 163,488</u>	<u>\$ 726</u>	<u>\$ 164,214</u>	<u>\$ 33,864</u>

The components of the deferred inflows of resources related to the governmental funds as of June 30, 2019 are as follows (expressed in thousands):

	General Fund	IST Fund	Total Governmental Funds
Deferred inflows of resources:			
Taxes	\$ 12,494	\$ —	\$ 12,494
Other General Revenue	5,936	—	5,936
Federal Revenue	—	9,646	9,646
Total deferred inflows of resources	<u>\$ 18,430</u>	<u>\$ 9,646</u>	<u>\$ 28,076</u>

**Note 8. Net Position/Fund Balances**

**Governmental Activities**

*Restricted Net Position*

The Statement of Net Position-Governmental Activities reflects \$850.8 million of restricted net position, of which \$361.4 million is restricted by enabling legislation, including \$96.9 million of RI Capital Plan Funds. The remaining net position that is restricted by enabling legislation is included in the Employment Security Programs and Other categories on the Statement of Net Position. The principal component of the remaining balance of the restricted net position is unexpended bond proceeds.

**Governmental Funds – Fund Balances**

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

Governmental Funds - Fund Balance

	Major Funds			Total
	General Fund	IST Fund	Other Funds	
Fund Balances:				
Nonspendable:				
General Fund	\$ 1,558	\$ —	\$ —	\$ 1,558
Permanent Fund Principal	—	—	174	174
Restricted for:				
Purposes specified by enabling legislation	119,677	—	—	119,677
RI Capital Plan	—	—	96,882	96,882
Debt Service	—	20,258	72,934	93,192
Capital Projects	—	—	157,232	157,232
Temporary Disability Insurance	—	—	144,854	144,854
Historic Tax Credit Redemption	—	—	83,177	83,177
Transportation-Infrastructure	—	215,622	—	215,622
Mission 360 Loan Program	—	1,861	—	1,861
Education	—	—	648	648
Other	—	—	584	584
Committed to:				
Transportation-Maintenance	—	86,735	—	86,735
Other	5,206	—	376	5,582
Assigned to:				
Subsequent Years Expenditures	26,959	—	—	26,959
Statutory Reappropriations	10,296	—	—	10,296
Unassigned:				
Budget Reserve and Cash Stabilization	203,855	—	—	203,855
Other	3,481	(694)	—	2,787
Totals	<u>\$ 371,032</u>	<u>\$ 323,782</u>	<u>\$ 556,861</u>	<u>\$ 1,251,675</u>

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account (the Reserve) within the State's General Fund. Section 35-3 of the General Laws specifically establishes the annual minimum balance requirements for the account. For fiscal year 2019, 3.0% of total



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general revenues and opening surplus are transferred to the Reserve. Amounts in the Reserve in excess of 5.0% of total general revenues and opening surplus are transferred to the RI Capital Plan Fund to be used for capital projects.

According to the State Constitution and related enabling laws the Reserve, or any portion thereof, may be appropriated by a majority of each chamber of the General Assembly, in the event of an emergency involving the health, safety or welfare of the citizens or to fund any unanticipated general revenue deficit caused by a general revenue shortfall in any given year.

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

See Note 1, Section S of these Notes for more information regarding the five categories of fund balance.

**Note 9. Restatements – Net Position**

Restatements of beginning net position (expressed in thousands) are in the following table:

	Governmental Activities	General Fund	Intermodal Surface Transportation	Other Governmental Funds	Discretely Presented Component Units
Balances previously reported at June 30, 2018					
Net Position	\$ (768,024)				\$ 2,663,895
Fund Balance		\$ 358,675	\$ 415,097	\$ 522,838	
<b>Restatement due to:</b>					
1) Reclassifications of amounts recorded in previous years' as escrow liabilities to restricted fund balance / net position	5,002	4,374	628	—	—
2) Correction of error in billing previous years' indirect costs to federal grants	—	—	—	—	(36)
3) Correction of prior period misstatement	(507)	(507)	—	—	—
4) Correction of prior year accrued self insurance claims	—	—	—	—	632
5) Correction for recognition of interest income amortization of deferred gain on refunding of debt of the Tobacco Settlement Financing Corporation for fiscal years 2016-2018.	1,878	—	—	67	—
6) Implementation of GASB Statement No. 83 - Certain Asset Retirement Obligations required beginning period recognition of a deferred outflow and offsetting asset retirement liability (no effect on beginning net position)	—	—	—	—	—
Balances at June 30, 2018, as restated:					
Net Position	<u>\$ (761,651)</u>				<u>\$ 2,664,491</u>
Fund Balance		<u>\$ 362,542</u>	<u>\$ 415,725</u>	<u>\$ 522,905</u>	

**Note 10. Taxes**

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts and net of estimated refunds. Tax revenue on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is reported net of estimated refunds, uncollectible amounts and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred inflows of resources. 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	\$ 1,391,890	\$ 1,396,808
General Business Taxes:		
Business Corporations	155,094	155,556
Public Utilities Gross Earnings	101,613	100,835
Financial Institutions	21,145	20,986
Insurance Companies	108,762	108,430
Bank Deposits	2,900	2,899
Health Care Provider Assessment	43,946	43,937
Sub-total - General Business Taxes	<u>433,460</u>	<u>432,643</u>
Sales and Use Taxes:		
Sales and Use	1,125,693	1,127,855
Motor Vehicle	1,035	1,019
Cigarettes	138,859	138,733
Alcoholic Beverages	20,437	20,436
Sub-total - Sales and Use Taxes	<u>1,286,024</u>	<u>1,288,043</u>
Other Taxes:		
Inheritance and Gift	48,018	47,839
Racing and Athletics	1,151	1,151
Realty Transfer	12,748	12,737
Sub-total - Other Taxes	<u>61,917</u>	<u>61,727</u>
Total - General Fund	<u>3,173,291</u>	<u>3,179,221</u>
Intermodal Surface Transportation Fund		
Gasoline	167,246	167,246
RI Highway Maintenance	72,853	72,853
Other Governmental Funds	190,107	190,107
Total Taxes	<u>\$ 3,603,497</u>	<u>\$ 3,609,427</u>

**Note 11. Tax Abatements**

For financial reporting purposes (GASB Statement No. 77 - *Tax Abatements*), a tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

The State of Rhode Island has twelve programs in place to abate taxes. Some of those are new, and as of June 30, 2019, have no related foregone tax revenue. Of the twelve programs, seven are managed by the State and five are managed by the Rhode Island Commerce Corporation.

For certain newly created economic development programs with tax abatement provisions, the General Assembly appropriated funds which were paid to the Rhode Island Commerce Corporation (RICC) to fund these programs. Upon notification by the Division of Taxation, the RICC transfers funds to reimburse the State for the amount of foregone tax revenue.

The State has issued Historic Tax Credit Preservation Bonds to fund historic tax preservation credits presented for redemption or as credits to taxes owed to the State. Approximately \$83.2 million is available in the Historic Tax Credit Fund at June 30, 2019. \$800 thousand of this amount is interfund due from General Fund.

The following is a summary of taxes abated during fiscal 2019 by tax type (expressed in thousands):

Tax Abatement Program	Personal Income	Business Corporation	Insurance Companies	Financial Institutions	Hotel Tax	Sales Tax	Non-Profit Redemption*	Total
Job Development Act	\$ —	\$ 1,595	\$ —	\$ 9,957	\$ —	\$ —	\$ —	\$ 11,552
Motion Picture Production Tax Credits	772	1,125	441	—	—	—	—	2,338
Historic Preservation Tax Credits	5,073	16	8,206	—	—	—	5,703	18,998
Job Training Tax Credits	—	505	—	—	—	—	—	505
Tax Credit for Contributions to Qualified Scholarship Organizations	1,212	—	—	9	—	—	—	1,221
Qualified Jobs Incentive Tax Credit	40	—	—	—	—	—	—	40
Tax Increment Financing	—	—	—	—	36	220	—	256
Wavemaker Fellowship**	94	—	—	—	—	—	—	94
<b>Total</b>	<b>\$ 7,191</b>	<b>\$ 3,241</b>	<b>\$ 8,647</b>	<b>\$ 9,966</b>	<b>\$ 36</b>	<b>\$ 220</b>	<b>\$ 5,703</b>	<b>\$ 35,004</b>

\* Non-profit entities may request payment for the value of historic preservation tax credits awarded in lieu of a credit to tax liabilities.

\*\* Wavemaker fellows have the option of directly receiving their payments. During the fiscal year ended June 30, 2019 direct payments made to fellows totaled approximately \$1.3 million.

*Other Commitments under Tax Abatement Agreements* - Certain tax abatement programs include commitments by the State other than the reduction of taxes.

- The Qualified Jobs Incentive Tax Credit and Rebuild Rhode Island Tax Credit programs allow respective entities to redeem tax credits for 90% of their value upon fulfilling their responsibilities under the agreement. During the fiscal year ended June 30, 2019, one entity redeemed a Rebuild Rhode Island credit for a payment of approximately \$212,000.
- The Rebuild Rhode Island Tax Credit program also allows respective entities to receive a rebate of sales and use taxes on construction materials relating to program projects. One entity received a reimbursement of approximately \$532,000 in sales and use taxes.
- The Anchor Institution Tax Credit and Wavemaker Fellowship programs include a provision that the entity or individual, as applicable, may redeem the tax credit for 100% of its value upon fulfilling its

responsibilities under the agreement. During the fiscal year ended June 30, 2019, direct payments made to Wavemaker fellows totaled approximately \$1.3 million.

- Non-profit entities may redeem historic tax credits awarded by payment for the value of the credit in lieu of a credit to tax liabilities.

The following pages summarize the key provisions of the tax abatement programs authorized by the State at June 30, 2019.

<b><u>Program Name:</u></b>	<b><u>Job Development Act</u></b>	<b><u>Enterprise Zone</u></b>
Program purpose:	To foster job creation for companies that create new employment in RI over a three-year period.	To stimulate jobs growth and encourage business development in targeted distressed areas of the State.
Taxes being abated:	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income
Authority under which abatements are entered into:	Jobs Development Act (RI Gen. Laws 42-64.5-1) and as amended by Rhode Island New Qualified Jobs Incentive Act 2015 (RIGL 44-48.3-12)	Distressed Areas Economic Revitalization Act - Enterprise Zones (RIGL 42-64.3)
Criteria to be eligible to receive abatements and commitment of the taxpayer:	(1) Subject to a finding of revenue neutrality based on an economic impact analysis conducted by RI Commerce Corporation (RICC); (2) must be approved by the RICC Board of Directors; (3) company must show that "but for" the incentives, the company is not likely to retain, expand or add employment in the State, and that the company has generated new tax revenue for the State that is at least equivalent to the value of this incentive; (4) the company must maintain a certain level of employment as stated in the agreement; (5) new employees must be paid at least 250% of the State minimum wage.	A business has to: (1) be physically located within a State-approved Enterprise Zone (EZ), (2) be registered with the State as an EZ member business, (3) grow its existing workforce by at least 5%, consisting of only RI residents, (4) grow total corporation wages paid over that of the prior year, (5) obtain specific letters of good standing from the State, and (6) receive certification prior to July 1, 2015.
How taxes are reduced:	Reduction of tax rate.	As a credit to the amount of taxes owed.
How abatement is determined:	For example, corporate income tax may be reduced to as low as 3%. The reduction equals: 0.20% for every 10 new jobs created for companies having a baseline employment below 100; or .20% for every 50 new jobs created, for those companies having a baseline employment above 100. Rate reduction(s) discontinued effective July 1, 2015 except for any company that qualified prior to July 1, 2015 which may maintain its reduction so long as it carries out its obligations.	Not more than one type of tax liability can be used to claim the credit. 50% of the wages paid a new hire up to a maximum of \$2,500 per new employee; 75% of the wages paid a new hire up to a maximum of \$5,000 per new employee if that employee lived within a State-designated EZ. Unused EZ Tax credits can be carried forward for up to 3 years.
Recapture provisions:	N/A	N/A

<b><u>Program Name:</u></b>	<b><u>Qualified Jobs Incentive Tax Credit</u></b>	<b><u>Rebuild Rhode Island Tax Credit</u></b>
Program purpose:	Stimulate business expansion and attraction, create well-paying jobs for State residents, and generate revenues for necessary State and local governmental services.	Stimulate business development; retain and attract new business and industry to the State; create good-paying jobs for State residents; assist with commercial and industrial real estate development; and generate revenues for necessary State and local governmental services.
Taxes being abated:	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, Personal Income, or Sales and Use.
Authority under which abatements are entered into:	Rhode Island Qualified Jobs Incentive Act of 2015 (RIGL Title 44-48.3)	Rebuild Rhode Island Tax Credit Act (RIGL 42-64.20)
Criteria to be eligible to receive abatements and commitment of the taxpayer:	(1) Must create minimum number of new full-time jobs defined in the statute; (2) new full-time jobs must earn at least Rhode Island's median wage; (3) must certify and provide evidence that without the Tax Credit the new full time jobs would not occur within the State; (4) must be approved by the RICC Board of Directors; (5) must perform in accordance with an executed incentive agreement. Applicants may be eligible for Tax Credits for up to 10 years and must commit to remain in the State for 20% longer than the total time tax credit is received.	(1) Applicant must provide equity of at least 20% of project costs; (2) must certify and provide evidence that the project has a financing gap and that the project is not likely to be accomplished by private enterprise without the tax credits; (3) project fulfills the State's policy and planning objectives and priorities including minimum project size, cost, and/or job creation thresholds; (4) must be approved by the RICC Board of Directors; (5) entity must perform in accordance with an executed incentive agreement.
How taxes are reduced:	As a credit to the amount of taxes owed.	As a credit to the amount of taxes owed.
How abatement is determined:	The annual benefit for each new full-time job created is the lesser of (1) the reasonable State income tax withholding generated; or (2) a cap of \$2,500 to \$7,500 defined in the incentive agreement and depending on median salary level, location, industry, whether the job is being relocated from out-of-state, number of new full-time jobs, and capital investment being made.	Total tax credit calculated as the lesser of the Project Financing Gap or 30% of Project Costs* up to a maximum of \$15 million. Tax Credits are available for up to 5 years in increments ranging from 15% to 30% of total tax credit beginning in the year the project is placed in service. *Tax credits shall not exceed 20% provided, however, that the applicant shall be eligible for additional tax credits of not more than 10% of the project cost, if the project meets other specific, additional criteria as defined in the agreement.
Recapture provisions:	If the Applicant ceases operations in the State or transfers more than 50% of the jobs for which a Tax Credit was granted under the Act to another state, the Tax Credit shall cease, and the Applicant shall be liable to the State for, at a minimum, 20% of all tax benefits granted to the Applicant.	Projects may be required to repay tax credits in the event the project achieves outside financial returns.

<b><u>Program Name:</u></b>	<b><u>Tax Increment Financing</u></b>	<b><u>Anchor Institution Tax Credit</u></b>
Program purpose:	Stimulate business development; retain and attract new business and industry to RI; create good-paying jobs for RI residents; assist with business, commercial, and industrial real estate development; and generate revenues for necessary State and local governmental services.	Give existing Rhode Island businesses an incentive to encourage businesses in their supply chain, service providers or customers to relocate to Rhode Island by giving existing Rhode Island businesses a tax credit when they are able to bring about a business relocation to the State.
Taxes being abated:	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, Personal Income, Hotel, or Sales and Use.	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income
Authority under which abatements are entered into:	Rhode Island Tax Increment Financing Act of 2015 (RIGL 42-64.21)	Anchor Institution Tax Credit Act (RIGL 42-64.30)
Criteria to be eligible to receive abatements and commitment of the taxpayer:	(1) Project must be located in a qualifying TIF Area; (2) project must have a financing gap; (3) project must be either a new facility and not a replacement or relocation of an existing facility already located in the State, an expansion of an existing facility that will increase the number of full-time employees in the State, or necessary to retain one or more At Risk Businesses; (4) must be approved by the RICC Board of Directors; (5) must perform in accordance with an executed incentive agreement.	Must be a Rhode Island business that (1) plays a substantial role in the decision of a qualified business to relocate at least 10 employees by 2018 or at least 25 employees between 2019 and 2020; (2) applies for approval prior to the qualified business commencing a relocation search within the State, (3) must be approved by the RICC Board of Directors; (4) must perform in accordance with an executed incentive agreement.
How taxes are reduced:	Eligible taxes are reimbursed to the developer.	As a credit to the amount of taxes owed.
How abatement is determined:	Up to 75% of the projected annual incremental revenues may be allocated under a TIF agreement. Total incentive may not exceed 30% of project costs or the amount needed to close the financing gap. RICC may exempt public infrastructure, a preexisting municipally-owned stadium of 10,000 seats or greater, or utilities from the 30% cap.	An applicant is not eligible to receive a tax credit in excess of 75% of the amount appropriated in the fiscal year in which the tax credits are issued. RICC may take into account (1) the number of new full-time jobs created; (2) the compensation and benefits for those new jobs; (3) how long the new jobs are committed to remain in the State; (4) whether the jobs created are in a targeted Industry; (5) whether the qualifying relocation benefits a Hope Community or occurs in a Redevelopment Area; (6) the strategic importance of the applicant; (7) the economic return to the State; and (8) area brokers' fees.
Recapture provisions:	Tax Credits may be denied or revoked if Applicant's certification or information is found to be willfully false; if the Applicant or successor is convicted of bribery, fraud, theft, embezzlement, misappropriation, and/or extortion involving the State, any State agency or political subdivision of the State.	Incentive agreements shall include a provision specifying for the withholding of any portion of a tax credit or requiring repayment of a tax credit if the qualified business leaves the State within a period of time set forth in the Incentive Agreement.

<b><u>Program Name:</u></b>	<b><u>Wavemaker Fellowship</u></b>	<b><u>Motion Picture Production Tax Credits</u></b>
Program purpose:	Promote economic opportunity and bring more and higher-paying jobs to the State; offer educational opportunity and retraining to individuals impacted by job loss, workplace injury, disability or other hardship; keep young people in the State; encourage an entrepreneurial economy in the State.	To encourage development in Rhode Island of a strong capital base for motion picture film, videotape, and television program productions, in order to achieve a more independent, self-supporting industry.
Taxes being abated:	Personal Income	Business Corporation, Public Service Corporation, Financial Institution, Insurance Company, or Personal Income
Authority under which abatements are entered into:	Stay Invested in RI Wavemaker Fellowship (RIGL 42-64.26)	RIGL 44-31.2
Criteria to be eligible to receive abatements and commitment of the taxpayer:	Applicants selected on a competitive basis by a fellowship committee on a name-blind and employer-blind basis. Selected applicants shall meet specific criteria for education, student loan debt, and full-time employment with a Rhode Island-based employer located in this State throughout the eligibility period, and employment in a field specified in the agreement.	Primary production locations are to be within the State of Rhode Island, and the total production budget must be at least \$100,000. 30% of State certified production costs incurred that are directly attributable to activity within the State.
How taxes are reduced:	As a credit to the amount of taxes owed. Wavemaker fellows may also request payment for the value of the credit awarded.	As a credit to the amount of taxes owed.
How abatement is determined:	Awards are limited to \$1,000 for an associate's degree holder, \$4,000 for a bachelor's degree holder, and \$6,000 for a graduate or post-graduate degree holder, and may not exceed the education loan repayment expenses incurred by the selected taxpayer during each service period completed, for up to four (4) consecutive service periods provided that the taxpayer continues to meet the eligibility requirements throughout the eligibility period.	The amount of the credit shall be 30% of State certified production costs incurred that are directly attributable to activity within the State. Motion picture production tax credit certificates are issued to the motion picture production company, or to one or more transferees to be applied as a credit to taxes owed.
Recapture provisions:	Tax Credits may be denied or revoked if Applicant's certification or information is found to be willfully false; if the Applicant or successor is convicted of bribery, fraud, theft, embezzlement, misappropriation, and/or extortion involving the State, any State agency or political subdivision of the State.	N/A



<b><u>Program Name:</u></b>	<b><u>Historic Preservation Tax Credits</u></b>	<b><u>Job Training Tax Credits</u></b>
Program purpose:	To create economic incentives for the purpose of stimulating the redevelopment and reuse of Rhode Island's historic structures, as well as to generate the positive economic and employment activities that will result from such redevelopment and reuse.	To encourage employers to invest in retraining or upgrading the skills of their employees.
Taxes being abated:	Business Corporation, Personal Income, Insurance Tax, Insurance - HMO.	Business Corporation, Public Service Corporation, Bank Tax, Insurance Company
Authority under which abatements are entered into:	RIGL 44-33.6	RIGL 42-64.6
Criteria to be eligible to receive abatements and commitment of the taxpayer:	A certified historic structure is to be substantially rehabilitated.	An employer must meet criteria provided by the Human Resources Investment Council (HRIC). Said employer cannot be a physician or anyone whose principal business is providing legal, accounting, engineering, architectural, or other similar professional services.
How taxes are reduced:	As a credit to the amount of taxes owed. Non-profit entities without tax liabilities may request payment for the value of the credit awarded.	As a credit to the amount of taxes owed.
How abatement is determined:	The Division of Taxation issues a certificate in the amount of the qualifying credit for which the rehabilitation qualifies, up to 20% of qualified rehabilitation expenditures, or 25% if a specified portion of the structure will be made available for a trade or business. The maximum credit allowed for any one project is \$5,000,000.	The HRIC notifies the applicant whether or not the application is approved. The tax credit is calculated by the employer and claimed on the appropriate tax return, up to 50% of actual training expenses for new and current employees. Tax credit is for up to \$5,000 per employee over a three-year period.
Recapture provisions:	N/A	Credit claimed for an employee is recaptured if the employee involuntarily, other than as a result of death or disability, no longer qualifies as a qualifying employee of the employer at any time during the 18-month period following the employee's completion of the program.

<u>Program Name:</u>	<u>Employer's Apprenticeship Tax Credits</u>	<u>Tax Credit for Contributions to Qualified Scholarship Organizations</u>
Program purpose:	To encourage the creation of machine tool, metal trade, and plastic process technician apprenticeships.	To enhance the educational opportunities available to all students in Rhode Island.
Taxes being abated:	Business Corporation	Business Corporation, Public Service Corporation, Bank Tax, Bank Deposits, Insurance Company, Personal Income Tax.
Authority under which abatements are entered into:	RIGL 44-11-41	RIGL 44-62
Criteria to be eligible to receive abatements and commitment of the taxpayer:	The apprentice must be enrolled in a registered qualified program through the RI Department of Labor and Training's State Apprenticeship Council. The number of apprenticeships for which credit is calculated must exceed the average number of qualifying apprenticeships begun in the preceding five years.	A business entity is approved by the Division of Taxation if the dollar amount of the tax credit is no greater than \$100,000 in any tax year and if the scholarship organization qualified under RIGL 44-62-2. Approvals are available on a first-come-first-served basis, with the total aggregate amount of all tax credits approved not to exceed \$1,500,000 in a fiscal year.
How taxes are reduced:	As a credit to the amount of taxes owed.	The Division of Taxation issues a certificate for the amount of credit to be granted.
How abatement is determined:	Based on 50% of actual wages paid to a qualifying apprentice or \$4,800, whichever is less.	Unless a two-year contribution plan is in place, the credit is computed at 75% of the total voluntary contribution made. In general, if a two-year contribution plan is in place, the credit for each year shall be 90% of the total voluntary contribution made.
Recapture provisions:	N/A	If the amount of the second-year contribution is less than 80% of the first-year contribution, then the credit for both the first- and second-year contributions shall equal 75% of each year's contribution. In such case, the tax administrator shall prepare the tax credit certificate for the second year at 75%. The difference in credit allowable for the first year (15% of the first-year contribution) shall be recaptured by adding it to the taxpayer's tax in that year.

## Note 12. Pledged Revenue

The State's debt supported by pledged revenue is as follows (expressed in thousands):

### Revenue Bonds-Tobacco Settlement Financing Corporation

Revenue:			
Tobacco settlement revenue-cash basis (a)	\$	43,882	
Investment income		1,043	
Total revenue		<u>44,925</u>	
General and administrative expenses		65	
Net revenue available for debt service	\$	<u>44,860</u>	
Required debt service payments			
	\$	36,006	
Covered ratio before turbo principal payments (b)			124.60%
Turbo redemptions - principal (c)		9,160	
Total annual debt service	\$	<u>45,166</u>	
Covered ratio after turbo principal payments (d)			99.30%
Term of commitment - through June 2052			

### Revenue Bonds-GARVEE (Federal Highway)

Revenue - FHWA participation	\$	57,521	
Less: operating expenses		—	
Net available revenue	\$	<u>57,521</u>	
Debt service			
Principal	\$	33,975	
Interest		23,560	
Total debt service	\$	<u>57,535</u>	
Coverage (b)			99.98%
Term of commitment - through June 2031			

### Revenue Bonds-Motor Fuel (Gas Tax)

Revenue - 2 cents per gallon of the gasoline tax	\$	9,776	
Less: operating expenses		—	
Net available revenue	\$	<u>9,776</u>	
Debt service			
Principal	\$	3,605	
Interest		1,751	
Total debt service	\$	<u>5,356</u>	
Coverage (b)			182.52%
Term of commitment - through June 2027			

- (a) Included for fiscal 2019 are certain one-time revenue items totaling approximately \$7.6 million. This amount consisted of \$2.9 million related to the disputed payment amount for 2016 which was settled at 75% and \$4.7 million related to the disputed payment amount for 2018 which was settled at 72%.
- (b) Coverage ratio equals net revenue available for debt service divided by required debt service payments.
- (c) "Turbo" redemption provisions require the Corporation to apply collections that are in excess of current funding requirements to the early redemption of the bonds.
- (d) Coverage ratio equals net revenue available for debt service divided by total annual debt service.

### Note 13. Transfers

Transfers for the fiscal year ended June 30, 2019 are presented below (expressed in thousands):

	Transfers	Description
Governmental Funds		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	\$ 49,392	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,012	Administrative cost
Historic Tax Credit	13,296	Tax credits claimed
Bond Capital	2,719	Interest earnings transfer
Clean Water	1,254	Transfer
RI Capital Plan	205	Capital expenditures
Proprietary Funds		
Lottery	397,321	Net income transfer
Total General	<u>465,199</u>	
Intermodal Surface Transportation		
RI Capital Plan	<u>43,494</u>	Infrastructure funding
Nonmajor Funds		
RI Capital Plan		
General	116,960	Transfer statutory excess in budget reserve
Bond Capital	193	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	<u>1,716</u>	Operating assistance
Total Nonmajor Funds	<u>118,869</u>	
Total Governmental Funds	<u>627,562</u>	
Proprietary Funds		
Convention Center		
General	20,290	Debt service
RI Capital Plan	8,700	Capital improvement
Employment Security	<u>95</u>	JDF tax revenue
Total Proprietary Funds	<u>29,085</u>	
Total Transfers Primary Government	<u>\$ 656,647</u>	

### Note 14. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$17.5 million for the fiscal year ended June 30, 2019. 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, 2019:

Fiscal Year Ending June 30	
2020	\$ 13,318
2021	10,990
2022	9,747
2023	9,302
2024	8,135
2025 - 2029	21,425
2030 - 2034	6,604
Total	<u>\$ 79,521</u>

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

## Note 15. Commitments

### Primary Government

The primary government is committed at June 30, 2019 under various contractual obligations for transportation infrastructure improvements, construction and renovation of buildings, software development and implementation, and other capital projects. A substantial portion of the cost of these projects will be reimbursed by federal grants, with the remainder principally financed with debt proceeds and Rhode Island Capital Plan Funds.

At June 30, 2019, the primary government had transportation infrastructure design, construction and other contract commitments of approximately \$862 million, and contract commitments for the design, construction and renovation of buildings of approximately \$48 million. At June 30, 2019 the primary government had software development and implementation contract commitments of approximately \$12 million. These amounts include only purchase orders and related amendments generally processed through June 30, 2019. The State is also committed under multiple contracts for ongoing services which are not included in these commitment amounts.

The RI Public Rail Corporation (RIPRC), a special revenue fund, has obtained a letter of credit in the amount of \$7.5 million in favor of AMTRAK to secure RIPRC's performance of its obligations arising under any South County Rail Service agreements and bridges over AMTRAK's Northeast Corridor. RIPRC has been designated as the entity responsible for indemnifying AMTRAK and MBTA, and securing and maintaining liability insurance coverage to provide funds to pay all or a portion of the liabilities of the State, the MBTA, and AMTRAK for property damage, personal injury, bodily injury or death arising out of the South County Commuter Rail Service with policy limits of \$295 million, per federal law, subject to a self-insured retention of \$7.5 million.

The State entered into a Settlement Agreement and Consent Decree with the United States Department of Justice in 2013 and 2014, respectively. The agreements address findings that the State violated the Americans with Disabilities Act by failing to serve individuals with intellectual and developmental disabilities in integrated settings, and by placing youth with intellectual and developmental disabilities at serious risk of segregation. Under the terms of these agreements, the State is committed to transform its service system over a 10-year period of time. The State is required to achieve certain goals each year. The ultimate goal is to provide integrated employment and day services for Rhode Islanders living with developmental disabilities.

### Performance-based Agreements

The R.I. Commerce Corporation (RICC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer through fiscal year 2021 of an amount equal

to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3.7 million in the first five years and \$3.6 million in years 6 through 20. In the year ended June 30, 2019, \$3.6 million was paid to the developer.

RICC has issued economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State paid \$2.9 million of the debt on the related economic development revenue bonds in fiscal 2019. The State has commitments relating to this debt through fiscal 2027. In addition, RICC has committed to funding various economic development initiatives that are further described in Note 11, Tax Abatements.

### ***Asset Retirement Obligations***

The Rhode Island Nuclear Science Center (RINSC) located on the University of Rhode Island's Bay Campus houses a nuclear reactor. The process by which nuclear reactors are retired from service and terminate their operating licenses granted by the U.S. Nuclear Regulatory Commission (USNRC) is referred to as decommissioning. The USNRC regulates the decommissioning of nuclear power plants and has established requirements that must be adhered to in the process.

In accordance with GASB Statement No. 83 *Certain Asset Retirement Obligations* a liability for the estimated cost of decommissioning the nuclear reactor and an offsetting deferred outflow of resources, each totaling \$32.6 million was recorded as of July 1, 2018. The liability was measured using the estimated current value of outlays expected to be incurred for required decommissioning and post decommissioning costs. The liability estimate calculation assumed a post decommissioning monitoring period of 20 years and a contingency factor calculated using weighted average probability factors of 25%, 32% and 60%.

The estimated remaining useful life of the nuclear reactor is 40 years as of July 1, 2018. During fiscal 2019 amortization expense of \$815,000 related to the deferred outflow of assets was charged to general government functions on the Statement of Activities. The total deferred outflows remaining to be amortized at June 30, 2019 was \$31.8 million.

In accordance with GASB Statement No. 83 *Certain Asset Retirement Obligations* all relevant factors will be reevaluated annually to determine whether the effect of one or more of those factors is expected to significantly increase or decrease the expected outlays associated with the liability. Based on the results of each reevaluation, the liability will be remeasured if required.

### ***State Takeover of Providence Public School District***

The State, acting through the Board of Education and the Rhode Island Department of Education ("RIDE"), oversees the performance of schools and school districts that receive education aid funding. This oversight role includes adopting statewide standards for student performance, and annually assessing the performance of individual schools and school districts against such statewide standards. Pursuant to RIGL Section 16-7.1-5 (the "Crowley Act"), the State is required to intervene when a school or school district continually falls short of performance standards. State intervention initially consists of support and technical assistance.

In connection with its oversight role, RIDE identified the Providence Public School District (the "PPSD") as consistently among the lowest performing districts in the State, based on objective criteria such as academic proficiency, absenteeism and graduation rates. Pursuant to the Crowley Act, the State, in collaboration with the PPSD, attempted to improve the PPSD through operational, policy and financial support, all of which were unsuccessful.

In May 2019, following the release of standardized test scores showing low levels of English and math proficiency among PPSD students, RIDE engaged the Institute for Education Policy at Johns Hopkins University (the "Institute") to conduct a review of the PPSD to identify the challenges impeding reform efforts. The Institute's review included a study of academic outcomes, observation of classroom instruction and interviews with students, teachers, administrators and community members. After completing its review, the Institute released a report in June 2019 (the "Hopkins Report"), which identified systemic deficiencies in the

performance of the PPSD, including with respect to governance structure, management, health and safety, facilities, curriculum and academic instruction. The Hopkins Report concluded that such deficiencies were the cause of widespread unsatisfactory academic outcomes for PPSD students and demoralized teachers, staff, administrators and parents.

Pursuant to a decision and order of the Commissioner of RIDE dated October 15, 2019 in response to the Hopkins Report, the State assumed governance and management responsibility for the PPSD effective November 1, 2019. The State will appoint a “turnaround superintendent” to manage PPSD operations and develop and implement a long-term improvement plan for at least the next five years.

In connection with its takeover of the PPSD, the State may be responsible for budget deficits and other costs relative to the PPSD, subject to the State appropriations and budget process. The extent of such costs is unknown at this time.

### ***Rhode Island Lottery – Master Contract Agreements***

#### *Gaming Systems Provider – International Game Technology (IGT)*

During May 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.

As consideration for this exclusive right, the gaming systems provider paid the Lottery \$12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider (\$2.5 million at June 30, 2019).

The contract mandates commission percentages ranging between 1.00% and 5.00% of lottery ticket sales and 1.00% and 2.50% of video lottery net terminal income, depending on the amount of sales in each category.

During August 2018, the Lottery contracted with IGT to provide, along with its subcontractor, American Wagering, Inc., D/B/A William Hill USA (William Hill), a proprietary sports betting solution for all sports betting at the Twin River Casino Hotel and Tiverton Casino Hotel facilities. The initial term of the software license is five years from launch date, and upon mutual agreement of the parties, there are two successive five year renewal options. In exchange, IGT is allocated its revenue share in accordance with RI General Laws 42-61-2. In the event of a loss of sports wagering revenue in a quarterly period, IGT will cover the State's share of said loss interest free until a subsequent invoicing period is sufficient to cover said period loss.

During July 2019, the Lottery executed the first amendment to the Sports Betting Agreement authorizing IGT to supply the equipment, software and services for online sports wagering using mobile devices. This is in accordance with authorized sports wagering legislation enacted in June 2019.

On July 1, 2017, the Lottery entered into a Seventh Amendment to the Master Contract with IGT. Under this agreement, IGT shall deploy premium IGT video lottery terminals based on a premium tier and rate table, and receive \$500,000 per marketing year for each level of promotional points up to 12.5% of facility net terminal income for the prior marketing year plus \$750,000; and also up to 15% of facility net terminal income for the prior marketing year plus \$750,000. The maximum amount of promotional points legislatively authorized under this program is 20% of facility net terminal income for the prior marketing year plus \$750,000, subject to approval from the Lottery Director. The payments are prorated based on the number of days the premium video lottery terminals are deployed during the fiscal year. In return, IGT waives all rights, remedies, claims and cause of action against the Division in connection with the promotional points program for the facilities redeemed up to 15% of the facility prior year net terminal income plus \$750,000. During fiscal 2019, IGT waived all rights, claims, and cause of action for promotional points for the facilities redeemed up to 20% of facility prior year net terminal income plus \$750,000 for Twin River-Lincoln. For fiscal 2019, the first marketing year in which the Division commenced operating video lottery terminals at Twin River - Tiverton, the amount of promotional points program was the sum of 50% of the Newport Grand and 50% of the Twin

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River - Lincoln net terminal income for the prior marketing year. For fiscal 2020, each facility's allowable promotional points are 20% of prior year net terminal income plus \$750,000.

*Video Lottery Facility – Twin River-Lincoln (Owned and operated by Twin River Worldwide Holdings)*

On July 18, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with the owners of Twin River - Lincoln to manage one of the State's licensed video lottery facilities. The contract entitles the owner to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. Five-year extension terms commenced on July 18, 2010 and July 18, 2015. Certain extensions are contingent on the owner's compliance with full-time employment mandates.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Twin River-Lincoln. In fiscal 2019, Twin River-Lincoln was authorized and issued approximately \$71 million in promotional points to facility patrons.

The Lottery is also required by contract to reimburse the owner for allowable marketing expenses incurred between \$4 million and \$10 million, and between \$14 million and \$17 million, at the same percentage as the Lottery's share of net terminal income for the fiscal year (60.89% for 2019). The Lottery accrued to reimburse the owner for \$5.5 million in marketing expenses for fiscal 2019.

On May 2, 2017, the Lottery entered into a fifth amendment to the Master Contract with the owner, authorizing the owner to construct and operate a hotel at Twin River-Lincoln which opened in October, 2018.

On May 3, 2017, the Lottery entered into a sixth amendment to the Master Contract with the owner providing the option to extend the agreement for two additional five (5) year terms commencing on July 18, 2020 and July 17, 2025 and continuing until July 17, 2030. Certain extensions are contingent on the owner's compliance with full-time employment mandates. The agreement also effectuates the legislation authorizing and directing the Lottery to operate casino gaming at Twin River-Tiverton and to implement statutory changes regarding the allocation of video lottery net terminal income and net table game revenue at Twin River - Lincoln and Twin River - Tiverton.

On February 6, 2018, the Lottery entered into the seventh amendment to the Master Contract with the owner requiring make whole provisions pursuant for promotional points redeemed. In accordance with the provisions of section 2.1 of the IGT Seventh Amendment to its Master Contract, Twin River - Lincoln and Twin River - Tiverton shall make whole, through the Division, for IGT premium game video lottery terminals at each level of promotional points up to 12.5% and 15% of net terminal income of each facility based on that percentage specified of net terminal income for the prior state fiscal year plus \$750,000; or for Tiverton, during its first year of operation, based on the sum of 50% of the Newport Grand and 50% of the Twin River - Lincoln net terminal income for the prior fiscal year. During fiscal 2019, IGT waived all rights, claims and cause action for promotional points for the facilities redeemed up to 20% of the facility prior year net terminal income plus \$750,000 for Twin River - Lincoln. For fiscal 2020, each facility's allowable promotional points are 20% for prior year net terminal income plus \$750,000.

*Video Lottery Facilities – Twin River - Tiverton (Owned and operated by Twin River Worldwide Holdings)*

On August 28, 2018, Newport Grand ceased operations and the State's license was transferred to Twin River - Tiverton.

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities. Newport Grand and the Lottery extended the contract for two five year terms commencing on November 23, 2010 and November 23, 2015. There were requirements for Newport's compliance with full-time employment mandates specified in the 2010 law. The contract, as amended, entitled Newport Grand to compensation equal in percentage of net terminal income to that of Twin River - Lincoln. In addition, Newport Grand was entitled to an increased percentage of net terminal income of 1.9% to be used for approved marketing expenses at Newport Grand, which was to sunset upon the opening of Twin River - Tiverton.



The Master Contract was amended to reflect the statutory authorization of a promotional points program at Newport Grand. For fiscal year 2019, the first marketing year in which the Division commenced operating video lottery terminals at Twin River - Tiverton, the amount of promotional points program was the sum of 50% of the Newport Grand and 50% of the Twin River - Lincoln net terminal income for the prior marketing year. For fiscal 2020, each facility's allowable promotional points are 20% of prior year net terminal income plus \$750,000.

In fiscal 2019, Twin River - Tiverton was authorized and issued approximately \$14.9 million in promotional points to facility patrons (Newport Grand was authorized and issued approximately \$.9 million).

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Twin River - Tiverton for certain allowable marketing expenses incurred between \$560,000 and \$1.4 million, at the same percentage as the Lottery's share of net terminal income for fiscal 2019 (61.46% for Newport Grand and 61.07% for Tiverton Casino Hotel). Marketing reimbursements for fiscal year 2019 were prorated based on the number of days that each facility was operating during the fiscal year. The Lottery accrued to reimburse Twin River - Tiverton for \$430,067 in marketing expenses for fiscal 2019 (reimbursements for Newport Grand totaled \$8,548 for fiscal 2019).

#### *Rhode Island Convention Center Authority*

Through June 30, 2019, the Authority's remaining commitment under contracts entered into with vendors associated with the construction project involving the parking facility adjacent to the Garrahy Courthouse totaled approximately \$14.7 million.

### **Discretely Presented Component Units**

#### *R.I. Resource Recovery Corporation*

##### Landfill closure and post-closure:

The Environmental Protection Agency (EPA) established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by RIRRC has been segregated into six distinct phases. Phases I, II and III were closed by RIRRC in prior years, while Phase IV reached capacity during fiscal year 2012, with final capping completed during fiscal year 2014. In 2005, RIRRC began landfilling in Phase V, which is near capacity and has temporarily stopped accepting waste. As of December 2015, RIRRC began accepting waste in Phase VI.

A liability for closure and post-closure care of \$94.1 million as of June 30, 2019 has been recorded in the statement of net position, as summarized by Phases below:

	Year ended June 30, 2019
Phase I	\$ 450,904
Phase II and III	15,268,863
Phase IV	16,898,499
Phase V	42,910,328
Phase VI	18,007,688
Other	570,423
	<u>\$ 94,106,705</u>

As of June 30, 2019, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste are as follows:

	Estimated remaining costs to be recognized	Estimated Capacity Used	Estimated remaining years for accepting waste
Phase V	\$ 2,613,193	94.26%	6 months
Phase VI	\$ 80,828,179	18.22%	17.2 years

As of June 30, 2019 RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a \$606,670 increase of the corresponding liability from \$108.9 million at June 30, 2018 to \$109.0 million at June 30, 2019.

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

Included in the restricted component of net position at June 30, 2019 is \$63.9 million placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV, V and VI. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

#### Pollution remediation obligations:

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

Changes in the pollution remediation obligation for the year ended June 30, 2019 is as follows:

Balance, June 30, 2018	Additions	Reductions	Balance, June 30, 2019	Current Portion
\$ 18,403,169	—	\$ (2,387,203)	\$ 16,015,966	\$ 873,495

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

During 1996, RIRRC entered into a Consent Decree with the EPA concerning remedial actions taken by RIRRC for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of \$27 million for remedial purposes. The balance of the trust fund totaled \$46.0 million as of June 30, 2019.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. RIRRC has recorded a liability for future remediation costs of approximately \$16.0 million as of June 30, 2019.

#### *R.I. Turnpike and Bridge Authority*

The R.I. Turnpike and Bridge Authority has entered into contracts totaling \$36.7 million for bridge and highway repairs on the Mount Hope, Claiborne Pell, Jamestown and Sakonnet River Bridges which is expected to take over a year to complete. As of June 30, 2019, remaining commitments on these contracts total \$19.8 million. The Authority also provides administrative and operational functions for the RhodeWorks truck tolling initiative which commenced in fiscal 18.

*R.I. Public Transit Authority*

The R.I. Public Transit Authority is committed under various contracts in the amount of \$36.2 million at June 30, 2019.

*I-195 Redevelopment District Commission*

To provide incentives for the development of an approximately 200,000 square foot commercial building and to support the ongoing operations of key tenants, Cambridge Innovation Center (CIC) and Venture Café, the I-195 District Commission has entered into following agreements with Wexford Science and Technology and CIC:

	Total Amount Awarded Through June 30, 2019	Paid Through June 30, 2019	Remaining Commitment
Base Building 195 Incentive	\$ 1,865,000	\$ 1,865,000	\$ —
CIC Tenant Improvements Grant	12,775,000	9,581,538	3,193,462
CIC Operation Grant	1,200,000	—	1,200,000
District Hall Development & Management	1,800,000	180,000	1,620,000
District Hall Operation Grant	560,000	560,000	—
District Hall FF&E Grant	200,000	—	200,000
Venture Café Grant	700,000	—	700,000
	<u>\$ 19,100,000</u>	<u>\$ 12,186,538</u>	<u>\$ 6,913,462</u>

*Other Component Units*

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

**Note 16. Contingencies**

**Primary Government**

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

**Challenges to Pension Reforms**

The 2009, 2010 and 2011 legislative pension reforms resulted in numerous lawsuits against the State brought by current and retired employees, as well as their unions. Of these lawsuits, only one remains pending as described below.

In September 2014, a case challenging pension reforms was commenced by the Rhode Island State Troopers Association in Superior Court. The State and ERSRI filed motions to dismiss which were heard on December 13, 2019. A decision on the motions is pending. The State intends to vigorously defend this lawsuit.

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### **American Trucking Associations, Inc. et a. v. Alviti**

The American Trucking Associations and four trucking companies have sued the State in federal district court alleging that the statute authorizing only tractor-trailer tolling violates the Dormant Commerce Clause of the United States Constitution. On March 19, 2019, the federal court granted the State's motion to dismiss for lack of subject-matter jurisdiction, stating that the state court and not federal court was the proper location for this lawsuit. Plaintiffs appealed this decision to the First Circuit Court of Appeals which reversed the decision and remanded the case to the U.S. District Court. The cumulative amount of toll collections, which began in June 2018, totaled \$7.3 million through June 30, 2019. During this period there were two toll gantries operating. Once all toll gantries are operational, expected revenue (and thus potential restitution) is estimated to be \$45-50 million per year. This amount of potential restitution is an estimate subject to change based on actual toll collections.

### **Andrew C. et al. v. Raimondo, Executive Office of Health & Human Services (EOHHS) and Department of Children, Youth & Families (DCYF)**

Children's Rights of New York (Children's Rights) brought suit against the State in 2007 alleging constitutional and statutory violations in its foster care programs. Children's Rights sought substantial changes to these programs, prolonged supervision by a private, outside monitor and attorney's fees. A judgment was entered in favor of the State in United States District Court for the District of Rhode Island on April 30, 2014. Children's Rights appealed to the United States Court of Appeals for the First Circuit, which reversed the judgment and remanded the case to the District Court for additional discovery and further litigation. A settlement agreement was approved by the District Court after a fairness hearing in May 2018 and negotiated attorneys' fees were paid. The State will need to provide resources to DCYF to carry out the terms of the settlement agreement and meet its benchmarks. If DCYF does not meet the benchmarks, the State may be liable for costs and attorneys' fees from future litigation for contempt and/or enforcement of the settlement. DCYF management believes they can comply with the requirements of the settlement with current staffing levels, but if it is determined that requirements of the settlement are not being met, DCYF will seek additional positions and associated funding.

### **Provorse, Neil et al. v. State et al.**

A family sued DCYF for "wrongful adoption," alleging that DCYF failed to disclose the adopted child's severe disabilities. The child also brought separate claims against DCYF in connection with a sexual assault that allegedly occurred while she was in DCYF's care. The Superior Court issued a decision denying the State's motion to dismiss based on the statute of limitations. The family also filed a motion for partial summary judgment on the public duty doctrine, tort cap and the application of statutory interest; and, the State filed cross motions for summary judgment on these same issues. The Superior Court partially granted and partially denied each of the cross motions. The family is seeking over \$2 million in damages, and there may be exposure for pre-trial interest exceeding that amount.

### **K.L. Class v. R.I. Council on Elementary and Secondary Education, et. al.,**

A student, through their parents and on behalf of a class of similarly situated individuals, filed suit in federal court arguing that Local Education Agencies in the State must provide free appropriate public education to students with a disability who have not earned a regular high school diploma until the age of 22. Such services have historically been provided until the age of 21. On appeal of a district court decision in favor of the State, the First Circuit Court of Appeals reversed the district court, held in favor of Plaintiffs and remanded the case to the trial court to determine remedies. The parties are currently working to determine the size of plaintiffs' class in preparation for a potential settlement conference. Based on similar settlements in other states, the State estimates potential liability of approximately \$7 million.

### **Verizon New England v. Tax Administrator**

This case is pending in Rhode Island District Court as a tax appeal. The plaintiff seeks reimbursement for the past five years of contested tax payments in the collective amount of \$22 million plus interest and challenges the method of depreciation, which would result in recalculation of the State's assessments regarding its equipment and communication lines. Management intends to contest the case vigorously and

believes they will be successful. The State has filed a motion for summary judgment. A number of municipalities have moved to intervene. The next court action, scheduled for January 2020, will address the motions to intervene. Over 99% of the collected tax payments are forwarded to municipalities. Therefore, an adverse verdict would impact each city and town regarding future tax payments which would be reduced to cover any amount awarded to the Plaintiff.

#### **A.C. et al. v. Gina Raimondo, et al.**

The State has been sued by the Rhode Island Center for Justice alleging that the State has “downgraded the teaching of social studies and civics” and thereby violated students’ rights under the Equal Protection, Privileges and Immunities and Due Process Clauses of the Fourteenth Amendment, the Sixth and Seventh Amendments, as well as the Guarantee Clause of Art. 4, § 4 of the United States Constitution. The case is proceeding through the federal District Court and management has not formed an opinion as to the likelihood of success or any potential damages.

#### **Chariho Regional School District, et al. v. RIDE, et al.**

This matter includes the Council on Elementary and Secondary Education and the R.I. Department of Administration as defendants. Chariho alleges RIDE breached an agreement concerning the transfer of ownership of the Chariho Career and Technical Center by allowing other communities in the county to operate career and technical programs. Defendants’ joint motion to dismiss was granted March 20, 2017. On May 26, 2017, plaintiffs filed an appeal to the R.I. Supreme Court. The Supreme Court remanded the case back to Superior Court for trial on May 30, 2019. A hearing on a motion to dismiss by one of the defendants was held in November, 2019. The Court denied that motion.

#### **Tobacco Master Settlement Agreement - Tobacco Settlement Financing Corporation**

The Tobacco Master Settlement Agreement (the “MSA”) is an agreement entered into between 52 states and territories, including Rhode Island, and major tobacco companies (the Participating Tobacco Manufacturers, or “PMs”) in settlement of certain litigation. On March 24, 2017, the Rhode Island Attorney General (the “Attorney General”) announced that his office had reached a settlement in principle through its joinder to a multistate Settlement Term Sheet (“Term Sheet”) with various tobacco manufacturers over certain disputed payments for the years 2004 through 2014 under the MSA. Rhode Island became the twenty-fifth (25th) state to join the Term Sheet. Disputed payments arose from a provision in the MSA that allows the PMs to withhold a portion of the annual distribution to the MSA States if certain conditions are met. Under the MSA, the States have certain obligations to diligently enforce certain state statutes with respect to tobacco manufacturers that are not signatories to the MSA (the “Non-participating Manufacturers”, or “NPMs”). If the PMs decide to dispute an MSA State’s diligent enforcement of such statutes, the PMs may deposit a portion of their annual distribution to such MSA State (the “MSA Payment”) into a Disputed Payments Account (“DPA”) for such MSA State until the dispute is adjudicated. The PMs have annually disputed each MSA State’s diligent enforcement actions. The State has always and continues to maintain that it diligently enforces its applicable statutes against the NPMs. Under the Term Sheet, Rhode Island received an upfront payment of 54 percent of the disputed payments deposited by the PMs in the settling MSA State’s DPA for the years 2004-2014. Rhode Island’s settlement did not include year 2003 like certain other States because the PMs issued an order of “no contest” for Rhode Island during the 2003 Arbitration. This meant that the PMs decided not to pursue its diligent enforcement claims against Rhode Island for 2003. Under the Term Sheet, the PMs receive the remaining 46 percent in the form of offsets taken against the MSA payments due to the settling MSA States in payment years 2017 through 2021. Under the Settlement Term Sheet, the PMs also will not place into the disputed payment accounts certain amounts with respect to payment years 2017 through 2021 (reflecting certain disputed amounts relating to years 2014 through and including 2020) that would otherwise be deposited into the DPA and not paid to the MSA States if the MSA States did not join the Settlement Term Sheet. A final comprehensive agreement incorporating the Term Sheet (“the Settlement Agreement”) was fully executed in the fall of 2017 by the PMs and 26 MSA States. The Settlement Agreement also settled Year 2015 on a 75% / 25% split to resolve the NPM Adjustment dispute, rather than a 50% / 50% split with an NPM Adjustment dispute to still be resolved and monies trued-up in future years. By settling 2015, Rhode Island was disbursed an additional \$2,890,371 in Payment Year 2018 that Rhode Island otherwise would not have received without settling Year 2015. This additional revenue resulted from the PMs crediting RI the extra 25% it did not previously receive. To date, there are currently thirty-six (36) State signatories to the

Settlement Agreement, subject to each State's respective joinder letters. The NPM Adjustment Arbitration regarding diligent enforcement related to 2004 remains ongoing with the States that have not settled.

Effective for the 2019 Payment, the signatory PMs and original twenty-six (26) State signatories to the Settlement Agreement, including Rhode Island, entered into an extension of the Settlement Agreement per the Settlement Agreement's modification provisions to include 2016/2017 as settled years at a 75%/25% split between the States and the PMs to resolve those years and 2) eliminate the potential of an SET ("state excise tax") Paid NPM Sales Adjustment (described below) for 2015, 2016 and 2017.

It is possible that the PMs could dispute the MSA amounts beginning with the 2018 NPM Adjustment, which could result in the Tobacco Settlement Financing Corporation receiving less revenue than assumed in out-year projections, thereby impacting its ability to service its debt obligations. Prior to the Settlement Agreement, 100% of a state's MSA Payment in a given year was at risk until the disputed payment issue was resolved. If a state was found non-diligent, the State could lose up to 100% of its MSA Payment for a given year. The Settlement Agreement allows for a reduced reimbursement percentage for those states found non-diligent, so the State would retain a portion of its MSA Payment even if found non-diligent for non-settled years. The reimbursement percentages are specific to the year being settled and are also impacted by the number of states found to be non-diligent; thus, it is unknown how much of Rhode Island's MSA revenues would be at risk in a given year. However, any finding of non-diligence on the part of the State in future arbitrations could have a material adverse effect on receipt of Tobacco Settlement Revenues ("TSRs"). Also, any failure on the part of the PMs to perform their obligations under the MSA and/or the Settlement Agreement could also have a material adverse effect on receipt of future TSRs. A reduction in the amount of TSRs received could affect the Corporation's ability to make turbo redemptions and other debt service payments on its debt obligations. Should the PMs be determined with finality to be entitled to a full NPM Adjustment in a future year, thereby requiring the State to return the 50% of a disputed payment it previously received, or determined to be subject to a SET-paid adjustment as described below, this could have a material adverse effect on the amounts of TSRs available to the Corporation to make turbo redemptions and other debt service payments on its debt obligations.

Without this Settlement, 100% of the monies for each respective unresolved year would be held in the DPA until there was a diligence determination at a later date. On April 18, 2019, Rhode Island received approximately \$2,920,946 related to the disputed payment amount for 2016 as a settled year at 75% of the 2016 disputed payment amount. In April 2019, Rhode Island also received approximately \$4,637,950 related to the disputed payment amount for 2018 at 72% of the 2018 disputed amount. The total credits received by Rhode Island in 2019 pursuant to the Settlement Agreement were approximately \$7,558,896.

The State will continue to vigorously enforce the MSA and related statutes. Although a Settling State that diligently enforces its Qualifying Statute is not subject to the NPM Adjustment, many procedural uncertainties, as described above, remain regarding the NPM Adjustment. Future NPM Adjustment claims for Settling States remain possible for calendar years 2018 and all future years. As discussed above, one of the benefits of the Settlement is that the signatory states and the PMs split disputed payments for future years 50%/50%. Without this settlement, 100% of the disputed monies would be held in the DPA. The Settlement Agreement allows at least 50% of future disputed payments to be paid to Rhode Island immediately in the corresponding payment year as a credit, with the PMs keeping a maximum of 50%. When the dispute over a particular year is finally resolved, the prevailing party will receive the other party's 50% as a credit to that year's payment.

As detailed in the Term Sheet, the Bond Consent Solicitation Statement, and incorporated under Section V.B.8 of the Settlement Agreement, a State's MSA payment may also be subject to an adjustment on all SET-paid NPM cigarettes for future unsettled years if a State does not meet a safe harbor provision. A State will not be subject to this revised adjustment if (i) escrow was deposited on 96% of all NPM cigarettes sold in the State during that year on which SET was paid, or (ii) the number of SET-paid NPM cigarettes sold in the State during that year on which escrow was not deposited did not exceed two million cigarettes. Pursuant to the Settlement Agreement, BDO USA, LLP ("BDO") serves as the Settlement Agreement's Data Clearinghouse to perform this SET-paid calculation. On or about August 1, 2019, in accordance with Section VI.E(1)-(2) of the Settlement Agreement, Rhode Island, through the Attorney General's Office, submitted certain confidential documents to BDO and PM Counsel related to NPM Sales in Rhode Island during Year 2018. The documents and disclosure of such information are protected by a confidentiality and protective

order issued by Rhode Island's MSA Court in July 2019. BDO has made a preliminary determination that Rhode Island has met the safe harbor provision under Section V.B.8 of the Settlement Agreement for Year 2018 and will not be subject to the SET-paid adjustment for the 2020 MSA payment. The PMs have until early 2020 to dispute BDO's preliminary finding.

Unsuccessful litigation has been filed against the MSA in the past alleging, among other claims, that the MSA violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These lawsuits sought to prevent the states from collecting any monies under the MSA, and/or to prevent the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. While there are currently no known cases pending, such cases could be brought in the future where an adverse ruling could potentially result in the Corporation not having adequate financial resources to service its debt obligations.

For additional information about these matters, please refer to the separately issued Tobacco Settlement Financing Corporation financial statements for the year ended June 30, 2019.

## Lottery

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

The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. Most recently, a third casino opened (June 2019) in Everett, Massachusetts which is likely the cause of the recent decline in the Lottery's net revenue from video lottery terminals and table games. In addition, both neighboring states may consider additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

The Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Rhode Island Superior Court on or about September 28, 2011, challenging, *inter alia*, the constitutionality of the Rhode Island Casino Gaming Act ("Act") on the grounds that it would not be "state-operated" and the Act "delegates unconstitutional authority to a private corporation." On or about June 29, 2012, the Rhode Island Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof beyond a reasonable doubt that the Act is facially unconstitutional. The Narragansett Indian Tribe filed a notice of appeal of that decision with the Rhode Island Supreme Court. On or about March 4, 2015, the Rhode Island Supreme Court issued a decision upholding the Superior Court's decision. The remaining issue in the case relating to whether the State "operates" the Twin River - Lincoln and Twin River - Tiverton facilities remains pending in the Superior Court. If the tribe were to prevail, there could be a significant impact on the State's gaming revenue.

A plaintiff has filed suit against the Division of Lottery and Department of Administration challenging the constitutionality of sports betting in Rhode Island. The complaint asserts that the conduct of State operated sports betting in Tiverton and Lincoln violates the express constitutional requirement of voter approval and must be declared unconstitutional and enjoined until and unless the voters of Rhode Island approve sports gambling at duly authorized statewide and local elections. On September 9, 2019, the suit was dismissed by the Rhode Island Superior Court due to a lack of standing by the plaintiff. However in December 2019, a Superior Court judge ruled that the Plaintiff did have standing. State revenues collected from Twin River Casino and Tiverton Casino would be affected if a court were to enjoin or otherwise restrict sports wagering.

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## Federal Assistance

The State receives significant amounts of federal financial assistance under grant agreements or joint state/federally financed programs 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, 2019 will be issued in March 2020. The Single Audit reports instances of federal non-compliance, questioned costs, and other matters to federal grantor agencies regarding the State's administration of federal programs. These matters could result in federal disallowances and/or sanctions upon review by the respective federal agencies. Several findings had potentially significant but unknown or unquantifiable questioned costs as included in prior year Single Audit Reports. The ultimate disposition of these findings rests with the federal grantor agencies, and, in most cases, resolution is still in progress. Adjustments have been 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 2019 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit.

The Executive Office of Health and Human Services has engaged external counsel in evaluating whether the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals may have received overpayments from certain activities reimbursed by the Medicaid program. The evaluation is ongoing and no quantification of an actual overpayment amount, if any, has been made. The Medicaid program is a significant activity within the State's General Fund and consequently, overpayments, if determined, could be material.

### **RIBRIDGES / Unified Health Infrastructure Project ("UHIP")**

The RIBridges system, also known as the Unified Health Infrastructure Project or UHIP, is Rhode Island's integrated eligibility system for various health and human services programs (e.g., Medicaid, Children's Health Insurance Program (CHIP), Supplemental Nutrition Assistance (SNAP), Temporary Assistance to Needy Families (TANF), and Child Care programs) as well as the State's Health Insurance Exchange established pursuant to the ACA.

The system implementation resulted in challenges in determining and/or re-determining eligibility for the programs administered through the system. Upon phase 2 implementation, the system experienced many functional problems in enrollment and eligibility processing. Control deficiencies have resulted in known duplicate capitation payments for Medicaid managed care enrollees, continued Medicaid eligibility for deceased individuals, and extended backlogs for establishing eligibility for newborns as well as advances to providers impacted by delays in eligibility.

Participants experienced system stabilization improvements to RIBridges in fiscal 2019. Backlogs have dropped, timeliness has improved across programs and system incidents are at their lowest since system implementation. Efforts to address the implementation issues continue and the State anticipates further technological improvements to RIBridges in fiscal 2020.

However, contingencies remain which include potential sanctions or request for return of federal funds imposed by federal grantor agencies for noncompliance with specific program requirements. Additionally, advances continue to certain provider groups due to untimely eligibility determinations which has precluded the processing of Medicaid claims. Settlement of such advances by subsequent adjudication of claims for eligible individuals increased during fiscal 2019 and will continue through fiscal 2020.

The State has negotiated with the system developer, Deloitte, to recoup some of the system costs expended to date, to receive additional services at no charge, to fix and improve the system, and to cover any fines that may be levied against the State by the federal government. The State has not paid Deloitte since December 2016 and during that period the State negotiated \$86 million in no-cost services and credits. The State has negotiated a contract extension with Deloitte through June 2021. Once it is approved by federal partners, the agreement will secure additional service discounts for the period of extension, as well as a \$50 million compensatory cash payment to the State, some portion of which will be paid to federal partners.



The State of Rhode Island Executive Office of Health and Human Services submitted the federal fiscal year 2020 RIBridges Implementation Advanced Planning Document (IAPD) to the federal government in July 2019 requesting continued federal funding for the RIBridges project that increases the total cost of the project to \$656 million, of which \$86.6 million is allocated to federal fiscal year 2021. Project costs include development, maintenance and operations costs of RIBridges since fiscal 2011, and operational costs for agencies served by the system. These include State personnel, call center operations, project management, and business and technical support services. The State share is now projected at \$153 million. Both CMS and the Food and Nutrition Service have approved the IAPD for a six-month period.

Material noncompliance with federal program compliance provisions were reported in the Fiscal 2017 and 2018 Single Audit Reports for the Medicaid, CHIP, SNAP, TANF, and CCAP programs. Resolution of the audit findings identifying material noncompliance remains pending.

Management has recorded liabilities for known amounts and made estimates for other contingencies where possible. Deloitte has agreed to pay all fines and penalties administered by the Food and Nutrition Service related to the SNAP program deficiencies caused by the system. Management cannot presently estimate the likelihood of other contingent liabilities related to the RIBridges/UHIP implementation.

### **R. I. Department of Transportation (RIDOT) Consent Decree with the EPA**

RIDOT has entered into a Consent Decree with the EPA concerning violations of the Clean Water Act by failing to comply with the conditions in the General Permit – Rhode Island Pollutant Discharge Elimination System Storm Water Discharge from Small Municipal Separate Storm Sewer Systems. The Consent Decree was lodged with the U.S. District Court on October 15, 2015 and it was finalized on December 22, 2015. The Consent Decree requires RIDOT to implement remedial actions necessary in order to address discharges to impaired waters, illicit discharge detection and elimination, street sweeping pollution prevention and catch basin and other drainage system component inspection and maintenance. In addition to the remedial measures that must be implemented by RIDOT, RIDOT has paid a civil penalty in the amount of \$315 thousand and completed two supplemental environmental projects that require the transfer of certain parcels of land for conservation purposes which have a value of \$77 thousand and \$158 thousand respectively. The Consent Decree also incorporates stipulated penalties for RIDOT's failure to meet specific compliance deadlines. To date, RIDOT has met all the required milestones and expects to meet all future milestones outlined in the Consent Decree.

### **Moral Obligation Bonds**

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bondholders. These bonds are considered "moral obligations" of the State when the General Laws require the executive director of the issuing agency 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.

#### *R.I. Housing and Mortgage Finance Corporation (RIHMFC)*

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) had \$28.4 million outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to \$4.4 million on June 30, 2019. Under the moral obligation provisions detailed in the preceding paragraph, upon request by the Governor, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. RIHMFC has never been required to request such appropriations. Such reserve funds relate solely to select multi-family issues of RIHMFC.

#### *R.I. Commerce Corporation (RICC)*

At June 30, 2019 in addition to the State's moral obligation under the Job Creation Guaranty Program (JCGP) for the bonds discussed in Note 6 H, certain bonds secured by RICC's capital reserve fund carry a moral obligation of the State. If at any time, certain reserve funds of RICC pledged fall below their funding requirements, a request will be made to the General Assembly to appropriate the amount of the deficiency. Additional outstanding moral obligations relating to these bonds total \$12.7 million at June 30, 2019.

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## Component Units

### *R.I. Industrial-Recreational Building Authority (RIIRBA)*

The R.I. Industrial-Recreational Building Authority (RIIRBA) is authorized to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and the Rhode Island Industrial Facilities Corporation (RIIFC), a component unit of the State, on industrial or recreational projects in the State up to a maximum of \$60 million of outstanding principal balances under such insured mortgages and security agreements.

Losses, if any, are first payable from RIIRBA's available resources. RIIRBA must then request appropriations of the General Assembly for any losses in excess of insured amounts. RIIRBA's insurance guarantee is backed by the full faith and credit of the State.

At June 30, 2019, RIIRBA has insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by RIIRBA at June 30, 2019 are \$9.6 million.

RIIRBA insures a bond issued by RIIFC on behalf of a private sector entity. During the year ended June 30, 2012 the private sector entity defaulted on its payments to the bond holder and RIIRBA assumed responsibility for making the debt payments. In July 2018, a mediation settlement in connection with a pending case in the Providence Superior Court was entered into and approved with a formal vote by the board of the Authority. This settlement resulted in a payment of \$1.5 million to the Rhode Island Industrial Recreational Authority replenishing existing available financial resources. Bond payments will continue to be made by first exhausting RIIRBA's available financial resources and if losses related to the default exceed available resources, the Authority will then request appropriations of the Rhode Island General Assembly for any loss in excess of the insured amount. The insured commitment, which is included in total liabilities on the accompanying Statement of Net Position, amounts to \$3.4 million at June 30, 2019. No request has been made to the General Assembly at June 30, 2019 for appropriations to satisfy any liability under the insurance guarantee.

### *R.I. Housing and Mortgage Finance Corporation (RIHMFC)*

RIHMFC is party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose RIHMFC to credit risk in excess of the amounts recognized in the accompanying statement of net position. RIHMFC's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2019 is \$94.7 million.

### *R.I. Turnpike and Bridge Authority (RITBA)*

A contractor (the Prime Contractor) hired by RITBA submitted a pass-through claim to RITBA on behalf of a subcontractor engaged by the Prime Contractor in which the subcontractor is claiming additional compensation of approximately \$8.1 million for cleaning and painting the Newport Pell Bridge as a result of the Prime Contractor's performance. RITBA vigorously disputes the matter and denies any liability to the Prime Contractor and the subcontractor. At this early stage, RITBA and its legal counsel have determined that it is not possible to fully evaluate the matter, including the likelihood of an unfavorable outcome.

### *University of Rhode Island*

On January 15, 2018, a suit was filed against the University of Rhode Island, the Council for Postsecondary Education and the Board of Education in the death of an individual, who died as a result of injuries suffered at the hands of an University employee after the employee left work. Discovery is ongoing and a trial date has been scheduled for March 2020. The impact of this matter, if any, cannot presently be determined.

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*Other Component Units*

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

**Note 17. Employer Pension Plans**

**A. Summary of Employer Plans**

The State provides pension benefits for its employees through multiple retirement benefit plans as outlined below (expressed in thousands):

	Plan	Plan Type	Covered employees	FY 2019 pension expense (credit)*	Net pension liability at June 30, 2018 measurement date
A	Employees' Retirement System (ERS)	Cost-sharing multiple-employer defined benefit plan – advance funded through a trust	State employees excluding state police and judges:		
			Governmental activities	\$186,631	\$2,013,417
			Business-type activities	\$1,630	\$17,142
			Special funding – teachers - state share (see Note Section 17-E)	\$127,297	\$1,357,444
B	State Police Retirement Benefits Trust (SPRBT)	Single-employer defined benefit plan – advance funded through a trust	State Police hired after July 1, 1987	\$6,463	\$27,191
C	Judicial Retirement Benefits Trust (JRBT)	Single-employer defined benefit plan – advance funded through a trust	Judges appointed after December 31, 1989	\$2,250	\$5,713
D	RI Judicial Retirement Fund Trust (RIJRFT)	Single-employer defined benefit plan – advance funded through a trust	Covers 7 judges appointed prior to January 1, 1990	(\$1,191)	\$18,187
E	State Police Retirement Fund Trust (SPRFT)	Single-employer defined benefit plan – advance funded through a trust	State Police hired before July 1, 1987	\$22,544	\$166,325
F	Judicial Non-Contributory Retirement Plan (JNCRP)	Single employer defined benefit – non trustee – pay-as-you-go plan	Judges appointed before January 1, 1990 who retired before July 1, 2012	\$2,246	\$41,550
<b>Totals</b>				<b>\$347,870</b>	<b>\$3,646,969</b>
G	LIUNA – union plan for members of the LIUNA bargaining units	Cost-sharing multiple employer defined benefit plan – “Taft-Hartley” non-governmental plan	Members of the LIUNA bargaining unit.	Not applicable (see note below)	Not applicable (see note below)
H	ERS – Defined Contribution Plan	Multiple-employer defined contribution plan	State employees subject to the “hybrid” defined benefit/defined contribution plan provisions	\$5,100	Not applicable
I	FICA Alternative Retirement Income Security Program	Single-employer defined contribution plan	State employees not eligible to participate in the State's other defined benefit plans	Not applicable	Not applicable
* The pension credit for RIJRFT results from an actuarial gain (expected compared to actual experience).					

Employer pension expense and related liabilities and deferred inflows of resources/deferred outflows of resources for defined benefit plans A-E as identified above are recognized in the financial statements based on the provisions of GASB Statement No. 68.

Employer pension expense and related liabilities and deferred inflows/outflows for defined benefit plan F as identified above are recognized in the financial statements consistent with the provisions of GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. The State provides these benefits on a pay-as-you-go basis rather than through an advance funding arrangement and a qualifying trust.

The LIUNA sponsored, cost-sharing, multiple-employer pension plan (plan G) is not a state or local government pension plan. As there is no required employer contribution for covered employees, no employer pension expense is reflected in these financial statements. Consistent with the requirements of GASB Statement No. 78, there is no recognition of an employer proportionate net pension liability, if any.

Pension expense recognized for the defined contribution plans (H and I) – is recognized based on actual employer contributions required and made during the fiscal year consistent with the requirements of GASB Statement No. 68 regarding defined contribution plans. There is no required employer contribution to the FICA Alternative Retirement Income Security Program.

Plan membership, based on the June 30, 2017 actuarial valuations (with the exception of JNCRP which has a June 30, 2018 valuation date), is summarized in the table below:

	Retirees and beneficiaries	Terminated plan members entitled to but not yet receiving benefits	Active Vested	Active Non-vested	Total by Plan
ERS-State Employees	11,078	3,384	8,302	2,850	25,614
JRBT	20	—	15	40	75
RIJRFT	2	—	5	—	7
SPRBT	71	47	26	206	350
SPRFT	269	—	—	—	269
JNCRP	51	—	—	—	51

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## B. Defined Benefit Plan Descriptions – Advance Funded Plans

**EMPLOYEES' RETIREMENT SYSTEM (ERS)** - The ERS was established and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State of Rhode Island under the provisions of chapters 8 to 10, inclusive, of Title 36, and public school teachers under the provisions of chapters 15 to 17, inclusive, of Title 16 of the Rhode Island General Laws.

**Plan members** - The plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). The plan also covers teachers, including superintendents, principals, school nurses, and certain other school officials in the public schools in the cities and towns. Membership in the plan is mandatory for all covered state employees and teachers. Elected officials may become members on an optional basis and legislators may participate if elected to office prior to January 1, 1995.

Certain employees of the Rhode Island Airport Corporation (hired before July 1, 1993), the Rhode Island Commerce Corporation (active contributing members and employees of the Department of Economic Development before October 31, 1995 who elected to continue membership) and the Narragansett Bay Water Quality District Commission (members of a collective bargaining unit) are also covered and have the same benefits as State employees.

**Plan vesting provisions** – *after five years of service.*

**Retirement eligibility and plan benefits** – are summarized in the following table:

Schedule	Schedule Criteria	Retirement eligibility	Benefit accrual rates	Maximum benefit
(A)	Completed 10 years of service on or before July, 1, 2005 and eligible to retire as of September 30, 2009	Age 60 with 10 years of service or after 28 years of service at any age	Effective until June 30, 2012: 1.7% for each of first ten years 1.9% for each of next ten years 3.0% for each of next fourteen years 2% for the 35 <sup>th</sup> year  Effective July 1, 2012: 1.0% per year through June 30, 2015  Effective July 1, 2015: for members with 20 years of service as of July 1, 2012: 2% per year	80% of final average earnings (3 consecutive highest years)
(AB)	Completed 10 years of service on or before July, 1, 2005 but ineligible to retire as of September 30, 2009	Minimum retirement age of 62 and ten years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Effective until June 30, 2012: Same accrual rates as (A) above to September 30, 2009 and then Schedule B rates (below) thereafter  Effective July 1, 2012: 1.0% per year through June 30, 2015  Effective July 1, 2015, for members with 20 years of service as of July 1, 2012: 2% per year	80% of final average earnings (5 consecutive highest years)
(B)	Less than 10 years of service before July 1, 2005 and eligible to retire as of September 30, 2009	Age 65 with 10 years of service or after 29 years of service and age 59	Effective until June 30, 2012: 1.6% for each of first ten years 1.8% for each of next ten years 2.0% for each of next five years 2.25% for each of next five years 2.5% for each of next seven years 2.25% for the 38 <sup>th</sup> year  Effective July 1, 2012: 1.0% per year	75% of final average earnings (5 consecutive highest years)
(B1)	Less than 10 years of service before July 1, 2005 and ineligible to retire as of September 30, 2009	Age 65 with ten years of service, or age 62 with at least 29 years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Same as Schedule B	75% of final average earnings (5 consecutive highest years)
(B2)	Less than 5 years of service as of July 1, 2012	Social Security Retirement Age and 5 years of contributory service	1.6% for each of first ten years  Effective July 1, 2012: 1.0% per year	75% of final average earnings (5 consecutive highest years)

Effective July 1, 2015 general employees with more than 20 years of service at July 1, 2012 increased their employee contribution rates to 11% and participate solely in the defined benefit plan. Members receive a benefit accrual of 2% per year based on the three or five year average compensation.

Effective July 1, 2015 employees are eligible to retire upon attainment of: age 65 with 30 years of service, 64 with 31 years of service, 63 with 32 years of service or 62 with 33 years of service. Members may retire earlier if their RIRSA date is earlier or are eligible under a transition rule.

State correctional officers may retire at age 50 with 20 years of service. However, if not eligible to retire as of September 30, 2009, the minimum retirement age was modified to 55 with 25 years of service credit for correctional officers and registered nurses at the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals.

The plan provides for survivor's benefits for service-connected death and certain lump sum death benefits.

Joint and survivor options are available to members. For members with 10 years of service as of July 1, 2005, the Service Retirement Allowance (SRA) Plus option provides for the payment of a larger benefit before the attainment of age sixty-two (62) and a reduced amount thereafter. The reduced amount is equal to the benefit before age sixty-two (62), including cost-of-living increases, minus the member's estimated social security benefits payable at age sixty-two (62).

Vested members that have 10 or more years of contributing service credit on June 30, 2012, may choose to retire at a retirement eligibility date that was calculated as of September 30, 2009, if the member continues to work and make retirement contributions until that date. If the member chooses this option, their retirement benefits will be calculated using the benefit that they have accrued as of June 30, 2012 - members will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

State employees and public school teachers may retire with a reduced pension benefit if they have 20 years of service credit and they are within five years of their retirement date as prescribed in the Rhode Island Retirement Security Act (RIRSA). The actuarially reduced benefit will be calculated based on how close the member is to their RIRSA eligibility date.

**Cost of Living Adjustments** - The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return - 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first \$26,688 (indexed as of January 1, 2019) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of \$26,688 is replaced with \$32,025 (indexed as of January 1, 2019) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds 80%. At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$26,688).

**Disability retirement provisions** - The plan also provides nonservice-connected disability benefits after five years of service and service-connected disability pensions with no minimum service requirement. Effective for applications filed after September 30, 2009, accidental disability will be available at 66 2/3% for members who are permanently and totally disabled as determined by the Retirement Board. If the disability is determined to be partial and the member is able to work in other jobs, the benefit will be limited to 50%. Disability benefits are subject to annual review by the Retirement Board.



**Other plan provisions** - Service credit purchases, excluding contribution refund paybacks and military service, requested after June 16, 2009 are calculated at full actuarial cost.

**JUDICIAL RETIREMENT BENEFITS TRUST (JRBT)** - The Judicial Retirement Benefits Trust was established under Rhode Island General Laws 8-8.2-7; 8-3-16; 8-8-10.1; 28-30-18.1; and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to Justices of the Traffic Tribunal, Supreme, Superior, Family, District and Workers Compensation courts.

**Plan members** – The plan covers all Judges appointed after December 31, 1989.

**Retirement eligibility and plan benefits** – are summarized in the following table:

	<b>Retirement benefit</b>
Judges appointed after December 31, 1989 but before July 2, 1997	75% of the final salary at the time of retirement after 20 years of service, or 10 years of service and attainment of age 65. Judges retiring after 20 years of service after age 65 or 15 years of service after age 70 receive full retirement benefits, which is the final salary at time of retirement.
Judges appointed after July 2, 1997 but before January 1, 2009	Same as above except, salary is the average highest three (3) consecutive years of compensation rather than final salary.
Judges appointed after January 1, 2009 but before July 1, 2009	Judges with 20 years of service after age 65 or judges with 15 years of service after age 70 will receive 90% of the average of the highest three consecutive years of compensation. Judges appointed on or after January 1, 2009 with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 70% of the average highest three consecutive years of compensation.  Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 80% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 60% of the average highest three consecutive years of compensation.
Judges appointed after July 1, 2009	Judges with 20 years of service after age 65 or with 15 years of service after age 70 will receive 80% of the average of the highest five consecutive years of compensation. Judges with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 65% of the average highest five consecutive years of compensation.  Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 70% of the average highest five consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 55% of the average highest five consecutive years of compensation.

Certain survivor benefits are also provided to judges who are plan members, which is 50% of the benefit amount payable to the judicial member.

**Cost of Living Adjustments** - The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return - 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first \$26,688 (indexed as of January 1, 2019) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of \$26,688 is replaced with \$32,025 (indexed as of January 1, 2019) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds 80%. At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$26,688).

**STATE OF RHODE ISLAND JUDICIAL RETIREMENT FUND TRUST (RIJRFT)** - Effective July 1, 2012, and pursuant to Rhode Island General Law section 8-3-16, the retirement board established a trust to collect proceeds for the purpose of paying retirement benefits to participating judges or their beneficiaries.

**Plan members** – The plan covers seven (7) judges appointed prior to January 1, 1990. These members are active judges (as of June 30, 2012) appointed prior to January 1, 1990 that do not participate in the Judicial Retirement Benefit Trust. Prior to creating the trust, benefits for these members were intended to be funded on a pay-as-you-go basis. To the extent assets in the trust are insufficient to fund member benefits, the State would also fund retirement benefits on a pay-as-you-go basis as it does for fifty-one (51) retired judges and surviving beneficiaries who were not members of either judicial plan. The employee contribution rate is 12% of salary (except for members of the Supreme Court who contribute 8.75%).

**Retirement eligibility and plan benefits** – The plan generally provides retirement benefits for members who have served as a justice of the Supreme Court, the Superior Court, the Family Court or the District Court, for 20 years (or a combination of service in various courts) and has reached the age of 65 years, or has served 15 years, and reached the age of 70 years. These members may retire from regular service and receive a benefit equal to the annual salary the member was receiving at the time of their retirement. Members of the Traffic Tribunal who served as a justice for 20 years, or has served for 10 years and reached age 65 years may retire from regular service and receive a benefit equal to the 75% of the annual salary at the time of retirement. However, any Traffic Tribunal judge who has served 20 years and has reached age 65 years, or has served for 15 years and has reached age 70 years may retire from active service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement.

**Cost of Living Adjustments** - The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return - 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first \$26,688 (indexed as of January 1, 2019) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of \$26,688 is replaced with \$32,025 (indexed as of January 1, 2019) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds 80%. At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$26,688).

**STATE POLICE RETIREMENT BENEFITS TRUST (SPRBT)** - The State Police Retirement Benefits Trust was established under Rhode Island General Law Section 42-28-22.1 and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to State Police.

**Plan members** – The plan covers all State Police and Superintendents hired after July 1, 1987.

**Retirement eligibility and plan benefits** – Prior to June 30, 2012 the plan generally provides retirement benefits equal to 50% of final salary after 20 years of service, plus 3.0% of final salary times service in excess of 20 years through 25 years to a maximum of 65% of final salary. Such benefits are available to members after 20 years of service regardless of age. The Superintendent of the State Police will receive 50% of his/her final salary and may retire after attainment of age 60 and 10 years of service.

The General Laws were amended such that any member of the State Police, other than the Superintendent, who is hired on or after July 1, 2007 and who has served for twenty-five (25) years shall be entitled to a retirement allowance of 50% of the final salary. In addition, any member may serve up to a maximum of 30 years and shall be allowed an additional amount equal to 3.0% for each completed year served after 25 years to a maximum retirement allowance not to exceed 65% of the final salary.

Benefits are based on the final base salary earned at retirement including longevity increment, holiday pay, clothing allowance and up to 400 overtime hours.

Effective July 1, 2012 State Police officers are eligible to retire once they have accrued a retirement benefit equal to 50% of their whole salary, with mandatory retirement once they have accrued a retirement benefit equal to 65% of their whole salary. State Police officers will earn a 2% accrual rate for each year of contributing service. Benefits will be calculated on the average of the highest five consecutive years of salary, including up to 400 hours of mandatory overtime service. Benefits accrued as of June 30, 2012 will be protected under the Rhode Island Retirement Security Act.

**Cost of Living Adjustments** - The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return - 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first \$26,688 (indexed as of January 1, 2019) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of \$26,688 is replaced with \$32,025 (indexed as of January 1, 2019) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds 80%. At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$26,688).

**Disability retirement provisions** - The plan provides nonservice-connected disability benefits after 10 years of service and service-connected disability pensions with no minimum service requirement.

**STATE POLICE RETIREMENT FUND TRUST (SPRFT)** - Effective July 1, 2016 and pursuant to Rhode Island General Law section 42-28-22.1, the retirement board established a trust to collect proceeds for the purpose of paying retirement benefits to participating members of the state police initially hired on or before July 1, 1987, or their beneficiaries.

**Plan members** - the plan covers members of the state police hired on or before July 1, 1987. Prior to creating the trust, benefits for these members were intended to be funded on a pay-as-you-go basis.

**Retirement eligibility and plan benefits** - The plan generally provides retirement benefits equal to 50% of final salary after 20 years of service, members that retired after July 1, 1972 could earn an additional 3.0% of final salary times service in excess of 20 years through 25 years to a maximum of 65% of final salary. Such benefits are available to members after 20 years of service regardless of age.

**Cost of Living Adjustments** - The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT and JRBT plans reach a funded status of 80%. The COLA provision will be reviewed in a four-year interval while the plans are less than 80% funded. When the collective funding level of a plan exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month.

The COLA calculation is represented by the following formula: 50% of the COLA is calculated by taking the previous 5-year average investment return, less 5% (5-year return - 5.0%, with a max of 4%) and 50% calculated using the increase in the CPI-U from the prior September 30 (max of 3%) for a total maximum COLA of 3.5%.

The benefit adjustments are provided to all retirees entitled to receive a benefit adjustment as of June 30, 2012 under the law then in effect, and for all other retirees, the benefit adjustments shall commence upon the third anniversary of the date of retirement or the date on which the retiree reaches his or her Social Security retirement age, whichever is later. For members (and their beneficiaries) retiring after June 30, 2015, the annual benefit adjustment provided in any calendar year is equal to the lesser of either the member's retirement allowance or the first \$26,688 (indexed as of January 1, 2019) of retirement allowance multiplied by the percentage resulting from the COLA calculation as outlined in the preceding paragraph. The retirement amount subject to the COLA calculation is indexed annually in the same percentage as the COLA determination and is run annually regardless of the collective funding status.

For members and/or beneficiaries of members who retired on or before June 30, 2015 the current indexed amount of \$26,688 is replaced with \$32,025 (indexed as of January 1, 2019) until the funded ratio of the ERS, SPRBT and JRBT, calculated by the system's actuary on an aggregate basis, exceeds 80%. At such time, the benefit adjustments will then be provided on the lower amount (currently indexed at \$26,688).

### C. Defined Benefit Advance Funded Plans - Summary of Significant Accounting Policies

The Fiduciary Net Position presented for defined benefit plans which are advance funded and accounted for in a trust has been determined on a basis consistent with that used by the respective plans in preparing their financial statements. ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at <http://www.ersri.org>. The plans' basis of accounting and accounting policies, including those related to benefit payments and valuation of plan investments is summarized below.

#### *Basis of Accounting*

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Disclosures regarding methods used to value investments and investment expenses are included in Note 2C, Pension Trusts.

#### **D. Defined Benefit Plan – Non-Contributory (pay-as-you-go) Pension Plan**

In addition to the defined benefit plans administered by the ERS, the State also administers one other non-trusted single employer defined benefit pension plan that is closed to new members. The Judicial Non-Contributory Retirement Plan (JNCRP) provides retirement benefits to judges appointed before January 1, 1990 and who retired before July 1, 2012. The plan was created by statute and has historically been funded by the State on a pay-as-you-go basis. Accordingly, no assets have been accumulated to pay benefits under this non-trusted plan.

Pension benefits paid under the JNCRP are generally determined based on years of service at retirement and are payable to the retiree or their beneficiary. JNCRP members, in general, are eligible for full retirement benefits equal to their final annual compensation at age 65, if the member has served for 20 years, or at age 70 with 15 years of service. The plan has provisions that allow survivors, upon the death of the participant, to continue to receive a portion of the participant's benefit.

#### **E. Special Funding Situation – ERS Plan – Teachers**

The State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation. The total net pension liability for teachers covered by the Employees' Retirement System measured as of June 30, 2018 is approximately \$3.2 billion and the State's share of the net pension liability is approximately \$1.4 billion. The State's share of the net pension liability for teachers has been allocated based upon the statutory contribution percentage and is reflected in the Statement of Net Position as of June 30, 2019 as Net Pension Liability-Special Funding Situation. The State's proportion for the special funding situation for the teachers covered in the ERS Plan was 42.72%, a decrease of (0.33)% since the prior reporting period. Benefit provisions, contribution requirements, and other information related to the measurement and proportionate share of the net pension liability under a special funding situation for teachers are described in other sections of this Note relating to the ERS plan.

#### **F. Contributions and Funding Policy**

Contribution requirements for plan members and participating employers are established pursuant to the Rhode Island General Laws. With the exception of the RIJRFT, employers are required by statute to contribute at an actuarially determined rate for the respective defined benefit plans.

Actuarially determined contributions are calculated as of June 30, two years prior to the commencement of the fiscal year in which the contributions are reported. The actuarially determined contribution rates (or amounts if not expressed as a rate) for fiscal 2019 were determined based on valuations performed as of June 30, 2016 for all plans.

The Rhode Island Judicial Retirement Fund Trust is not currently advance funded. Employees make contributions to the plan; however the State is not making full actuarially determined contributions. This plan is for a closed group of individuals and the amortization payment has been calculated based on level-dollar amortization over 17 years from June 30, 2013.

The Rhode Island State Police Retirement Fund Trust is a closed group of individuals and the annual contributions into the Trust have been calculated on a level-dollar amortization over 18 years from June 30, 2016.

The non-contributory judges (JNCRP) plan is financed on a pay-as-you-go basis.

A summary of the contribution rates by both the participating employers and members and the State's annual pension plan contributions (expressed in thousands) for the fiscal year ended June 30, 2019 is provided in the table below:

	ERS*	JRBT	RIJRFT**	SPRBT	SPRFT**	JNCRP***
Contribution rate:						
State	26.28%	20.28%	\$1,224	14.74%	\$16,387	—
Plan members	3.75% and 11.00%	8.75% and 12.00%	8.75% and 12.00%	8.75%	—	—
State contribution for teachers	10.06%	—	—	—	—	—
Contributions made for state employees	\$171,103	\$1,922	\$399	\$3,567	\$16,387	\$5,029
Contribution made for teachers	\$102,239	—	—	—	—	—

\* This includes the actuarially determined contribution rate of 25.75% and an additional contribution of .53% representing an elective contribution by the State to offset the impact of a voluntary retirement incentive offered to State employees in 2017.

\*\*Actuarially determined contribution not expressed as a rate

\*\*\*JNCRP is a pay-as-you-go plan.

ERS Plan Supplemental Contributions - The General Laws (Section 36-10-2(a) 1 and 2) also require, in addition to the contributions provided for by the funding policy, for each fiscal year in which the actuarially determined state contribution rate for state employees and teachers is lower than that for the prior fiscal year, the governor shall include an appropriation to that system equivalent to 20% of the rate reduction to be applied to the actuarial accrued liability. The amounts to be appropriated shall be included in the annual appropriation bill and shall be paid by the general treasurer into the retirement system. The retirement system's actuary shall not adjust the computation of the annual required contribution for the year in which supplemental contributions are received; such contributions once made may be treated as reducing the actuarial liability remaining for amortization in the following actuarial valuation to be performed. For fiscal year 2019, no supplemental contribution was required in accordance with this provision of the General Laws.

The Retirement Security Act provides for additional contributions to the System based on 5.5% of the value of contracts where the services performed by the contractor were previously performed by state employees. A supplemental contribution of \$511 thousand was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

Employer contributions to the defined contribution plan are also prescribed by statute. In addition, plan member contributions for both the defined benefit and defined contribution plans are set by statute. Member and employer contribution rates can be changed by the General Assembly.

ERS Plan Special funding situation for local teachers - the State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Because the State deferred certain payments to the System in 1990/1991 and 1991/1992 the State's actual share of the total annual contributions is approximately 42.72%. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation.

## G. Net Pension Liability

The net pension liability of the State and other participating employers in the Employees' Retirement System, a multiple-employer cost-sharing plan, has been apportioned based on the percentage share of total contributions made by each employer in fiscal year 2018. The State's proportion for the ERS Plan for State employees was 89.45%, an increase of 0.27% since the prior reporting period.

Following is a summary of the net pension liability of the State and other employers participating in the Employees' Retirement System as well as the State's liability related to the five single employer defined benefit plans it sponsors, all measured as of June 30, 2018 (expressed in thousands and excluding amounts related to teachers under the special funding arrangement discussed above):

<b>Total Net Pension Liability - Employees' Retirement System (ERS) - State Employees</b>	\$	2,250,804
<i>Less portion attributable to other entities:</i>		
Enterprise Fund - Rhode Island Lottery	\$	(17,142)
Discretely Presented Component Units		
University of Rhode Island	\$	123,705
Rhode Island College		42,651
Community College of RI		31,485
RI Division of Higher Education Assistance		1,495
RI Commerce Corporation		309
RI Airport Corporation		1,928
		<u>(201,573)</u>
Related organization - Narragansett Bay Commission		(18,672)
<b>ERS - Net Pension Liability - Governmental Activities</b>	<b>\$</b>	<b>2,013,417</b>
<b>Net Pension Liability - Single Employer Defined Benefit Pension Plans</b>		
JRBT		5,713
RIJRFT		18,187
SPRBT		27,191
SPRFT		166,325
JNCRP		41,550
		<u>41,550</u>
<b>Total Net Pension Liability</b>	<b>\$</b>	<b>2,272,383</b>

Further details regarding the State's total pension liability and net pension liability for the single employer trustee defined benefit pension plans (expressed in thousands) which was measured as of June 30, 2018 is presented below:

	JRBT	RIJRFT	SPRBT	SPRFT
Total pension liability	\$ 79,158	\$ 18,994	\$ 165,924	\$ 182,583
Plan fiduciary net position	73,445	807	138,733	16,258
Net pension liability	<u>\$ 5,713</u>	<u>\$ 18,187</u>	<u>\$ 27,191</u>	<u>\$ 166,325</u>
Plan fiduciary net position as a percentage of total pension liability	92.8%	4.2%	83.6%	8.9%

**a. Actuarial assumptions used in determining total pension liability**

The total pension liability was determined by actuarial valuations performed as of June 30, 2017 and rolled forward to the June 30, 2018 measurement date, with the exception of RIJRFT, SPRFT and JNCRP. The total pension liability for RIJRFT, SPRFT and JNCRP are based on valuations performed as of June 30, 2018. The following table summarizes the actuarial assumptions, applied to all periods included in the measurement.

	ERS						
	State Employees	Teachers	JRBT	RIJRFT	SPRBT	SPRFT	JNCRP
Valuation Date	6/30/2017 rolled forward to 6/30/2018	6/30/2017 rolled forward to 6/30/2018	6/30/2017 rolled forward to 6/30/2018	06/30/18	6/30/2017 rolled forward to 6/30/2018	06/30/18	06/30/18
Actuarial Cost Method	Entry Age Normal-the Individual Entry Age Actuarial Cost methodology is used						
<u>Assumptions</u>							
Investment Rate of Return	7.00%	7.00%	7.00%	3.62%	7.00%	7.00%	3.62%
Projected Salary increases	3.25% to 6.25%	3.0% to 13.0%	3.50%	3.50%	3.75% to 11.75%	N/A	N/A
Inflation	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Mortality	Male employees: RP-2014 Combined Healthy For Males with Blue Collar adjustments, projected with Scale Ultimate MP16.  Female employees: RP-2014 Combined Healthy For Females, projected with Scale Ultimate MP16.  Male Teachers: RP-2014 Combined Healthy for Males with White Collar adjustments, projected with Scale Ultimate MP16.  Female Teachers: RP-2014 Combined Healthy for Females with White Collar adjustments, projected with Scale Ultimate MP16.						
COLA	Post-retirement Benefit Increase: Post-retirement benefit increases are assumed to be 2.1%, per annum, while the plan has a funding level that exceeds 80%; however, an interim COLA will be granted in four-year intervals while the COLA is suspended. The second such COLA will be applicable in Calendar Year 2021. As of June 30, 2017, it is assumed that the COLAs will be suspended for 10 years due to the current funding level of the plans. The actual amount of the COLA is determined based on 50% of the plan's five-year average investment rate of return minus 5.00% which will range from zero to 4.0%, and 50% of the lesser of 3% or last year's CPI-U increase for a total maximum increase of 3.50%.						

The actuarial assumptions used in the calculation of the total pension liability at the June 30, 2018 measurement date were consistent with the 2017 Actuarial Experience Investigation Study for the six year period ended June 30, 2016.

**Factors affecting trends for amounts related to the net pension liability**

There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date except for the changes in assumptions for the RIJRFT and JNCRP plans due to use of the municipal bond index rate of 3.62% as of June 30, 2018. This rate was 3.56% at June 30, 2017.



The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 34 sources. The June 30, 2018 expected arithmetic returns over the long term (20 years) by asset class are summarized in the following table:

Asset Class	Long-term Asset allocation	Long-term Expected Arithmetic Real Rate of Return
<b><i>GROWTH</i></b>		
<b>Global Equity</b>		
U.S. Equity	20.80%	6.43%
International Developed Equity	14.40%	6.72%
Emerging Markets Equity	4.80%	8.90%
<b>Private Growth</b>		
Private Equity	11.30%	9.08%
Non-Core Real Estate	2.20%	5.03%
Opportunistic Private Credit	1.50%	9.08%
<b><i>INCOME</i></b>		
High Yield Infrastructure	1.00%	3.81%
REITS	1.00%	5.03%
Liquid Credit	2.80%	3.81%
Private Credit	3.20%	3.81%
<b><i>STABILITY</i></b>		
<b>Crisis Protection Class</b>		
Treasury Duration	4.00%	0.61%
Systematic Trend	4.00%	4.00%
<b>Inflation Protection</b>		
Core Real Estate	3.60%	5.03%
Private Infrastructure	2.40%	5.61%
TIPs	1.00%	1.75%
Natural Resources	1.00%	3.81%
<b>Volatility Protection</b>		
IG Fixed Income	11.50%	2.14%
Absolute Return	6.50%	4.00%
Cash	3.00%	0.61%
	100.00%	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

#### **b. Discount rate**

The discount rate used to measure the total pension liability of the plans was 7.0% for all plans but the RIJRF and JNCRP plans. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

For the RIJRFT and JNCRP plans, the State has not opted to make actuarially determined employer contributions and based on those assumptions, the pension plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Consequently, for those plans, the municipal bond index rate, based on fixed-income mutual bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index", (3.62% at June 30, 2018) was applied to all periods of projected benefit payments to determine the total pension liability.

**c. Sensitivity of the net pension liability to changes in the discount rate**

The following presents the net pension liability of the employers calculated using the discount rate of 7.0% (for all plans except the RIJRFT and JNCRP), as well as what the employers' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate. The RIJRFT and JNCRP plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members and consequently the municipal bond index rate of 3.62% at June 30, 2018 was used in the determination of the net pension liability (asset) for those plans with a similar +1/-1 % sensitivity analysis (expressed in thousands):

Governmental Activities:

	1.00% Decrease (6.00%)	Current Discount Rate (7.0%)	1.00% Increase (8.00%)
ERS - State employees	\$ 2,514,007	\$ 2,013,417	\$ 1,640,558
ERS - Teachers (State share)	\$ 1,707,896	\$ 1,357,444	\$ 1,096,418
JRBT	\$ 14,750	\$ 5,713	\$ (1,016)
SPRBT	\$ 46,104	\$ 27,191	\$ 13,109
SPRFT	\$ 188,368	\$ 166,325	\$ 149,902

	1.00% Decrease (2.62%)	Municipal Bond Index Rate (3.62%)	1.00% Increase (4.62%)
RIJRFT	\$ 20,309	\$ 18,187	\$ 16,609
JNCRP	\$ 44,460	\$ 41,550	\$ 38,981

Business-type Activities:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Rhode Island Lottery:			
ERS Plan - State Employees	\$ 21,405	\$ 17,142	\$ 13,968

## H. Changes in the Net Pension Liability

Information on the State's net pension liability for single employer plans is as follows (expressed in thousands):

	JRBT	RIJRFT	SPRBT	SPRFT	JNCRP*
<b>Total Pension Liability</b>					
Service cost	\$ 3,215	\$ 294	\$ 4,999	\$ —	\$ —
Interest	5,303	726	10,763	11,712	1,497
Benefit changes	—	—	—	—	—
Differences between expected and actual experience	(2,032)	(1,953)	1,912	12,187	916
Changes of assumptions	—	(116)	—	—	(166)
Benefit payments	(2,956)	(399)	(6,024)	(17,273)	(5,486)
<b>Net change in Total Pension Liability</b>	<b>3,530</b>	<b>(1,448)</b>	<b>11,650</b>	<b>6,626</b>	<b>(3,239)</b>
<b>Total Pension Liability - beginning</b>	<b>75,628</b>	<b>20,442</b>	<b>154,274</b>	<b>175,957</b>	<b>44,789</b>
<b>Total Pension Liability - ending</b>	<b>\$ 79,158</b>	<b>\$ 18,994</b>	<b>\$ 165,924</b>	<b>\$ 182,583</b>	<b>\$ 41,550</b>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	\$ 2,058	\$ 399	\$ 2,797	\$ 16,387	\$ 5,486
Employee contributions	1,142	117	1,994	—	—
Net investment income	5,377	44	10,298	1,137	—
Benefit payments	(2,956)	(399)	(6,024)	(17,273)	(5,486)
Administrative expenses	(71)	(1)	(137)	(6)	—
Other	—	—	16	—	—
<b>Net change in Fiduciary Net Position</b>	<b>\$ 5,550</b>	<b>\$ 160</b>	<b>\$ 8,944</b>	<b>\$ 245</b>	<b>\$ —</b>
<b>Plan Fiduciary Net Position - beginning</b>	<b>67,895</b>	<b>647</b>	<b>129,789</b>	<b>16,013</b>	<b>—</b>
<b>Plan Fiduciary Net Position - ending</b>	<b>\$ 73,445</b>	<b>\$ 807</b>	<b>\$ 138,733</b>	<b>\$ 16,258</b>	<b>\$ —</b>
<b>Net Pension Liability</b>	<b>\$ 5,713</b>	<b>\$ 18,187</b>	<b>\$ 27,191</b>	<b>\$ 166,325</b>	<b>\$ 41,550</b>

\*This is a non-trusted plan which historically has been funded on a pay-as-you-go basis; therefore no assets have been accumulated and total pension liability and net pension liability are the same.

## I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

### Employees' Retirement System of Rhode Island

For the fiscal year ended June 30, 2019 the State recognized net pension expense of \$220.6 million related to State employees who are covered by the pension plans administered by ERS as well as the JNCRP. In addition, it recognized an Education expense of \$127.3 million in the Statement of Activities relating to the State's share of the pension expense for teachers who are covered by the ERS.

At June 30, 2019 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the ERS from the following sources (expressed in thousands):

Governmental Activities:

	<u>State Employees</u>	<u>Teachers</u>	<u>Totals</u>
<u>Deferred Outflows of Resources</u>			
State contributions subsequent to the measurement date	\$ 169,365	\$ 102,239	\$ 271,604
Net difference between projected and actual earnings on pension plan investments	21,014	16,214	37,228
Differences between expected and actual experience	13,437	19,855	33,292
Changes of assumptions	129,340	98,603	227,943
Changes in proportion and differences between employer contributions and proportionate share of contributions	7,708	49,529	57,237
Totals	<u>\$ 340,864</u>	<u>\$ 286,440</u>	<u>\$ 627,304</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$ 25,850	\$ 25,891	\$ 51,741
Changes of assumptions	1,539	15,974	17,513
Changes in proportion and differences between employer contributions and proportionate share of contributions	321	14,810	15,131
Totals	<u>\$ 27,710</u>	<u>\$ 56,675</u>	<u>\$ 84,385</u>

The \$169.4 million reported as deferred outflows of resources related to pensions resulting from State contributions to ERS subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2020. In addition, the \$102.2 million reported as deferred outflows of resources related to pensions resulting from State contributions to ERS for the teachers plan subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

	<u>State Employees</u>	<u>Teachers</u>
Year ended June 30:		
2020	\$ 63,151	\$ 43,140
2021	48,369	26,572
2022	24,201	2,937
2023	7,502	20,550
2024	566	26,998
Thereafter	—	7,330
	<u>\$ 143,789</u>	<u>\$ 127,527</u>

Business-type Activities:

Deferred Outflows of Resources

Contributions subsequent to the measurement date	\$	1,738
Net difference between projected and actual earnings on pension plan investments		179
Differences between expected and actual experience		114
Changes of assumptions		1,101
Changes in proportion and differences between employer contributions and proportionate share of contributions		321
Totals	<u>\$</u>	<u>3,453</u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$	220
Changes of assumptions		13
Changes in proportion and differences between employer contributions and proportionate share of contributions		226
Totals	<u>\$</u>	<u>459</u>

The \$1.7 million reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows (inflows) of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

Year ended June 30:		
2020	\$	579
2021		404
2022		170
2023		93
2024		10
Thereafter		—
	<u>\$</u>	<u>1,256</u>

**Other Single Employer Pension Plans**

For the fiscal year ended June 30, 2019 the table below provides information about pension expense (credit) recognized for each of the State's five single employer plans (expressed in thousands):

<u>Plan</u>	<u>Annual Pension Expense (Credit)</u>
JRBT	\$ 2,250
RIJRFT	(1,191)
SPRBT	6,463
SPRFT	22,544
JNCRP	2,246
Total	<u>\$ 32,312</u>

The June 30, 2018 measurement date information includes a pension credit of \$1.2 million for the RIJFRT plan which principally results from an actuarial gain (expected compared to actual experience).

At June 30, 2019 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the single employer plans from the following sources (expressed in thousands):

	<u>JRBT</u>	<u>RIJRFT</u>	<u>SPRBT</u>	<u>SPRFT</u>	<u>JNCRP</u>	<u>Totals</u>
<u>Deferred Outflows of Resources</u>						
Employer contributions subsequent to the measurement date	\$ 1,922	\$ 399	\$ 3,567	\$ 16,387	\$ 5,029	\$ 27,304
Net difference between projected and actual earnings on pension plan investments	339	—	582	—	—	921
Differences between expected and actual experience	—	—	10,273	—	—	10,273
Change of Assumptions	3,162	—	7,428	—	—	10,590
Totals	<u>\$ 5,423</u>	<u>\$ 399</u>	<u>\$ 21,850</u>	<u>\$ 16,387</u>	<u>\$ 5,029</u>	<u>\$ 49,088</u>
<u>Deferred Inflows of Resources</u>						
Net difference between projected and actual earnings on pension plan investments	\$ —	\$ 13	\$ —	\$ 822	\$ —	\$ 835
Differences between expected and actual experience	4,249	—	5,132	—	—	9,381
Change of assumptions	101	—	189	—	—	290
Totals	<u>\$ 4,350</u>	<u>\$ 13</u>	<u>\$ 5,321</u>	<u>\$ 822</u>	<u>\$ —</u>	<u>\$ 10,506</u>

The amount of \$27.3 million reported as deferred outflows of resources, related to pensions resulting from State contributions to the single employer plans subsequent to the measurement date, will be recognized as a reduction in the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows(inflows) of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

Year ending June 30	JRBT	RIJRFT	SPRBT	SPRFT	JNCRP	Totals
2020	\$ 300	\$ —	\$ 3,030	\$ (271)	—	\$ 3,059
2021	(183)	(1)	1,896	(271)	—	1,441
2022	(550)	(8)	174	(271)	—	(655)
2023	(416)	(4)	1,170	(9)	—	741
2024	—	—	1,422	—	—	1,422
Thereafter	—	—	5,270	—	—	5,270
	<u>\$ (849)</u>	<u>\$ (13)</u>	<u>\$ 12,962</u>	<u>\$ (822)</u>	<u>\$ —</u>	<u>\$ 11,278</u>

#### J. Defined Benefit Plan - LIUNA

All State employees who are members of the Laborers' International Union of North America (LIUNA), in addition to participating in ERSRI, also participate in the LIUNA National Pension Fund (the Plan), a cost sharing multi-employer defined benefit plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Plan is administered by the Fund's Board of Trustees. Eligibility and benefit provisions are defined in the Plan document adopted by the Board of Trustees. As of June 30, 2019, 868 employees of the State were members of the Plan.

All employees who are members of LIUNA are eligible to participate in the Plan. An employee is eligible for a regular pension if they have attained age 62, have five or more years of pension credits and have had at least one pension credit in a year after contributions paid to the Plan by an employer on their behalf began. Vesting of benefits is attained for participants who have five or more years of vesting service, at least one year of which was earned during the period in which the employer paid contributions to the Plan on behalf of the participant. Participants who pay their own contributions are immediately and fully vested in their accrued benefits, plus interest credited to their account. Benefit amounts for employees of the same age with the same years of service may be different because their employers' contribution to the Pension Fund may have been at different levels. The Plan allows for an optional immediate 25% partial lump sum for all surviving spouses of participants who died pre-retirement with an actuarially reduced monthly benefit to be paid at age 55. Information regarding the Plan can be obtained from the Fund Office maintained by the Board of Trustees at the following address: Laborers' International Union of North America National (Industrial) Pension Fund, 905 16th Street, N.W., Washington, DC 20006-1765, or at [www.lnipf.org](http://www.lnipf.org).

The contribution requirements of the State and employees are established by contract and may be amended by union negotiation. Employees are required to contribute \$0.77 to \$1.73 per hour up to a maximum of 1,820 hours per year to the Plan for calendar year 2019. The State is not required to contribute to the Plan.

The Multiemployer Pension Plan Amendments Act of 1980 imposes certain liabilities upon employees associated with multiemployer pension plans who withdraw from such a plan or upon termination of said plan. The State has no plans to withdraw or partially withdraw from the plan.

#### K. Defined Contribution Plan - ERS

**Plan Description** - Employees participating in the Employees Retirement System (ERS) defined benefit plan with less than 20 years of service as of June 30, 2012, as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The employees ("members") may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

Plan contributions - Members contribute 5% of their annual covered salary and employers contribute 1% to 1.5% of annual covered salary, depending on years of service as of June 30, 2012. Member contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the members and employers are established by the General Laws, which are subject to amendment by the General Assembly.

The State contributed and recognized as pension expense \$5.1 million for the fiscal year ended June 30, 2019, equal to 100% of the required contributions for the fiscal year.

**Plan vesting and contribution forfeiture provisions** – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member’s account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the employee and is non-forfeitable upon completion of three (3) years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

**Retirement benefits** – Benefits may be paid to a member after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70½ or terminates employment, if later.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained at <http://www.ersri.org>.

#### **L. Defined Contribution Plan - FICA Alternative Retirement Income Security Program**

The State of Rhode Island FICA Alternative Retirement Income Security Program (the FARP) is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The FARP was established under Rhode Island General Law section 36-7-33.1 and was placed under the management of the State’s Department of Administration (DOA), which also serves as the FARP plan sponsor. The FARP took effect on December 15, 2013. TIAA serves as record keeper for the FARP, and FARP assets are held by J.P. Morgan as investment custodian.

**Plan members** – Eligible members of the FARP are any part-time, seasonal, or temporary employees of the State of Rhode Island, hired after July 1, 2013, who are ineligible for participation in the Employees’ Retirement System of Rhode Island (ERSRI). With the exception of the One-Time Opt-Out Provision described below, participation in the FARP is mandatory for these employees. Part-time, seasonal, or temporary employees hired prior to July 1, 2013, who do not participate in the ERSRI may opt to continue contributing to Social Security for the duration of their continuous employment.

**One-time opt-out provision** – The FARP contains a provision which allows a FARP-eligible employee, hired after July 1, 2013, to opt-out or elect to not participate in the FARP. An employee who opts to not participate will continue to make FICA contributions and the State will continue to make FICA contributions on behalf of the employee. An employee who opts to not participate in the FARP may subsequently, without penalty, choose to participate in the FARP; this election is irrevocable as long as the employee is a FARP-eligible employee.

**Plan vesting provisions** – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member’s account and is non-forfeitable. The State does not make matching contributions to the FARP.

**Member accounts** – Each member’s account is credited with the member’s contribution and an allocation of the plan’s earnings. Allocations are based on a relationship of the member’s account balance in each investment fund to the total of all account balances in that fund. The retirement benefit to which a member is entitled is the benefit that can be provided from the member’s account.



**Contributions** – FARP benefits are funded by contributions from the participants as specified in RI General Law section 36-7-33.1. FARP participants make mandatory payroll deduction contributions to the FARP equal to 7.5% of the employee's gross wages for each pay period.

**Investment options** – Member and employer contributions must be invested in one of the Vanguard Target Retirement Trusts, which are age-appropriate.

**Retirement benefits** – Benefits may be paid to a member after termination from employment, death, total disability, or upon attaining age 59½. In the case of termination, a 10% IRS penalty upon withdrawal will apply if the member is younger than 55 years of age. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70½ or terminates employment, if later.

#### M. Other Pension Plans – Component Units

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 years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately \$19.8 million during the year ended June 30, 2019.

The Rhode Island Public Transit Authority has two single-employer defined benefit pension plans that cover eligible employees which are described below. Other information about the plans can be found in the audited financial statements of RIPTA which are available at [www.ripta.com](http://www.ripta.com).

- The first plan, RIPTA Employees' Pension Plan, covers employees of the Authority who work more than 1,000 hours per year. There are no age or minimum service requirements and employees are eligible to participate immediately upon employment. Any changes to the plan are subject to the collective bargaining process. Plan benefits and other provisions are established by the plan document. The Plan is administered by the Authority's Joint Pension Board. The plan provides retirement, disability and death benefits. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of normal retirement age (62, or if later, upon completion of 5 years of service). Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. Employees are required to contribute between 3% and 4% of their base salary to the plan each year until the earlier of the participant's normal retirement date or termination of service. The remaining contributions to the plan are made by the Authority. At the June 30, 2018 measurement date the plans' total pension liabilities exceeded the plans' fiduciary net position by an aggregate amount of \$64.1 million. Accordingly, a net pension liability of that amount has been recorded as of June 30, 2019. For the fiscal year ended June 30, 2019 pension expense of \$13.2 million was recorded related to the plan.
- The second plan, Laborers' International Union of North America National Pension Fund, covers all employees who are members of the Local 808 union. The Plan is administered by the Fund's Board of Trustees. The plan provides retirement, disability and death benefits to plan members. An employee is eligible to receive pension benefits if they have attained age 62, have five or more years of pension credit and have earned at least one of the years of pension credit during the period that his or her employer is contributing to the plan. The amount of regular pension benefits payable to an employee is determined by the highest contribution rate at which he or she earned pension credit and years of pension credits earned (up to a maximum of 30 years of pension credits). The contribution requirements of the Authority and employees are established by contract and may be amended by union negotiation. Employees are required to contribute \$1.46 per hour up to a maximum of 40 hours per week to the Plan for calendar year 2019. The Authority is not required to contribute to the Plan.

The Rhode Island Commerce Corporation (RICC) sponsors a cost sharing multiple-employer pension plan for all employees who were hired before January 1, 2006 and who meet eligibility requirements. Eligible employees of Quonset Development Corporation, another component unit, who were hired before January 1, 2006 also participate in the plan. The plan provides retirement, disability and death benefits to plan members and beneficiaries. Benefits vest upon completion of five years of service. The plan assigns to RICC the authority to amend benefit provisions. At June 30, 2018, the plan's fiduciary net position exceeded the plan's total pension liability by \$540 thousand. Accordingly, a net pension asset in that amount has been recorded as of June 30, 2019. For the fiscal year ended June 30, 2019 pension expense of \$126 thousand was recorded related to this plan. Other information about the plan can be found in the audited financial statements of RICC which are available at [www.commercerci.com](http://www.commercerci.com).

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 18. Other Postemployment Benefit Plans

### A. Summary of Employer Plans

The State provides other postemployment benefits (OPEB) for its employees through multiple benefit plans as outlined below (expressed in thousands):

	Plan	Plan Type	Covered employees	FY 2019 OPEB expense (credit)	Net OPEB liability (asset) at June 30, 2018 measurement date
A	State Employees	Cost-sharing multiple-employer plan – advance funded through a trust	State employees excluding state police, legislators and judges		
			Governmental activities	\$ 34,750	\$ 455,475
			Business-type activities	\$ 303	\$ 3,876
B	Teachers	Single-employer plan – advance funded through a trust	Certified public school teachers electing to participate in the System	\$ (76)	\$ 538
C	Judges	Single-employer plan - advance funded through a trust	Judges and magistrates	\$ (232)	\$ (2,907)
D	State Police	Single-employer plan - advance funded through a trust	State police officers	\$ 4,295	\$ 40,591
E	Legislators	Single-employer plan - advance funded through a trust	Retired and former members of the General Assembly	\$ (72)	\$ (1,448)
F	Board of Education (BOE)	Cost-sharing multiple-employer plan – advance funded through a trust	Certain employees of the Board of Education inclusive of URI, RIC, CCRI and the Office of Higher Education	\$ 3	\$ 87
	<b>Totals</b>			\$ 38,971	\$ 496,212

The Rhode Island State Employees' and Electing Teachers OPEB System (the "System") acts as a common investment and administrative agent for benefits to be provided for six defined benefit other postemployment plans as listed above.

The System is administered by the State of Rhode Island OPEB Board and was authorized, created and established under Chapter 36-12.1 of RI General Laws. The Board was established under Chapter 36-12.1 as an independent board to hold and administer, in trust, the funds of the OPEB system. The four members of the OPEB Board are: the State Controller, the State Budget Officer, the State Personnel Administrator and the General Treasurer, or their designees.

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the benefit structures. The report may be obtained by writing to the State Controller’s Office, One Capitol Hill, Providence, RI 02908.

The System’s financial statements are included as Trust Funds within the Fiduciary Funds.

The OPEB Trust Funds are reported using the economic resources measurement focus and the accrual basis of accounting under which expenses, including benefits and refunds, are recorded when the liability is incurred. Employer contributions are recorded in the accounting period in which they are earned or become measurable.

Additional disclosure regarding the methods used to value investments and investment expenses are included in Note 2D, OPEB Trust Funds.

Employer OPEB expense and related liabilities and deferred inflows of resources/deferred outflows of resources for defined benefit plans A-F as identified previously are recognized in the financial statements based on the provisions of GASB Statement No. 75.

Plan membership, based on the June 30, 2017 actuarial valuations, is summarized in the table below:

	Retirees and beneficiaries	Active	Total by Plan
State Employees	6,730	11,169	17,899
Teachers	146	N/A	146
Judges	47	61	108
State Police	173	233	406
Legislators	18	111	129
Board of Education (BOE)	862	1,859	2,721

Terminated employees are not included in the valuation.

## B. Benefit Plan Descriptions

Members of the System, which include 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 retiree health care benefits. In addition, certain employees of the Board of Education receive benefits under another plan known as the Rhode Island Board of Education Health Care Insurance Retirement Program (hereafter referred to as the “BOE Plan”).

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## Membership and Benefit Provisions

The plans within the System generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Depending on the plan and the time of retirement, the cost to purchase coverage for spouses and dependents is either at the "active rate" applicable to active employees or at the retiree rate. Dental and vision coverage is generally not provided (except for those plans that allow active health care coverage to continue after retirement - judges, state police and legislators). Dental and vision coverage may be purchased by these groups with no state subsidy.

Members of the System must meet the eligibility and services requirements set forth in the RI General Laws or other governing documents. RIGL Sections 16-17.1-1 and 2, 36-10-2, 36-12.1, 36-12-2.2 and 36-12-4 govern the provisions of the System, and they may be amended in the future by action of the General Assembly.

Active employees (other than the Board of Education active members) do not make contributions to the respective plans. Retired member contributions consist of the required retiree share of coverage based on the time of retirement and years of service. Other member contributions include purchased coverage for spouses or dependents or for non-subsidized coverage for dental and vision care.

A summary of the principal provisions of the plans follow:

### State Employees

For members age 59 through 64 who retire on or after October 1, 2008, with a minimum of 20 years of service, the State pays 80% of the actual cost of health care coverage.

At age 65, State retirees must purchase Medicare Part B (deducted from their Social Security payment) and may enroll in a health reimbursement account plan to which the OPEB Trust contributes an amount. The amount deposited by the State into each HRA varies based on the date of retirement and years of service at retirement but is based on the lowest-cost Medicare supplemental plan available through the program that meets the plan requirements defined in the law. Amounts available in each retiree's HRA can be used for any eligible medical care expense including reimbursement for health insurance premiums.

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

Employees retiring on or before September 30, 2008 who are under 60 year of age at retirement may retire with a minimum of 28 years of service and must pay 0% - 10% of retiree health care costs, as determined by the number of years of each employee's service. Employees retiring on or before September 30, 2008 who are 60 years of age or over at retirement may retire with a minimum of 10 years of service and must pay 0% - 50% of retiree health care costs, as determined by the number of years of each employee's service.

### Teachers

Teachers who elect to participate in the System and retired on or before September 30, 2008, receive the Tier I subsidy but no other State cost sharing. For all teachers retiring on or after October 1, 2008, the Tier I subsidy ends and there is no other cost sharing by the State. Retired teachers may purchase coverage through the System at the actual cost for retirees.

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## Judges

Effective July 1, 2012 new retirees (and spouses and dependents) that are eligible for Medicare are required to enroll in Medicare and a Medicare Supplemental plan. Retirees who retired before that date are able to continue on the active health care plan provided they enroll in Medicare Part B.

## State Police

Retired state police officers (including spouses and dependents) receive the active health care plan benefits or Medicare supplement coverage with the same co-share amount in effect at the date of their retirement.

## Legislators

Effective July 1, 2012 new retirees (and spouses and dependents) that are eligible for Medicare are required to enroll in Medicare and a Medicare Supplemental plan. Retirees who retired before that date can continue on the active health care plan provided they enroll in Medicare Part B.

## Board of Education

The BOE Plan offers three types of retiree health care benefits: (1) a self-insured health care plan for retirees not covered by Medicare, (2) a self-insured Medicare supplement plan for Medicare eligible post-65 retirees and (3) a fully insured Medicare HMO plan for Medicare eligible post-65 retirees.

The Tier I non-Medicare eligible plan subsidy provides that the Board will pay the portion of the cost of post-retirement health care for the retiree between the active group rate and the early retiree rate. This subsidy is based on years of service and ends when the retiree enrolls in Medicare. This subsidy is available only to eligible employees retiring before July 1, 2008.

To be eligible for coverage, the retiree retiring before July 1, 2008 must have worked a minimum of 10 years for the Board and must be at least 60 years of age, unless they have 28 years or more of service. Depending on the years of service and the retiree's age, the Board will pay from 50% to 100% of medical insurance premium while the retiree contributes from 50% to 0%.

Employees retiring after June 30, 2008, who are not yet 65 years of age, who have worked a minimum of 10 years for the Board and are at least 60 years of age or who have 28 years or more of service, may purchase health insurance coverage at the actual (100%) retiree premium rate for themselves and their spouses. The Board will continue to pay a portion of the post-65 Tier II benefits, 50% to 100% of medical insurance premium, depending on the years of service and the retiree's age while the retiree will contribute from 50% to 0%.

Active employees covered by the BOE plan contribute 0.9% of their salary. The contribution of employees covered under the BOE plan can be changed by the Board of Education.

## C. Contributions and Funding Policy

Contribution requirements for plan members and participating employers are established pursuant to the Rhode Island General Laws and may be amended by the General Assembly.

The State and other participating employers are required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2019, the State and other participating employers paid \$60 million into the plans.

The fiscal year 2019 contribution rates for the six plans in the System were based on the actuarial valuation of those plans performed as of June 30, 2015.

A summary of the contribution rates by both the participating employers and members and the State's annual plan contributions (expressed in thousands) for the fiscal year ended June 30, 2019 is provided in the table below:

	State Employees	Teachers	Judges	State Police	Legislators	BOE
Contribution rate:						
Employer	5.98%	\$ 2,321 *	—% **	34.89%	0.81%	4.36%
Plan members	—	—	—	—	—	0.9%
Contributions made	\$ 39,703	\$ 2,277 ***	\$ —	\$ 8,257	\$ 15	\$ 12

\* Actuarially determined amount not expressed as rate.

\*\* An actuarial valuation determined that no contribution was required for this OPEB plan.

\*\*\* The contribution funded in fiscal 19 was the amount appropriated by the General Assembly.

#### D. Net OPEB Liability (Asset)

The net OPEB liability of the State and other participating employers in the State Employees Plan and the Board of Education Plan, which are multiple employer cost-sharing plans, has been apportioned based on the percentage share of total contributions made by each participating employer in fiscal year 2018. The State's proportion for the State Employees Plan for State employees was 89.4%.

Following is a summary of the net OPEB liability of the State and other employers participating in the State Employees Plan, the net OPEB liability of the State's share of the Board of Education Plan and the State's liability (asset) related to the four single employer defined benefit plans it sponsors, all measured as of June 30, 2018 (expressed in thousands):

**Net OPEB Liability - Multiple Employer Cost-sharing OPEB Plans:**

Total Net OPEB Liability - State Employees Plan	\$ 509,330
<i>Less portion attributable to other entities:</i>	
Enterprise Fund - Rhode Island Lottery	\$ (3,876)
Discretely Presented Component Units	
University of Rhode Island	\$ 27,863
Rhode Island College	9,645
Community College of RI	7,090
RI Division of Higher Education Assistance	709
RI Commerce Corporation	69
RI Airport Corporation	434
	<u>(45,810)</u>
Related organization - Narragansett Bay Commission	<u>(4,169)</u>
State Employees Plan - State's Share of Net OPEB Liability - Governmental Activities	\$ 455,475
Board of Education Plan - State's share of Net OPEB Liability - Governmental Activities	<u>87</u>
State's Share of Net OPEB Liability - Multiple Employer Cost-sharing Plans - Governmental Activities	<u>\$ 455,562</u>
State Employees Plan - Rhode Island Lottery's Share of Net OPEB Liability - Business-type Activities	<u>\$ 3,876</u>
Total State's share of Net OPEB Liability - Multiple Employer Cost-sharing Plans	<u>\$ 459,438</u>
<b>Net OPEB Liability (Asset) - Single Employer Plans:</b>	
Net OPEB Liability - Single Employer OPEB Plans	
Teachers	\$ 538
State Police	40,591
Total Net OPEB Liability	<u>\$ 41,129</u>
<b>Net OPEB Liability - All Plans</b>	<u>\$ 500,567</u>
<b>Net OPEB (Asset) - Single Employer OPEB Plans</b>	
Judges	\$ (2,907)
Legislators	(1,448)
<b>Total Net OPEB (Asset)</b>	<u>\$ (4,355)</u>

Statement of Net Position

	Governmental Activities	Business-Type Activities	Total
Net OPEB Liability	\$ 496,691	\$ 3,876	\$ 500,567
Net OPEB (Asset)	\$ (4,355)	\$ —	\$ (4,355)

Further details regarding the State's total OPEB liability and net OPEB liability (asset) for the single employer trustee OPEB plans (expressed in thousands) which was measured as of June 30, 2018 is presented below:

	Teachers	Judges	State Police	Legislators
Total OPEB liability	\$ 12,333	\$ 1,206	\$ 86,735	\$ 1,594
Plan fiduciary net position	11,795	4,113	46,144	3,042
Net OPEB liability (asset)	\$ 538	\$ (2,907)	\$ 40,591	\$ (1,448)
Plan fiduciary net position as a percentage of total OPEB liability (asset)	95.6%	341.0%	53.2%	190.9%



**a. Actuarial assumptions used in determining total OPEB liability**

The total OPEB liability was determined by an actuarial valuation performed as of June 30, 2017 using the following actuarial assumptions, applied to all periods included in the measurement.

Summary of Actuarial Methods and Assumptions used in the June 30, 2017 Valuation						
	Plan					
	State Employees	Teachers	Judges	State Police	Legislators	Board of Education
<b>Actuarial Cost Method</b>	Individual Entry Age					
<b>Actuarial Assumptions</b>						
<b>Investment Rate of Return</b>	5.00%					
<b>Projected Salary Increases</b>	3.0% to 6.0%	N/A	3.0%	4.0% to 14.0%	3.0% to 6.0%	3.0% to 6.0%
<b>Valuation Health Care Cost Trend Rate</b>	9% in 2018, grading to 3.5% in 2031					
<b>Mortality Rates</b>	Healthy Male Teachers, Judges, Legislators, and Board of Education: RP-2014 Combined Healthy for males with White Collar adjustment, projected with the MP 2016 ultimate rates. Healthy Female Teachers, Judges, Legislators, and Board of Education: RP-2014 Combined Healthy for females with White Collar adjustment, projected with the MP 2016 ultimate rates. Healthy Male State Employees and Police: RP-2014 Combined Healthy for males with Blue Collar adjustment, projected with the MP 2016 ultimate rates. Healthy Female State Employees and Police: RP- 2014 Combined Healthy for females, projected with the MP 2016 ultimate rates.					
<b>Excise Tax Under the Patient Protection and Affordable Care Act</b>	The Patient Protection and Affordable Care Act includes an excise tax on high cost health plans beginning in 2022. The excise tax is 40% of costs above a threshold. The actual actuarial assumptions used in the most recent valuations assume that the plans will be subject to the excise tax in 2022.					
<b>Note:</b> Although an inflation rate was not explicitly used, for purposes of determining total OPEB liability inflation was consistent with a 2.75% assumption.						

The actuarial assumptions used in the June 30, 2017 valuation and the calculation of the total OPEB liability (asset) at June 30, 2018 were consistent with an actuarial experience review performed as of June 30, 2017.

The long-term expected rate of return best-estimate on OPEB plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of OPEB plan expense and inflation) for each major asset class, based on a collective summary of capital market expectations from 34 nationally recognized consulting firms. The June 30, 2018 expected arithmetic returns over the long-term (20 years) by asset class are summarized in the following table:

Asset Class	Long-Term Target Asset Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	65%	6.25%
Fixed Income	35%	1.39%

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall long-term expected rate of return best-estimate on an arithmetic basis.

**b. Discount rate**

The discount rate used to measure the total OPEB liability of the plans was 5%. The projection of cash flows used to determine the discount rate assumed that the contributions, if any, from the plan members will be made at the current contribution rate and that the contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**c. Sensitivity of the net OPEB liability (asset) to changes in the discount rate**

The following table presents the net OPEB liability (asset) of the employers calculated using the discount rate of 5.0%, as well what the employers' net OPEB liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate (expressed in thousands).

Governmental Activities:

	1.00% Decrease (4.00%)	Current Discount Rate (5.0%)	1.00% Increase (6.00%)
State employees	\$ 534,885	\$ 455,475	\$ 389,429
Teachers	\$ 1,691	\$ 538	\$ (452)
Judges	\$ (2,848)	\$ (2,907)	\$ (2,960)
State Police	\$ 47,751	\$ 40,591	\$ 34,130
Legislators	\$ (1,342)	\$ (1,448)	\$ (1,545)
BOE	\$ 108	\$ 87	\$ 69

Business-type Activities:

	1.00% Decrease (4.00%)	Current Discount Rate (5.0%)	1.00% Increase (6.00%)
Rhode Island Lottery:			
OPEB Plan - State Employees	\$ 4,552	\$ 3,876	\$ 3,314

**d. Sensitivity of the net OPEB liability (asset) to changes in the healthcare inflation rate**

The following table presents the net OPEB liability (asset) of the employers calculated using the healthcare cost trend rate of 9.0% and gradually decreasing to an ultimate rate of 3.5%, as well what the employers' net OPEB liability (asset) would be if it were calculated using a trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate (expressed in thousands).

Governmental Activities:

	1.00% Decrease	Healthcare Cost Trend Rate	1.00% Increase
State employees	\$ 375,390	\$ 455,475	\$ 555,388
Teachers	\$ (508)	\$ 538	\$ 1,736
Judges	\$ (2,920)	\$ (2,907)	\$ (2,894)
State Police	\$ 32,070	\$ 40,591	\$ 50,512
Legislators	\$ (1,559)	\$ (1,448)	\$ (1,323)
BOE	\$ 66	\$ 87	\$ 114

Business-type Activities:

	1.00% Decrease	Healthcare Cost Trend Rate	1.00% Increase
Rhode Island Lottery:			
OPEB Plan - State Employees	\$ 3,195	\$ 3,876	\$ 4,727

**E. Changes in the Net OPEB Liability (Asset)**

Information on the State's net OPEB liability for single employer plans is as follows (expressed in thousands):

	Teachers	Judges	State Police	Legislators
<b>Total OPEB Liability</b>				
Service cost	\$ —	\$ 15	\$ 3,920	\$ 54
Interest	612	68	4,148	74
Differences between expected and actual experience	91	(271)	(907)	102
Changes of assumptions	—	—	—	—
Benefit payments, net of retiree contributions	(1,202)	72	(2,849)	(161)
<b>Net change in Total OPEB Liability</b>	<b>(499)</b>	<b>(116)</b>	<b>4,312</b>	<b>69</b>
<b>Total OPEB Liability - beginning</b>	<b>12,832</b>	<b>1,322</b>	<b>82,423</b>	<b>1,525</b>
<b>Total OPEB Liability - ending</b>	<b>\$ 12,333</b>	<b>\$ 1,206</b>	<b>\$ 86,735</b>	<b>\$ 1,594</b>
<b>Plan Fiduciary Net Position</b>				
Employer contributions	\$ 2,321	\$ —	\$ 7,919	\$ 14
Net investment income	780	293	3,413	247
Benefit payments	(1,202)	72	(2,849)	(161)
Administrative expenses	(17)	(6)	(73)	(4)
Other	136	54	197	42
<b>Net change in Fiduciary Net Position</b>	<b>\$ 2,018</b>	<b>\$ 413</b>	<b>\$ 8,607</b>	<b>\$ 138</b>
<b>Plan Fiduciary Net Position - beginning</b>	<b>9,777</b>	<b>3,700</b>	<b>37,537</b>	<b>2,904</b>
<b>Plan Fiduciary Net Position - ending</b>	<b>\$ 11,795</b>	<b>\$ 4,113</b>	<b>\$ 46,144</b>	<b>\$ 3,042</b>
<b>Net OPEB Liability (Asset)</b>	<b>\$ 538</b>	<b>\$ (2,907)</b>	<b>\$ 40,591</b>	<b>\$ (1,448)</b>

**F. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources**

**Cost-Sharing Multiple Employer OPEB Plans**

For the fiscal year ended June 30, 2019 the State recognized OPEB expense of \$35.1 million related to State employees who are covered by the OPEB cost-sharing plans administered by the System.

At June 30, 2019 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the System from the following sources (expressed in thousands):

Governmental Activities:

	<u>State Employees</u>	<u>BOE</u>	<u>Totals</u>
<u>Deferred Outflows of Resources</u>			
State contributions subsequent to the measurement date	\$ 39,302	\$ 12	\$ 39,314
Differences between expected and actual experience	—	1	1
Changes of assumptions	23,493	7	23,500
Changes in proportion and differences between employer contributions and proportionate share of contributions	800	—	800
Totals	<u>\$ 63,595</u>	<u>\$ 20</u>	<u>\$ 63,615</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience	\$ 22,985	\$ 9	\$ 22,994
Net difference between projected and actual investment earnings	8,421	3	8,424
Changes in proportion and differences between employer contributions and proportionate share of contributions	—	18	\$ 18
Totals	<u>\$ 31,406</u>	<u>\$ 30</u>	<u>\$ 31,436</u>

The \$39.3 million reported as deferred outflows of resources related to OPEB resulting from State contributions to the plans subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows (inflows) of resources related to OPEB will be recognized in the determination of OPEB expense as follows (expressed in thousands):

	<u>State Employees</u>	<u>BOE</u>
Year ended June 30:		
2020	\$ (2,167)	\$ (4)
2021	(2,167)	(4)
2022	(2,167)	(4)
2023	(744)	(4)
2024	294	(3)
Thereafter	(162)	(3)
	<u>\$ (7,113)</u>	<u>\$ (22)</u>

Business-type Activities:

Deferred Outflows of Resources

Contributions subsequent to the measurement date	\$	401
Changes of assumptions		200
Changes in proportion and differences between employer contributions and proportionate share of contributions		78
Totals	\$	<u>679</u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$	196
Net difference between projected and actual investment earnings		71
Totals	\$	<u>267</u>

The \$401 thousand reported as deferred outflows of resources related to OPEB resulting from contributions to the plan subsequent to the measurement date will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows (inflows) of resources related to OPEB will be recognized in the determination of OPEB expense as follows (expressed in thousands):

Year ended June 30:		
2020	\$	(7)
2021		(7)
2022		(7)
2023		5
2024		14
Thereafter		13
	\$	<u>11</u>

**Other Single Employer OPEB Plans**

For the fiscal year ended June 30, 2019 the table below provides information about OPEB expense (credit) recognized for each of the State's four single employer plans (expressed in thousands):

Plan	Annual OPEB Expense (Credit)
Teachers	\$ (76)
Judges	(232)
State Police	4,295
Legislators	(72)
Total	\$ <u>3,915</u>

The June 30, 2018 measurement date information includes pension credits of \$76 thousand, \$232 thousand, and \$72 thousand for the Teachers' plan, the Judges' plan and the Legislators' plan, respectively. These credits result from several factors including changes in assumptions, differences between expected and actual experience and differences between projected and actual investment earnings.

At June 30, 2019 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the single employer plans from the following sources (expressed in thousands):

	Teachers	Judges	State Police	Legislators	Totals
<u>Deferred Outflows of Resources</u>					
Employer contributions subsequent to the measurement date	\$ 2,277	\$ —	\$ 8,257	\$ 15	\$ 10,549
Differences between expected and actual experience	—	—	—	208	208
Change of Assumptions	—	183	—	—	183
Totals	<u>\$ 2,277</u>	<u>\$ 183</u>	<u>\$ 8,257</u>	<u>\$ 223</u>	<u>\$ 10,940</u>
<u>Deferred Inflows of Resources</u>					
Differences between expected and actual experience	\$ —	\$ 295	\$ 920	\$ —	\$ 1,215
Change of assumptions	—	—	4,319	33	4,352
Net difference between projected and actual investment earnings	472	186	2,269	176	3,103
Totals	<u>\$ 472</u>	<u>\$ 481</u>	<u>\$ 7,508</u>	<u>\$ 209</u>	<u>\$ 8,670</u>

The amount of \$10.5 million reported as deferred outflows of resources, related to OPEB resulting from State contributions to the single employer plans after the measurement date, will be recognized as a reduction in the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows/(inflows) of resources related to OPEB will be recognized in the determination of OPEB expense as follows (expressed in thousands):

	Teachers	Judges	State Police	Legislators
Year ended June 30:				
2020	\$ (140)	\$ (80)	\$ (1,643)	\$ (20)
2021	(140)	(133)	(1,643)	(20)
2022	(140)	(65)	(1,643)	(20)
2023	(52)	(20)	(1,261)	11
2024	—	—	(980)	32
Thereafter	—	—	(338)	16
	<u>\$ (472)</u>	<u>\$ (298)</u>	<u>\$ (7,508)</u>	<u>\$ (1)</u>

## G. Component Unit Postemployment Benefit Plans

### *Rhode Island Public Transit Authority*

The Rhode Island Public Transit Authority has a single employer defined benefit post-retirement health and life insurance program that covers eligible employees. The Authority provides lifetime health care benefits to substantially all retired employees and their spouses. The Authority also provides life insurance benefits to retired employees who purchase life insurance for at least one year prior to retirement. Benefits are provided through a group insurance policy that covers both active and Pre-65 retired employees. Post-65 retired employee healthcare coverage benefits are provided through contributions to healthcare reimbursement accounts. Benefit terms, changes in benefit terms, and financing requirements are established by the Authority and are subject to the collective bargaining process. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The plan does not issue a separate audit report.

At June 30, 2019 the plan's total OPEB liability totaled \$75 million. The total OPEB liability was determined by an actuarial valuation as of July 1, 2018 rolled forward to June 30, 2019. For the fiscal year ended June 30, 2019 OPEB expense of \$6 million was recorded related to the plan. Other information about the plan can be found in the audited financial statements of RIPTA which are available at [www.ripta.com](http://www.ripta.com).

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

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island participate in one of two OPEB plans: the State Employees' OPEB Cost-Sharing Plan and the Board of Education Cost-Sharing OPEB Plan (collectively referred to as the Plans). The Plans are cost-sharing multiple-employer defined benefit OPEB plans included within the Rhode Island State Employees' and Electing Teachers OPEB System. The plans generally provide healthcare coverage to pre-Medicare eligible retirees and health reimbursement account contributions or Medicare supplement coverage for members who are Medicare eligible. Members may purchase coverage for spouses and dependents. Dental and vision coverage may be purchased by these groups with no state subsidy.

At June 30, 2019 each institution's proportionate share of net OPEB liability related to participation in the plans was as follows (in thousands):

University of Rhode Island	\$	49,930
Rhode Island College		25,512
Community College of Rhode Island		19,546
Total	\$	<u>94,988</u>

The net OPEB liabilities in the table above were measured as of June 30, 2018, the measurement date. The total OPEB liabilities used to calculate the net OPEB liabilities were determined for each plan by a separate actuarial valuation as of June 30, 2017 rolled forward to the June 30, 2018 measurement date. The proportion of net OPEB liability for each institution was based on its share of contributions to the Plans for fiscal year 2018 relative to the total contributions of all participating employers for that fiscal year.

For the fiscal year ended June 30, 2019 each institution recognized OPEB expense as follows (in thousands):

University of Rhode Island	\$	3,689
Rhode Island College		1,780
Community College of Rhode Island		1,269
Total	\$	<u>6,738</u>



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Other information about the plans can be found in the audited financial statements for each institution as follows:

- University of Rhode Island - [www.uri.edu](http://www.uri.edu)
- Rhode Island College - [www.ric.edu](http://www.ric.edu)
- Community College of Rhode Island - [www.ccri.edu](http://www.ccri.edu)

#### *Other Component Units*

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

#### **Note 19. Deferred Compensation**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Department of Administration, pursuant to Chapter 36-13 of the General Laws, administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Plan distributions are normally available to employees without penalty at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, death or “unforeseeable emergency.”

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

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

#### **Note 20. 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, subject to certain deductibles, 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. During fiscal 2019, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance carrier/administrator to provide health care benefits to active and certain retired employees. For coverage provided to active employees and retirees who are not eligible for Medicare, the State retains the full risk of loss. The State reimburses the administrator for the costs of all claims paid plus administrative fees.

The estimated liability for incurred but not reported (IBNR) claims at June 30, 2019 and June 30, 2018 were calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	<u>Liability at July 1, 2018</u>	<u>Current Year Claims and IBNR Estimate</u>	<u>Claim Payments</u>	<u>Liability at June 30, 2019</u>
Health Insurance				
Internal Service Fund				
Unpaid claims	\$ 17,261	\$ 241,130	\$ 239,849	\$ 18,542
	<u>Liability at July 1, 2017</u>	<u>Current Year Claims and IBNR Estimate</u>	<u>Claim Payments</u>	<u>Liability at June 30, 2018</u>
Health Insurance				
Internal Service Fund				
Unpaid claims	\$ 18,305	\$ 233,960	\$ 235,004	\$ 17,261

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.

The State has entered into contracts with managed care health plans to share in either the aggregate risk (loss) or gain (profit) incurred by the plans over the course of the contract year. Managed care expenditures represent a relatively large portion of the State's Medical Assistance expenditures. The State's known estimated risk (loss) or gain share amounts related to these contracts have been included in the financial statements.

**Note 21. Other Information**

**A. Elimination Entries**

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

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
<b>Assets</b>					
Due from other funds	\$ 2,276	\$ 7,687	\$ 9,963	\$ (7,664)	\$ 2,299
Loans to other funds	143,818	—	143,818	(143,818)	—
Total assets	<u>\$ 146,094</u>	<u>\$ 7,687</u>	<u>\$ 153,781</u>	<u>\$ (151,482)</u>	<u>\$ 2,299</u>
<b>Liabilities</b>					
Due to other funds	\$ 7,289	\$ 375	\$ 7,664	\$ (7,664)	\$ —
Loans from other funds	132,468	11,350	143,818	(143,818)	—
Total liabilities	<u>\$ 139,757</u>	<u>\$ 11,725</u>	<u>\$ 151,482</u>	<u>\$ (151,482)</u>	<u>\$ —</u>
<b>Program revenue</b>					
General government	\$ —	\$ 410,774	\$ 410,774	\$ (410,774)	\$ —
Public safety	—	11,718	11,718	(11,718)	—
<b>Expenses</b>					
General government	—	(410,878)	(410,878)	410,878	—
Public safety	—	(11,614)	(11,614)	11,614	—
Net revenue (expenses)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Transfers</b>					
Transfers in	\$ 627,562	\$ —	\$ 627,562	\$ (259,326)	\$ 368,236
Transfers out	(259,326)	—	(259,326)	259,326	—
Net transfers	<u>\$ 368,236</u>	<u>\$ —</u>	<u>\$ 368,236</u>	<u>\$ —</u>	<u>\$ 368,236</u>
	Total Business-type Activities		Total	Eliminations	Internal Balances
<b>Assets</b>					
Due from other funds	\$ 157	\$ —	\$ 157	\$ (2,456)	\$ (2,299)
Total assets	<u>\$ 157</u>	<u>\$ —</u>	<u>\$ 157</u>	<u>\$ (2,456)</u>	<u>\$ (2,299)</u>
<b>Liabilities</b>					
Due to other funds	\$ 2,456	\$ —	\$ 2,456	\$ (2,456)	\$ —
Total liabilities	<u>\$ 2,456</u>	<u>\$ —</u>	<u>\$ 2,456</u>	<u>\$ (2,456)</u>	<u>\$ —</u>
<b>Transfers</b>					
Transfers in	\$ 29,085	\$ —	\$ 29,085	\$ (29,085)	\$ —
Transfers out	(397,321)	—	(397,321)	29,085	(368,236)
Net transfers	<u>\$ (368,236)</u>	<u>\$ —</u>	<u>\$ (368,236)</u>	<u>\$ —</u>	<u>\$ (368,236)</u>

**B. Related Party Transactions**

*Rhode Island Turnpike and Bridge Authority (RITBA)* - The State has transferred custody, control and supervision of the Jamestown and the Sakonnet River Bridges and related land and improvements from the Department of Transportation to the R.I. Turnpike and Bridge Authority (RITBA). While maintenance responsibilities for the two bridges rest with RITBA, ownership and title remains with the State. Per statute, the State earmarks \$0.035 per gallon of the gas tax to the Authority to fund the additional maintenance costs associated with these bridges. In addition, the Authority provides administrative and operational functions for the RhodeWorks truck tolling initiative which commenced in fiscal 18. The cumulative amount of toll collections, which began in June 2018, totaled \$7.3 million through June 30, 2019.

*The R.I. Industrial-Recreational Building Authority (RIIRBA)* - RIIRBA is authorized to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and the Rhode Island Industrial Facilities Corporation (RIIFC) on industrial or recreational projects in the State up to a maximum of \$60 million of outstanding principal balances under such insured mortgages and security agreements. The RIIRBA has a net deficit as of June 30, 2019 relating to the insured commitments payable for a bond issued by the RIIFC on behalf of a private-sector entity that is in default on its payments to the bondholder. As the insurer of the bond, the RIIRBA is responsible for making the debt payments. The RIIRBA has estimated the insured commitments payable to be \$3.4 million as of June 30, 2019.

*I-195 Redevelopment District Commission (I-195 RDC)* - The State has transferred land associated with the former Interstate 195 highway in Providence Rhode Island to the I-195 Redevelopment District Commission (I-195 RDC). The value of the land, which the commission intends to develop, was reported in the State's financial statements as a capital contribution at the historical cost of \$343 per acre, for a total of \$7,203. Improvements to the land are being funded by the State to complete redevelopment of the land for sale. In April 2013, the R.I. Commerce Corporation (RICC) issued conduit debt obligations on behalf of the I-195 RDC totaling \$38.4 million. State appropriations for debt service were \$1.9 million in fiscal 2019. Also the State appropriated \$2.2 million for operations in fiscal 2019. The State has appropriated \$27 million to I-195 RDC to facilitate the sale of land and project development within the District.

Because Wexford is receiving incentives under the Rebuild Rhode Island Tax Credit Act and the I-195 Redevelopment Project Fund Act, the Commission is requiring Wexford to provide for return to the Commission from cash flows and/or upon a capital event based upon higher than expected returns from the project. Such contractual provisions are intended to recoup funding to the extent the project performs above an expected level of return as determined on a case by case basis. To date, no payment has been made to the Commission under such contractual provisions with respect to the project.

*Rhode Island College (RIC)* - The voters of Rhode Island authorized the issuance of \$30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, \$20 million will be repaid to the State. The residence hall was finished and in service by September 2007, at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC and one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis, amortized over the remaining life of the bonds, which carry rates ranging from 3% to 5% and a life of 19 years beginning in fiscal 2009.

*Rhode Island Higher Education Savings Trust (RIHEST)* - Under an agreement with Ascensus College Savings Recordkeeping Services, LLC, the program manager for CollegeBound Saver 529 operated by the R.I. Higher Education Savings Trust, the State receives an administrative fee assessed on all non-Rhode Island resident accounts invested in CollegeBound Saver 529. This administrative fee supports the administration of CollegeBound Saver 529 and the establishment and marketing of education activities and scholarship funds in the state of Rhode Island. These administrative fees provided \$1.1 million to the State in support of the administration of CollegeBound Saver 529 and \$5.1 million to the R.I. Division of Higher Education Assistance to support student financial assistance activities of the Division for the year ended June 30, 2019.

*Rhode Island Health and Educational Building Corporation (RIHEBC)* - During fiscal 2016, the State created the School Building Authority Fund program to address high priority school building projects in communities with limited resources. Certain administrative duties related to the management and custody of monetary assets of the program were assigned to the Rhode Island Health and Educational Building Corporation (RIHEBC), including establishing a trust to hold related monies, creating and maintaining program accounting records, and the distribution and management of awards. Approved awards can be loans, grants or a combination of both. An appropriation of \$14.2 million was made to RIHEBC during the fiscal ended June 30, 2019, to fund the program. Funding is expected to continue through annual appropriations from the legislature, interest earned on loans, bond refinance interest savings and other payments received by RIHEBC pursuant to finance agreements with cities, towns and local education agencies. In addition, the PayGo program received a \$7.1 million appropriation from the State. Also, in November 2018 \$250 million

in bonds were authorized by the voters of the State for a new program, to be administered by RIHEBC, to provide further assistance to cities and towns for school construction projects.

*Rhode Island Infrastructure Bank (RIIB)* - The Municipal Road and Bridge Revolving Fund was created within the Rhode Island Infrastructure Bank (RIIB) to provide municipalities with low-cost financial assistance for road and bridge projects. In accordance with certain bond statutes, premium received from the issuance of bonds totaling \$12.5 million was transferred to RIIB for this fund during fiscal 2019. State statute requires RIIB to administer the financial components of the fund and requires the RI Department of Transportation to receive, review and rank municipal road and bridge projects submitted for funding consideration on an annual basis.

*R. I. Commerce Corporation (RICC)* - RICC received various state appropriations totaling approximately \$33.8 million during fiscal 2019 to fund various economic development initiatives on behalf of the State. The corporation reported approximately \$82 million reserved for economic development initiatives at June 30, 2019 relating to State appropriations received in recent years.

The Corporation has on occasion required developers of projects receiving incentives under the Rebuild Rhode Island Tax Credit Program or the Tax Increment Financing Program to provide for return from cash flows and/or upon a capital event based upon higher than expected returns from a project. Such contractual provisions are intended to recoup funding to the extent the project performs above an expected level of return as determined on a case by case basis. To date, no developer has made a payment to the Rhode Island Commerce Corporation under such contractual provisions in relation to a project for which incentives have been provided under the foregoing programs.

*Other Component Units* - The University of Rhode Island, Rhode Island College, Community College of Rhode Island, Central Falls School District, RI I-195 Redevelopment Commission, Rhode Island Commerce Corporation, and Rhode Island Public Transit Authority receive significant financial support from the State of Rhode Island. See Note 21D, Significant Transactions with Component Units for further details.

## C. Budgeting, Budgetary Control, and Legal Compliance

### Budget Preparation

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

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.0% of estimated general revenues. The remaining 3.0% is contributed to the Budget Reserve Account until such account equals 5.0% 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.

The State's budget documents may be accessed at the following website: <http://www.omb.ri.gov/budget>.

### Budgetary Controls

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

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

**D. Significant Transactions with Component Units**

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

Significant transactions between primary government and component units		
	Expense	Description
Governmental activities		
General		
University of Rhode Island	\$ 80,978	Operating assistance
Rhode Island College	49,092	Operating assistance
Community College of Rhode Island	51,144	Operating assistance
Central Falls School District	50,212	Operating assistance
The Met	11,253	Operating assistance
R.I. Commerce Corporation	33,993	Operating assistance
R.I. Division of Higher Education Assistance	6,178	Operating assistance
R.I. Public Transit Authority	3,855	Operating assistance
R.I. Health and Educational Building Corporation	65,067	School Building Authority Capital Fund/School Housing Aid
IST		
R.I. Public Transit Authority	57,687	Operating assistance
R.I. Turnpike and Bridge Authority	18,206	Infrastructure improvements
Bond Capital		
University of Rhode Island	69,129	Construction, improvement or purchase of assets
R.I. Infrastructure Bank	26,894	Infrastructure improvements, bond proceeds and bond premiums
R.I. Housing and Mortgage Finance Corporation	3,794	Infrastructure improvements and bond proceeds
R.I. Health and Educational Building Corporation	7,163	Infrastructure improvements and bond proceeds
R. I. Capital Plan		
University of Rhode Island	11,091	Construction, improvement or purchase of assets
Rhode Island College	16,251	Construction, improvement or purchase of assets
Community College of Rhode Island	5,598	Construction, improvement or purchase of assets
R.I. Housing and Mortgage Finance Corporation	3,231	Construction, improvement or purchase of assets
Total Governmental Activities	\$ 570,816	

In addition, the R.I. Infrastructure Bank transferred \$4 million to the primary government during the fiscal year ended June 30, 2019.

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## E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2019:

- DCAMM (\$831 thousand)
- Central Utilities (\$25 thousand)
- Information Technology (\$1.057 million)
- State Telecommunications (\$95 thousand)
- Records Center (\$173 thousand)
- Capitol Police (\$17 thousand)

The deficits will be eliminated through charges for services in fiscal 2020.

## Note 22. Subsequent Events

### Primary Government

In December 2019 the State of Rhode Island issued the following general obligation bonds:

- Consolidated Capital Development Loan of 2019, Series C (Tax Exempt) with a par amount of \$135,500,000 for various capital projects.
- Consolidated Capital Development Loan of 2019, Series D (Federally Taxable) with a par amount of \$17,500,000 for various capital projects.
- Consolidated Capital Development Loan of 2019, Series E (Tax Exempt) with a par amount of \$68,150,000 for refunding of various bond issues from previous years. This refunding resulted in an economic gain of approximately \$6.8 million.

### *Rhode Island Lottery*

The Rhode Island Lottery launched online (mobile) sports betting in September 2019. Players must create and register an account prior to placing wagers, via the internet or smart phone, on sporting events, combinations of sporting events and certain other sporting events as authorized by the Lottery Division. Wagers are only allowed for patrons within the geographical limits of the State.

### Discretely Presented Component Units

Effective February 1, 2020, the University of Rhode Island will no longer be governed by the Rhode Island Council on Postsecondary Education but will be governed by a Board of Trustees consisting of 17 members appointed by the governor with the advice and consent of the Rhode Island Senate. The board will be dedicated solely to the University and will exercise similar powers and authority as was exercised by the Council on Postsecondary Education including oversight of employment and the University's property, purchases, and procurement. The University president will report to the Board of Trustees. The Rhode Island Council on Postsecondary Education will continue to oversee Rhode Island College and the Community College of Rhode Island.

In December 2019 the Rhode Island Turnpike and Bridge Authority (RITBA) issued Motor Fuel Tax Revenue Bonds, Series 2019 A with a par amount of \$44,525,000 for the purposes of providing funds, together with available funds of the Authority from the Authority's Residual Fund, to finance (i) the renovation, renewal, repair, rehabilitation, retrofitting, upgrading and improvement of the Claiborne Pell Bridge, the Jamestown Verrazzano Bridge, the Sakonnet River Bridge, Mount Hope Bridge and other projects, (ii) a debt service reserve and (iii) the costs of issuing the Series 2019 A bonds.

In December 2019 RITBA also issued Taxable Refunding Toll Revenue Bonds, 2019 Series 1 with a par amount of \$48,805,000 for the purpose of refunding RITBA's outstanding Series 2010 A Bonds and to pay costs of the issuance of the Series 1 bonds.

In October 2019, the Rhode Island Housing and Mortgage Finance Corporate (RIHMFC) issued:

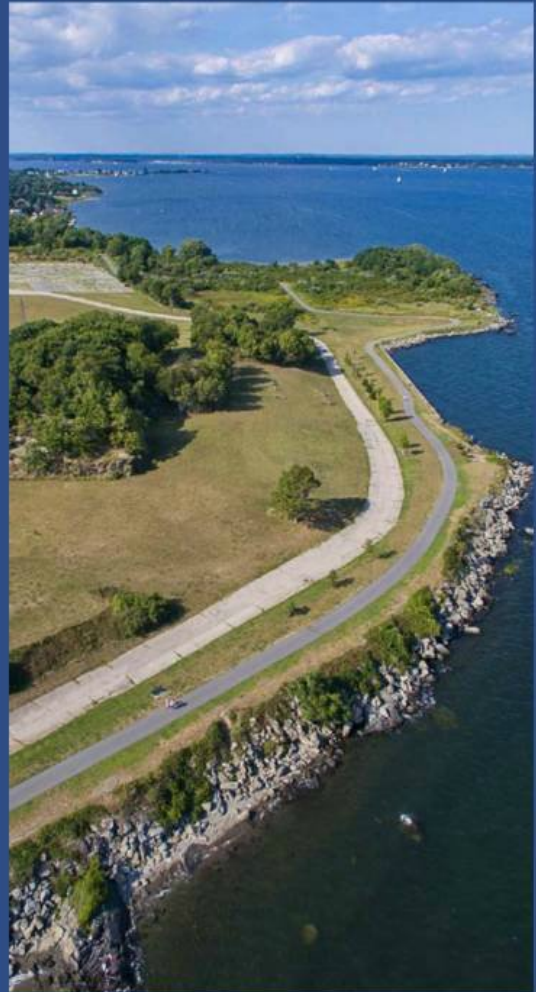
- 
- Multi-Family Development Bonds, 2019 Series 1-A (Non-AMT) with a par amount of \$25,900,000 for the purpose of funding construction loans relating to all of the 2019 Series 1 Developments.
  - Multi-Family Development Bonds, 2019 Series 1-B (Non-AMT) with a par amount of \$36,000,000 for the purpose of providing long-term financing to three of the 2019 Series 1 Developments.
  - Multi-Family Development Bonds, 2019 Series 2-T (Federally Taxable) with a par amount of \$11,700,000 for the purpose of providing long-term financing to the 2019 Series 2 Development.

In November 2019, RIHMFC also issued Homeownership Opportunity Bonds, Series 71 (non-AMT) with a par amount of \$97,340,000 for the purpose of purchasing Program Loans (the Series 71 Program Loans) to finance the ownership or improvement of single family housing within the State by eligible low and moderate income families.

In the normal course of business certain of the State's discretely presented component units issue new debt and refund existing debt.



# Required Supplementary Information



**State of Rhode Island**  
Fiscal Year Ended  
June 30, 2019



**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, 2019**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Revenues:</b>				
General Revenues:				
Personal Income Tax	\$ 1,385,593	\$ 1,384,000	\$ 1,396,963	\$ 12,963
General Business Taxes:				
Business Corporations	177,592	164,500	155,111	(9,389)
Public Utilities Gross Earnings	101,800	102,900	101,613	(1,287)
Financial Institutions	21,800	23,300	21,145	(2,155)
Insurance Companies	130,507	110,800	116,968	6,168
Bank Deposits	2,700	3,000	2,900	(100)
Health Care Provider Assessment	51,423	44,600	43,946	(654)
Sales and Use Taxes:				
Sales and Use	1,101,139	1,117,600	1,125,693	8,093
Motor Vehicle	3,134	1,100	1,035	(65)
Cigarettes	139,500	139,800	138,859	(941)
Alcohol	20,700	20,700	20,437	(263)
Other Taxes:				
Inheritance and Gift	32,100	48,000	48,019	19
Racing and Athletics	1,100	1,100	1,151	51
Realty Transfer Tax	14,500	12,550	12,748	198
<i>Total Taxes (1)</i>	<u>3,183,588</u>	<u>3,173,950</u>	<u>3,186,588</u>	<u>12,638</u>
Departmental Revenue	404,148	422,170	416,730	(5,440)
Total Taxes and Departmental Revenue	<u>3,587,736</u>	<u>3,596,120</u>	<u>3,603,318</u>	<u>7,198</u>
Other Sources:				
Lottery	391,700	400,100	397,321	(2,779)
Unclaimed Property	9,700	11,200	11,579	379
Other Miscellaneous	9,349	11,437	12,362	925
Total Other Sources	<u>410,749</u>	<u>422,737</u>	<u>421,262</u>	<u>(1,475)</u>
Total General Revenues	<u>3,998,485</u>	<u>4,018,857</u>	<u>4,024,580</u>	<u>5,723</u>
Federal Revenues	2,904,232	3,005,553	2,827,006	(178,547)
Restricted Revenues	278,084	283,465	281,236	(2,229)
Other Revenues	70,994	67,292	68,973	1,681
<i>Total Revenues (2)</i>	<u>7,251,795</u>	<u>7,375,167</u>	<u>7,201,795</u>	<u>(173,372)</u>
<b>Expenditures (4):</b>				
General government	732,629	737,035	690,486	46,549
Human services	4,062,950	4,153,419	4,034,359	119,060
Education	1,690,264	1,704,850	1,685,669	19,181
Public safety	574,191	596,859	577,668	19,191
Natural resources	101,483	97,982	81,985	15,997
<i>Total Expenditures (2)</i>	<u>7,161,517</u>	<u>7,290,145</u>	<u>7,070,167</u>	<u>\$ 219,978</u>
Transfer of Excess Budget Reserve to RI Capital Fund	—	—	116,960	
Transfer of scholarship revenue to RI Division of Higher Education (5)	—	—	6,178	
Total Expenditures and Transfers	<u>\$ 7,161,517</u>	<u>\$ 7,290,145</u>	<u>7,193,305</u>	
Change in Fund Balance			8,490	
Fund balance - beginning (restated)			362,542	
Fund balance - ending			<u>\$ 371,032</u>	

(Continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2019**  
**(Expressed in Thousands)**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>Expenditures by Source:</b>				
General Revenues	\$ 3,908,207	\$ 3,933,834	\$ 3,924,050	\$ 9,784
Federal Funds	2,904,232	3,005,553	2,827,006	178,547
Restricted Receipts	278,084	283,465	256,417	27,048
Other Funds	70,994	67,293	62,694	4,599
	<u>\$ 7,161,517</u>	<u>\$ 7,290,145</u>	<u>\$ 7,070,167</u>	<u>\$ 219,978</u>

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

**Budgeted Surplus:**

Total Revenue - Final Budget	\$ 7,375,167	
Total Expenditures - Final Budget	<u>7,290,145</u>	
<b>Final Budget - Projected Surplus (3)</b>		\$ 85,022

**Final Budget and Actual - Results**

Total Revenues - Variance (Actual Revenue less than Budget)	\$ (173,372)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	<u>219,978</u>	
<b>Surplus resulting from operations compared to final budget</b>		\$ 46,606
Total General Fund Surplus - Fiscal Year Ended June 30, 2019		<u>\$ 131,628</u>

Transfer to RI Division of Higher Education Assistance (5)		(6,178)
Transfer of Excess Budget Reserve to RICAP Fund		<u>(116,960)</u>

<b>Net Change in General Fund - Fund Balance</b>		\$ 8,490
Fund Balance, Beginning as restated		<u>362,542</u>
Fund Balance, Ending		<u><u>\$ 371,032</u></u>

**Notes:**

Due to rounding, numbers presented may not add up precisely to the totals provided.

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

Historical Tax Credit Fund Transfers to the General Fund in Fiscal 2019 by Tax Type:

	General Fund Reported Revenue	Historic Tax Credits Applied Transfer from HTCF	Budgetary Comparison Total
Personal Income	\$ 1,391,890	\$ 5,073	\$ 1,396,963
Business Corporations	155,095	16	155,111
Insurance Corporations	108,762	8,206	116,968

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

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.0% of estimated general revenue for the fiscal year ending June 30, 2019.

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

General Government	\$ 136,758
Education	44,036
Public Safety	500
	<u>\$ 181,294</u>

(5) Amounts are provided for scholarships by the administrator of the Rhode Island Higher Education Savings Trust. For financial reporting purposes such amounts are recorded as restricted revenue and a transfer to the Rhode Island Division of Higher Education Assistance which administers the scholarship program. These amounts are non-budgeted items.

(Continued)

**State of Rhode Island and Providence Plantations**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**General Fund**  
**For the Fiscal Year Ended June 30, 2019**  
**(Expressed in Thousands)**

**Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective**

	<b>Fund Balance Reported in the Financial Statements</b>	<b>Budgetary Perspective</b>	
		<b>Fund Balance Not Available for Appropriation in Fiscal 2020</b>	<b>Fund Balance Available for Appropriation in Fiscal 2020</b>
Nonspendable	\$ 1,558	\$ —	\$ 1,558 (d)
Restricted	119,677	119,677	—
Committed	5,206	5,206	—
Assigned	37,255	11,791 (a)	25,464 (b)
Unassigned	207,336	203,855 (c)	3,481 (d)
<b>Total Fund Balance</b>	<b>\$ 371,032</b>	<b>\$ 340,529</b>	<b>\$ 30,503</b>

(a) Assigned fund balance not available for appropriation in fiscal 2020 includes general revenue appropriations carried forward by the Governor, Judiciary, and Legislature and intra-agency balances assigned for specific purposes.

(b) Assigned fund balance available for appropriation in fiscal 2020 represents fiscal 2019 ending surplus appropriated as a resource in the 2020 enacted budget.

(c) Budget Reserve and Cash Stabilization Account - for financial statement purposes, this account is classified as unassigned, yet, it is not considered available for recurring operational appropriations.

(d) Remaining fund balance available for appropriation.

(Concluded)

See Notes to Required Supplementary Information.

**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, 2019**  
*(Expressed in Thousands)*

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>				
Taxes	\$ 141,711	\$ 141,711	\$ 240,099	\$ 98,388
Licenses, fines, sales, and services	97,007	130,256	31,975	(98,281)
Departmental restricted revenue	3,034	3,007	2,660	(347)
Federal grants	299,540	324,514	287,303	(37,211)
Other revenues	2,798	6,415	2,568	(3,847)
Total revenues	<u>544,090</u>	<u>605,903</u>	<u>564,605</u>	<u>(41,298)</u>
<b>Revenues and other Financing Sources (unbudgeted):</b>				
Miscellaneous revenue			6,741	
Total revenues			<u>571,346</u>	
Other Financing Sources:				
Transfers from RI Capital Plan			43,494	
Total Other Financing Sources			<u>43,494</u>	
Total Revenues and Other Financing Sources			<u>614,840</u>	
<b>Expenditures (budgeted):</b>				
Central Management				
Federal Funds	6,503	6,312	5,699	613
Gasoline Tax	4,741	7,283	5,236	2,047
Total - Central Management	<u>11,244</u>	<u>13,595</u>	<u>10,935</u>	<u>2,660</u>
Management and Budget				
Gasoline Tax	5,822	2,396	1,598	798
Total - Management and Budget	<u>5,822</u>	<u>2,396</u>	<u>1,598</u>	<u>798</u>
Infrastructure-Engineering-GARVEE/Motor Fuel Tax Bonds				
Federal Funds	288,650	318,201	281,610	36,591
Federal Funds-Stimulus	4,387	—	—	—
Restricted Receipts	3,034	3,007	2,627	380
Gasoline Tax	75,837	80,393	81,937	(1,544)
Toll Revenue	41,000	7,000	81	6,919
Land Sale Revenue	2,648	6,365	1,295	5,070
Total - Infrastructure - Engineering	<u>415,556</u>	<u>414,966</u>	<u>367,550</u>	<u>47,416</u>
Infrastructure - Maintenance				
Gasoline Tax	18,919	15,153	22,855	(7,702)
Non-Land Surplus Property	50	50	—	50
Outdoor Advertising	100	—	—	—
Utility Access Permit Fees	500	50	—	50
Rhode Island Highway Maintenance Account	97,007	130,256	98,077	32,179
Total - Infrastructure - Maintenance	<u>116,576</u>	<u>145,509</u>	<u>120,932</u>	<u>24,577</u>
Total Expenditures (budgeted)	<u>\$ 549,198</u>	<u>\$ 576,466</u>	<u>\$ 501,015</u>	<u>\$ 75,451</u>
<b>Expenditures and Other Financing Uses (unbudgeted):</b>				
Infrastructure Expenditures - State Match funded by RI Capital Plan and Bond Capital Funds			44,148	
Infrastructure expenditures - GARVEE			105,553	
I-195 Redevelopment District project			10,219	
Transfers to general fund - Gas Tax			45,848	
Total Expenditures and Other Financing Uses (unbudgeted)			<u>205,768</u>	
Total Expenditures and Other Financing Uses			<u>706,783</u>	
Net change in fund balance			(91,943)	
Fund balance, beginning			415,725	
Fund balance, ending			<u>\$ 323,782</u>	

See Notes to Required Supplementary Information.

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## Budget and Actual

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

The budget to actual comparison for the General Fund on the preceding pages is summarized and does not present budget and actual amounts detailed at the legal level of budgetary control. 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. Examples of line items under "Administration" are "Central Management" and "Purchasing." Management cannot reallocate any appropriations without special approval from the legislative branch. A separate schedule presenting such amounts at the detailed legal level of budgetary control is labeled "Annual Budgetary Comparison Schedules" and is available on the State Controller's website, <http://controller.admin.ri.gov/index.php>. General fund original and final budgeted revenues reflect annual amounts adopted during the State's revenue estimating conferences which meet biannually in November and May.

The comprehensive annual budget includes transportation function expenditures, the majority of which are reflected in the IST Fund for financial reporting purposes. The IST Fund major fund financial statements include transportation related activity of the various transportation funding sources including gas tax revenues, certain motor vehicle related fees and surcharges collected by the Department of Motor Vehicles, tolls, federal funds, GARVEE and Motor Fuel Bonds, and the proceeds of bonds issued by the I-195 Redevelopment District which were transferred to the IST fund to be utilized for infrastructure projects. The budget to actual comparison schedule for the IST fund on the preceding page is presented at the legal level of budgetary control consistent with the legally adopted budget. Not all the activity reported within the IST fund financial statements is budgeted. Unbudgeted activity has been separately identified in the budget to actual comparison schedule to facilitate reconciliation to the IST fund financial statements. By statute, the IST fund receives a percentage of certain motor vehicle related fees and surcharges collected by the Department of Motor Vehicles which are dedicated to the Rhode Island Highway Maintenance Account within the IST Fund. These revenues are not specifically budgeted through the revenue estimating process. Annual budgeted expenditures from the Highway Maintenance Account reflect amounts available in the account.

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.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Defined Benefit Multiple-Employer Cost-sharing Plan**

The Employees' Retirement System (ERS) Plan is a multiple-employer cost-sharing defined benefit plan covering state employees and local teachers. Separate actuarial valuations are performed for state employees and teachers but not for individual employers within those groups. The net pension liability and other pension related amounts are apportioned based on proportionate employer contributions to the plan.

By statute, the State funds 40% of the actuarially determined employer contribution for teachers. This constitutes a special funding situation as described in GASB Statement No. 68. Consequently, the State has recognized its proportionate share of the net pension liability and other related pension amounts for this special funding situation in its financial statements.

The amounts included in these schedules for fiscal 2019 reflect a June 30, 2018 measurement date.

Additional information for the ERS plan is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island.

The following schedules are presented for the ERS cost-sharing plan with a special funding situation:

- **ERS - Schedule of State's Proportionate Share of the Net Pension Liability - State Employees-Governmental Activities**
- **ERS - Schedule of State's Proportionate Share of the Net Pension Liability - State Employees-Business-Type Activities**
- **ERS - Schedule of State's Proportionate Share of the Net Pension Liability - Teachers**
- **ERS - Schedule of State Contributions - State Employees - Governmental Activities**
- **ERS - Schedule of State Contributions - State Employees - Business-Type Activities**
- **ERS - Schedule of State Contributions - Teachers**

These schedules are intended to show information for 10 years - additional years will be displayed as information becomes available. Note 17 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of State's Proportionate Share**  
**of the Net Pension Liability**  
**Last Five Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Employees-Governmental Activities**

Year Ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
State's proportion of the net pension liability	89.5%	89.2%	88.9%	89.0%	89.0%
State's proportionate share of the net pension liability	\$ 2,013,417	\$ 2,010,955	\$ 1,887,351	\$ 1,767,095	\$ 1,585,647
State's covered payroll	\$ 627,595	\$ 620,754	\$ 612,081	\$ 594,466	\$ 581,589
State's proportionate share of the net pension liability as a percentage of its covered payroll	320.8%	324.0%	308.3%	297.3%	272.6%
Plan fiduciary net position as a percentage of the total pension liability	52.5%	51.8%	51.9%	55.0%	58.6%

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.



**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of State's Proportionate Share**  
**of the Net Pension Liability**  
**Last Five Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Employees - Business-Type Activities**

*Rhode Island Lottery*

Year Ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Lottery's proportion of the net pension liability	0.8%	0.7%	0.8%	0.8%	0.7%
Lottery's proportionate share of the net pension liability	\$ 17,142	\$ 16,869	\$ 16,260	\$ 15,074	\$ 13,315
Lottery's covered payroll	\$ 5,311	\$ 5,186	\$ 5,156	\$ 5,071	\$ 4,891
Lottery's proportionate share of the net pension liability as a percentage of its covered payroll	322.8%	325.3%	315.4%	297.3%	272.2%
Plan fiduciary net position as a percentage of the total pension liability	52.5%	51.8%	51.9%	55.0%	58.6%

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of the State's Proportionate Share**  
**of the Net Pension Liability**  
**Last Five Fiscal Years**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Share-Teachers (Special Funding Situation)**

Year Ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
State's proportion of the net pension liability	42.7%	43.1%	40.7%	40.6%	40.7%
State's proportionate share of the net pension liability	\$ 1,357,444	\$ 1,357,577	\$ 1,212,754	\$ 1,117,395	\$ 990,129
Plan fiduciary net position as a percentage of the total pension liability	54.3%	54.0%	54.1%	57.6%	61.4%

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Five Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Employees-Governmental Activities**

	2019*	2018	2017	2016	2015
Actuarially determined contribution	\$ 169,365	\$ 156,083	\$ 157,299	\$ 144,696	\$ 138,689
Contributions in relation to the actuarially determined contribution	\$ 169,365	\$ 156,083	\$ 157,299	\$ 144,696	\$ 138,689
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 644,463	\$ 627,595	\$ 620,754	\$ 612,081	\$ 594,466
Contributions as a percentage of covered payroll	26.28%	24.87%	25.34%	23.64%	23.33%

\* The 2019 contributions as a percentage of covered payroll includes the actuarially determined contribution rate of 25.75% and an additional contribution of .53% representing and elective contribution by the State to offset the impact of a voluntary retirement incentive offered to State employees in 2017.

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Five Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Employees - Business-Type Activities**

*Rhode Island Lottery*

	2019*	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,738	\$ 1,321	\$ 1,314	\$ 1,219	\$ 1,183
Contributions in relation to the actuarially determined contribution	\$ 1,738	\$ 1,321	\$ 1,314	\$ 1,219	\$ 1,183
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —
Covered payroll	\$ 6,613	\$ 5,311	\$ 5,186	\$ 5,156	\$ 5,071
Contributions as a percentage of covered payroll	26.28%	24.87%	25.34%	23.64%	23.33%

\* The 2019 contributions as a percentage of covered payroll includes the actuarially determined contribution rate of 25.75% and an additional contribution of .53% representing an elective contribution by the State to offset the impact of a voluntary retirement incentive offered to State employees in 2017.

The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Five Years Ended June 30**  
**(Expressed in Thousands)**

**Employees' Retirement System-State Share-Teachers (Special Funding Situation)**

	2019	2018	2017	2016	2015
Statutorily required contribution	\$ 102,239	\$ 98,121	\$ 96,542	\$ 87,998	\$ 84,944
Contributions in relation to the statutorily required contribution	102,239	98,121	96,542	87,998	84,944
Contribution deficiency (excess)	\$ —	\$ —	\$ —	\$ —	\$ —

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Single-Employer Defined Benefit Plans**

Certain state employees are covered by the following single-employer plans, separate from the ERS plan, which covers most state employees.

- State Police Retirement Benefits Trust (SPRBT)
- Judicial Retirement Benefits Trust (JRBT)
- Rhode Island Judicial Retirement Fund Trust (RIJRFT)
- State Police Retirement Fund Trust (SPRFT)

These plans are administered within the Employees' Retirement System of Rhode Island. Separate actuarial valuations are performed for each plan. Additional information for the plans is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island.

The amounts included in these schedules for fiscal 2019 reflect a June 30, 2018 measurement date.

The following schedules are presented for each single-employer plan:

- **Schedule of Changes in the Net Pension Liability and Related Ratios**
  - SPRBT
  - JRBT
  - RIJRFT
  - SPRFT
  
- **Schedule of State Contributions**
  - SPRBT
  - JRBT
  - RIJRFT
  - SPRFT

These schedules are intended to show information for 10 years - additional years will be displayed as information becomes available. Note 17 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Five Fiscal Years**  
**(Expressed in Thousands)**

**State Police Retirement Benefits Trust**

Year Ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability</b>					
Service cost	\$ 4,999	\$ 4,498	\$ 4,316	\$ 4,198	\$ 5,122
Interest	10,763	9,393	9,058	8,540	7,768
Benefit Changes	—	—	—	1,170	—
Differences between expected and actual experience	1,912	10,694	(4,139)	(3,522)	—
Changes of assumptions	—	9,274	—	—	(364)
Benefit payments	(6,024)	(5,142)	(4,585)	(2,497)	(1,767)
<b>Net Change in Total Pension Liability</b>	<b>11,650</b>	<b>28,717</b>	<b>4,650</b>	<b>7,889</b>	<b>10,759</b>
<b>Total Pension Liability-Beginning</b>	<b>154,274</b>	<b>125,557</b>	<b>120,907</b>	<b>113,018</b>	<b>102,259</b>
<b>Total Pension Liability-Ending</b>	<b>\$ 165,924</b>	<b>\$ 154,274</b>	<b>\$ 125,557</b>	<b>\$ 120,907</b>	<b>\$ 113,018</b>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	\$ 2,797	\$ 2,980	\$ 4,005	\$ 3,432	\$ 3,331
Employee contributions	1,994	2,060	2,035	1,732	2,034
Net investment income	10,298	13,694	58	2,656	14,124
Benefit payments	(6,024)	(5,142)	(4,585)	(2,497)	(1,767)
Administrative expenses	(137)	(125)	(103)	(100)	(83)
Other	16	5	1	4	5
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 8,944</b>	<b>\$ 13,472</b>	<b>\$ 1,411</b>	<b>\$ 5,227</b>	<b>\$ 17,644</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>129,789</b>	<b>116,317</b>	<b>114,906</b>	<b>109,679</b>	<b>92,035</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 138,733</b>	<b>\$ 129,789</b>	<b>\$ 116,317</b>	<b>\$ 114,906</b>	<b>\$ 109,679</b>
<b>Net Pension Liability</b>	<b>\$ 27,191</b>	<b>\$ 24,485</b>	<b>\$ 9,240</b>	<b>\$ 6,001</b>	<b>\$ 3,339</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total</b>					
<b>Pension Liability</b>	83.6%	84.1%	92.6%	95.0%	97.0%
<b>Covered Payroll</b>	\$ 22,590	\$ 22,728	\$ 20,985	\$ 19,701	\$ 23,051
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	120.4%	107.7%	44.0%	30.5%	14.5%

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Five Fiscal Years**  
**(Expressed in Thousands)**

**Judicial Retirement Benefits Trust**

Year Ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability</b>					
Service cost	\$ 3,215	\$ 3,001	\$ 2,859	\$ 3,024	\$ 3,002
Interest	5,303	5,031	4,744	4,540	4,134
Benefit Changes	—	—	—	253	—
Differences between expected and actual experience	(2,032)	(1,788)	(1,206)	(2,857)	—
Changes of assumptions	—	5,173	—	—	(672)
Benefit payments	(2,956)	(2,740)	(2,531)	(1,809)	(1,631)
<b>Net Change in Total Pension Liability</b>	<b>3,530</b>	<b>8,677</b>	<b>3,866</b>	<b>3,151</b>	<b>4,833</b>
<b>Total Pension Liability-Beginning</b>	<b>75,628</b>	<b>66,951</b>	<b>63,085</b>	<b>59,934</b>	<b>55,101</b>
<b>Total Pension Liability-Ending</b>	<b>\$ 79,158</b>	<b>\$ 75,628</b>	<b>\$ 66,951</b>	<b>\$ 63,085</b>	<b>\$ 59,934</b>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	\$ 2,058	\$ 2,057	\$ 2,410	\$ 2,709	\$ 2,543
Employee contributions	1,142	1,118	1,053	1,121	1,093
Net investment income	5,377	7,107	29	1,368	7,221
Benefit payments	(2,956)	(2,740)	(2,531)	(1,809)	(1,631)
Administrative expenses	(71)	(65)	(53)	(51)	(43)
Other	—	—	—	—	—
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 5,550</b>	<b>\$ 7,477</b>	<b>\$ 908</b>	<b>\$ 3,338</b>	<b>\$ 9,183</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>67,895</b>	<b>60,418</b>	<b>59,510</b>	<b>56,172</b>	<b>46,989</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 73,445</b>	<b>\$ 67,895</b>	<b>\$ 60,418</b>	<b>\$ 59,510</b>	<b>\$ 56,172</b>
<b>Net Pension Liability</b>	<b>\$ 5,713</b>	<b>\$ 7,733</b>	<b>\$ 6,533</b>	<b>\$ 3,575</b>	<b>\$ 3,762</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>					
<b>Covered Payroll</b>	<b>\$ 9,653</b>	<b>\$ 9,532</b>	<b>\$ 8,981</b>	<b>\$ 9,570</b>	<b>\$ 9,314</b>
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	<b>59.2%</b>	<b>81.1%</b>	<b>72.7%</b>	<b>37.4%</b>	<b>40.4%</b>

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.



**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Five Fiscal Years**  
**(Expressed in Thousands)**

**Rhode Island Judicial Retirement Fund Trust**

Year Ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability</b>					
Service cost	\$ 294	\$ 350	\$ 466	\$ 416	\$ 498
Interest	726	586	719	673	710
Benefit Changes	—	—	—	—	—
Differences between expected and actual experience	(1,953)	—	(1,060)	(642)	1,617
Changes of assumptions	(116)	(666)	1,865	859	(1,160)
Benefit payments	(399)	(399)	(231)	—	—
<b>Net Change in Total Pension Liability</b>	<b>(1,448)</b>	<b>(129)</b>	<b>1,759</b>	<b>1,306</b>	<b>1,665</b>
<b>Total Pension Liability-Beginning</b>	<b>20,442</b>	<b>20,571</b>	<b>18,812</b>	<b>17,506</b>	<b>15,841</b>
<b>Total Pension Liability-Ending</b>	<b>\$ 18,994</b>	<b>\$ 20,442</b>	<b>\$ 20,571</b>	<b>\$ 18,812</b>	<b>\$ 17,506</b>
<b>Plan Fiduciary Net Position</b>					
Employer contributions	\$ 399	\$ 332	\$ 140	\$ —	\$ —
Employee contributions	117	117	135	159	153
Net investment income	44	64	4	9	12
Benefit payments	(399)	(399)	(231)	—	—
Administrative expenses	(1)	(1)	—	—	—
Other	—	—	—	—	—
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 160</b>	<b>\$ 113</b>	<b>\$ 48</b>	<b>\$ 168</b>	<b>\$ 165</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>647</b>	<b>534</b>	<b>486</b>	<b>318</b>	<b>153</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 807</b>	<b>\$ 647</b>	<b>\$ 534</b>	<b>\$ 486</b>	<b>\$ 318</b>
<b>Net Pension Liability</b>	<b>\$ 18,187</b>	<b>\$ 19,795</b>	<b>\$ 20,037</b>	<b>\$ 18,326</b>	<b>\$ 17,188</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>					
<b>Covered Payroll</b>	<b>\$ 1,020</b>	<b>\$ 988</b>	<b>\$ 963</b>	<b>\$ 1,321</b>	<b>\$ 1,276</b>
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	<b>1783.0%</b>	<b>2003.3%</b>	<b>2189.2%</b>	<b>1387.4%</b>	<b>1346.8%</b>

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**State Police Retirement Fund Trust**

Year Ended	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2018	June 30, 2017
<b>Total Pension Liability</b>		
Service cost	\$ —	\$ —
Interest	11,712	12,589
Benefit Changes	—	—
Differences between expected and actual experience	12,187	—
Changes of assumptions	—	4,214
Benefit payments	(17,273)	(17,392)
<b>Net Change in Total Pension Liability</b>	<b>6,626</b>	<b>(589)</b>
<b>Total Pension Liability-Beginning</b>	<b>175,957</b>	<b>176,546</b>
<b>Total Pension Liability-Ending</b>	<b>\$ 182,583</b>	<b>\$ 175,957</b>
<b>Plan Fiduciary Net Position</b>		
Employer contributions	\$ 16,387	\$ 31,566
Employee contributions	—	—
Net investment income	1,137	1,839
Benefit payments	(17,273)	(17,392)
Administrative expenses	(6)	—
Other	—	—
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 245</b>	<b>\$ 16,013</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>16,013</b>	<b>—</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 16,258</b>	<b>\$ 16,013</b>
<b>Net Pension Liability</b>	<b>\$ 166,325</b>	<b>\$ 159,944</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>		
<b>Covered Payroll</b>	<b>\$ —</b>	<b>\$ —</b>
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	<b>8.9%</b>	<b>9.1%</b>
	<b>—%</b>	<b>—%</b>

*There is no covered payroll because there are no active members of the plan.*

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is required prospectively until 10 years of data are presented. However, there are only two years of activity to report as the Trust began operations in fiscal 2018.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Five Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State Police Retirement Benefits Trust**

	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 3,567	\$ 2,802	\$ 2,980	\$ 4,005	\$ 3,432
Contributions in relation to the actuarially determined contribution	3,567	2,802	2,980	4,005	3,432
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Covered payroll	\$ 24,199	\$ 22,930	\$ 22,191	\$ 23,258	\$ 19,907
Contributions as a percentage of covered payroll	14.74%	12.22%	13.43%	17.22%	17.24%

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Five Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Judicial Retirement Benefits Trust**

	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,922	\$ 2,064	\$ 2,057	\$ 2,410	\$ 2,709
Contributions in relation to the actuarially determined contribution	1,922	2,064	2,057	2,410	2,709
Contribution deficiency (excess)	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Covered payroll	\$ 9,477	\$ 9,768	\$ 9,532	\$ 8,993	\$ 9,566
Contributions as a percentage of covered payroll	20.28%	21.13%	21.58%	26.80%	28.32%

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Five Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Rhode Island Judicial Retirement Fund Trust**

	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 1,224	\$ 1,322	\$ 1,241	\$ 1,200	\$ 1,623
Contributions in relation to the actuarially determined contribution	399	399	332	140	—
Contribution deficiency (excess)	<u>\$ 825</u>	<u>\$ 923</u>	<u>\$ 909</u>	<u>\$ 1,060</u>	<u>\$ 1,623</u>
Covered payroll	\$ 1,002	\$ 1,020	\$ 988	\$ 964	\$ 1,321
Contributions as a percentage of covered payroll	39.82%	39.12%	33.60%	14.52%	—%

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be required prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State Police Retirement Fund Trust**

	2019	2018
Actuarially determined contribution	\$ 16,387	\$ 16,387
Contributions in relation to the actuarially determined contribution	16,387	16,387
Contribution deficiency (excess)	\$ —	\$ —

*There is no covered payroll because there are no active members of the plan.*

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is required prospectively until 10 years of data are presented. However, there are only two years of activity to report as the Trust began operations in fiscal 2018.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Non-Contributory (pay-as-you-go) Defined Benefit Single-Employer Plan**

Certain retired state employees are covered by the Judicial Non-Contributory Retirement Plan, a single-employer plan, which is separate from the plans previously described, and is not part of the Employees' Retirement System of Rhode Island.

The State funds this plan on a pay-as-you-go basis and no actuarially determined advance employer contribution is made nor are assets accumulated in a trust to pay future benefits. A separate actuarial valuation is performed to provide an accounting measure of the total pension liability for the plan.

A Schedule of Changes in Total Pension Liability is presented for this plan. The amounts included in this schedule for fiscal 2019 reflects a June 30, 2018 measurement date. The Schedule of Changes in Total Pension Liability is intended to show information for 10 years - additional years will be displayed as information becomes available. A Schedule of State Contributions is not presented as the plan operates on a pay-as-you-go basis and there is no covered payroll because there are no active members of the plan.

Note 17 to the financial statements contains detailed information concerning pension plans.

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - Pension Information**  
**Schedule of Changes in Total Pension Liability**  
**Last Five Fiscal Years**  
**(Expressed in Thousands)**

**Judicial Non-Contributory Retirement Plan**

Year Ended	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Measurement Date	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
<b>Total Pension Liability</b>					
Service cost	\$ —	\$ —	\$ —	\$ —	\$ —
Interest	1,497	1,380	1,860	2,172	2,334
Benefit changes	—	—	—	—	—
Differences between expected and actual experience	916	182	—	328	—
Changes of assumptions	(166)	(2,291)	3,510	1,885	—
Benefit payments	(5,486)	(5,763)	(6,107)	(6,020)	(6,173)
<b>Net Change in Total Pension Liability</b>	<b>(3,239)</b>	<b>(6,492)</b>	<b>(737)</b>	<b>(1,635)</b>	<b>(3,839)</b>
<b>Total Pension Liability-Beginning</b>	<b>44,789</b>	<b>51,281</b>	<b>52,018</b>	<b>53,653</b>	<b>57,492</b>
<b>Total Pension Liability-Ending</b>	<b>\$ 41,550</b>	<b>\$ 44,789</b>	<b>\$ 51,281</b>	<b>\$ 52,018</b>	<b>\$ 53,653</b>

*The State of Rhode Island adopted GASB Statement No. 68 in fiscal 2015. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.



**Required Supplementary Information - Pensions**

**Significant Methods and Assumptions used in calculating the actuarially determined contributions**

Actuarially determined contributions are calculated as of June 30, three years prior to the fiscal year in which the contribution rates are applicable. The actuarially determined contribution rates for fiscal 2019 were determined based on valuations performed as of June 30, 2016. Significant methods and assumptions are summarized for each plan in the table below:

	ERS		SPRBT	JRBT	RIJRFT	SPRFT
	State Employees	Teachers				
<b>Actuarial Cost Method</b>	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.					
<b>Amortization Method</b>	Level Percent of Payroll - Closed				Level Dollar	Level Dollar
<b>Equivalent single remaining amortization period</b>	19 years	21 years	19 years	20 years	16 years	15 years
<b>Asset valuation method</b>	5 year smoothed market					Market Value
<b>Amortization period for gains and losses</b>	20 years					
<b>Actuarial Assumptions</b>						
<b>Investment Rate of Return</b>	7.50%				2.85%	7.50%
<b>Projected Salary Increases</b>	3.50% to 6.50%	3.50% to 13.5%	3.75% to 11.75%	3.50%	3.50%	N/A
<b>Mortality</b>	<p>Male Employees: 115% of RP-2000 Combined Healthy for Males with White Collar adjustments, projected with Scale AA from 2000.</p> <p>Female Employees: 95% of RP-2000 Combined Healthy for Females with White Collar adjustments, projected with Scale AA from 2000.</p>					
	<p>Male and female teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.</p>					
<b>Inflation</b>	2.75%					

**Cost of Living Adjustments**

A COLA of 2.2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. COLA provisions were modified with the enactment of the new RIRSA provisions in July 2015 - these provisions are effective in the actuarial valuations prepared for funding purposes beginning June 30, 2015.

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## Factors affecting trends for amounts related to the net pension liability

**June 30, 2018 measurement date** - There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) of the plans as of the June 30, 2018 measurement date compared to the June 30, 2017 measurement date except for the changes in assumptions for the RIJRT and JNCRP plans due to use of the municipal bond index rate of 3.62% as of June 30, 2018. This rate was 3.56% at June 30, 2017.

The June 30, 2018 measurement date information includes a pension credit of \$1.2 million for the RIJRT plan which results from an actuarial gain (expected compared to actual experience).

**June 30, 2017 measurement date** - As part of the 2017 Actuarial Experience Investigation Study for the six-year period ending June 30, 2016 as approved by the System Board on May 15, 2017, certain assumptions were modified and reflected in the determination of the net pension liability (asset) at the June 30, 2017 measurement date. The following summarizes the more significant changes in assumptions:

- Decreased the general inflation assumption from 2.75% to 2.50%;
- Decreased the nominal investment return assumption from 7.50% to 7.00%;
- Decreased the general wage growth assumption from 3.25% to 3.00%;
- Decreased salary increase assumptions; and
- Updated the post-retirement mortality tables to variants of the RP-2014 table. For the improvement scale, update to the ultimate rates of the MP-2016 projection scale.

For RIJRT, the municipal bond index rate, based on fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" (3.56% at June 30, 2017) was applied to all periods of projected benefit payments to determine the total pension liability.

The June 30, 2017 measurement date information includes a pension credit of \$96.5 million for the SPRFT plan which results from a change in assumption attributable to the establishment of an advance funded trust (effective July 1, 2016) that replaced the previous plan which was funded on a pay-as-you-go basis. As allowed by GASB standards, the discount rate for advance funded plans used in actuarial calculations of net pension liability is typically higher than the discount rate used for pay-as-you-go plans. Higher discount rates result in lower pension expense. The discount rate for the SPRFT plan increased from 2.85% to 7.00% with the establishment of the advance funded trust, which resulted in a large pension credit. GASB standards require the immediate recognition of this change in the discount rate assumption since the SPRFT plan is a closed plan that is comprised entirely of retired employees.

A pension credit of \$664 thousand for the JNCRP plan results from an increase in the discount rate from 2.85% to 3.56%. GASB standards require the immediate recognition of this change in the discount rate assumption since the JNCRP plan is a closed plan that is comprised entirely of retired employees. Accordingly, the effect of this change in assumption was recorded in fiscal 2018 and was reflected in the pension credit total of \$664 thousand.

**June 30, 2016 measurement date** -- There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) as of the June 30, 2016 measurement date compared to the June 30, 2015 measurement date except for the changes in assumption for the RIJRT plan due to use of the municipal bond index rate of 2.85%.

**June 30, 2015 measurement date** -- There were no changes in actuarial methods or assumptions reflected in the calculation of the net pension liability (asset) as of the June 30, 2015 measurement date compared to the June 30, 2014 measurement date except for the changes in assumption for the RIJRT plan due to use of the municipal bond index rate of 3.8% compared to 4.29% used in the June 30, 2014 valuation.

Benefit changes, which resulted from the settlement of the pension litigation and the subsequent enactment of those settlement provisions by the General Assembly, are reflected in the calculation of the net pension liability at the June 30, 2015 measurement date. Significant benefit changes are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rates to 11% for state employees and participate solely in the defined benefit plan effective July 1, 2015 - service credit accruals will increase from 1% to 2% per year.
- Members are eligible to retire upon the attainment of: age 65 with 30 years of service, 64 with 31 years of service, or 62 with 33 years of service. Members may retire earlier if their RI Retirement Security Act date is earlier or are eligible under a transition rule.
- The COLA formula was adjusted to: 50% of the COLA is calculated by taking the previous 5-year average investment return, less the discount rate (5 year return - 7.5%, with a maximum of 4%) and 50% is calculated using the previous year's CPI-U (maximum of 3%) for a total maximum COLA of 3.5%. The COLA is calculated on the first \$25,855, effective 01/01/2016, and indexed as of that date as well.
- Other changes included providing interim cost of living increases at four rather than five year intervals, providing a one-time cost of living adjustment of 2% (applied to the first \$25,000), two \$500 stipends, and minor adjustments.

**State of Rhode Island and Providence Plantations  
Required Supplementary Information - OPEB Information  
Multiple-Employer Cost-Sharing Plans**

The Rhode Island State Employees' and Electing Teachers OPEB System administers two multiple-employer cost-sharing OPEB plans covering state employees; the State Employees plan and the Board of Education plan. Separate actuarial valuations are performed for each plan but not for individual employers within each plan. The net OPEB liability and other OPEB related amounts are apportioned based on proportionate employer contributions to the plan.

The amounts included in these schedules for fiscal 2019 reflect a June 30, 2018 measurement date.

Additional information for these plans is available in the separately issued audited financial statements of Rhode Island State Employees' and Electing Teachers OPEB System and an additional report prepared to provide the GASB Statement No. 75 related information for participating employers.

The following schedules are presented for these multiple-employer cost-sharing plans:

- **Schedule of State's Proportionate Share of the Net OPEB Liability - State Employees Plan - Governmental Activities**
- **Schedule of State's Proportionate Share of the Net OPEB Liability - State Employees Plan - Business-Type Activities**
- **Schedule of State's Proportionate Share of the Net OPEB Liability - Board of Education Plan**
- **Schedule of State Contributions - State Employees Plan - Governmental Activities**
- **Schedule of State Contributions - State Employees Plan - Business-Type Activities**
- **Schedule of State Contributions - Board of Education Plan**

*These schedules are intended to show information for 10 years - additional years will be displayed as information becomes available. Note 18 to the financial statements contains detailed information concerning OPEB plans.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State's Proportionate Share**  
**of the Net OPEB Liability**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**State Employees-Governmental Activities**

Year Ended	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2018	June 30, 2017
State's proportion of the net OPEB liability	89.4%	89.2%
State's proportionate share of the net OPEB liability	\$ 455,475	\$ 463,597
State's covered payroll	\$ 633,562	\$ 632,672
State's proportionate share of the net OPEB liability as a percentage of its covered payroll	71.9%	73.3%
Plan fiduciary net position as a percentage of the total OPEB liability	26.3%	22.4%

*The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State's Proportionate Share**  
**of the Net OPEB Liability**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**State Employees-Business-Type Activities**

Year Ended	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2018	June 30, 2017
<i>Rhode Island Lottery</i>		
Lottery's proportion of the net OPEB liability	0.8%	0.7%
Lottery's proportionate share of the net OPEB liability	\$ 3,876	\$ 3,864
Lottery's covered payroll	\$ 5,308	\$ 5,186
Lottery's proportionate share of the net OPEB liability as a percentage of its covered payroll	73.0%	74.5%
Plan fiduciary net position as a percentage of the total OPEB liability	26.3%	22.4%

*The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State's Proportionate Share**  
**of the Board of Education Plan Net OPEB Liability**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**State's Share of Board of Education Plan**

Year Ended	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2018	June 30, 2017
State's proportion of the net OPEB liability	0.2%	0.2%
State's proportionate share of the net OPEB liability	\$ 87	\$ 111
State's covered payroll	\$ 411	\$ 264
State's proportionate share of the net OPEB liability as a percentage of its covered payroll	21.2%	42.0%
Plan fiduciary net position as a percentage of the total OPEB liability	38.6%	32.1%

*The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State Employees-Governmental Activities**

	2019	2018
Actuarially determined contribution	\$ 39,302	\$ 37,887
Contributions in relation to the actuarially determined contribution	39,302	37,887
Contribution deficiency (excess)	\$ —	\$ —
Covered payroll	\$ 657,222	\$ 633,562
Contributions as a percentage of covered payroll	5.98%	5.98%

*The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.



**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State Employees-Business-Type Activities**

*Rhode Island Lottery*

	2019	2018
Actuarially determined contribution	\$ 401	\$ 317
Contributions in relation to the actuarially determined contribution	401	317
Contribution deficiency (excess)	\$ —	\$ —
Covered payroll	\$ 6,705	\$ 5,308
Contributions as a percentage of covered payroll	5.98%	5.98%

*The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions to Board of Education Plan**  
**Last Two Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State's Share of Board of Education Plan**

	2019	2018
Actuarially determined contribution	\$ 12	\$ 18
Contributions in relation to the actuarially determined contribution	12	18
Contribution deficiency (excess)	\$ —	\$ —
Covered payroll	\$ 276	\$ 411
Contributions as a percentage of covered payroll	4.36%	4.36%

*The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations  
Required Supplementary Information - OPEB Information  
Single-Employer Plans**

Certain state employees are covered by the following single-employer plans, which are separate from the State Employees and Board of Education multiple-employer cost-sharing plans, that cover most state employees.

- Teachers Plan
- Judges Plan
- State Police Plan
- Legislators Plan

These plans are administered within the Rhode Island State Employees' and Electing Teachers OPEB System. Separate actuarial valuations are performed for each plan. Additional information for the plans is available in the separately issued audited financial statements of the Rhode Island State Employees' and Electing Teachers OPEB System.

The amounts included in these schedules for fiscal 2019 reflect a June 30, 2018 measurement date.

The following schedules are presented for each single-employer plan:

- **Schedule of Changes in the Net OPEB Liability (Asset) and Related Ratios**
  - Teachers Plan
  - Judges Plan
  - State Police Plan
  - Legislators Plan
  
- **Schedule of State Contributions**
  - Teachers Plan
  - Judges Plan
  - State Police Plan
  - Legislators Plan

*These schedules are intended to show information for 10 years - additional years will be displayed as information becomes available. Note 18 to the financial statements contains detailed information concerning OPEB plans.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations  
Required Supplementary Information - OPEB Information  
Schedule of Changes in Net OPEB Liability and Related Ratios  
Last Two Fiscal Years  
(Expressed in Thousands)**

**Teachers Plan**

Year Ended	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2018	June 30, 2017
<b>Total OPEB Liability</b>		
Service cost	\$ —	\$ —
Interest	612	562
Benefit Changes	—	—
Differences between expected and actual experience	91	1,625
Changes of assumptions	—	217
Benefit payments	(1,202)	(1,610)
<b>Net Change in Total OPEB Liability</b>	(499)	794
<b>Total OPEB Liability-Beginning</b>	12,832	12,038
<b>Total OPEB Liability-Ending</b>	<u>\$ 12,333</u>	<u>\$ 12,832</u>
<b>Plan Fiduciary Net Position</b>		
Employer contributions	\$ 2,321	\$ 2,321
Net investment income	780	864
Benefit payments	(1,202)	(1,610)
Administrative expenses	(17)	7
Other	136	103
<b>Net Change in Plan Fiduciary Net Position</b>	\$ 2,018	\$ 1,685
<b>Plan Fiduciary Net Position-Beginning</b>	9,777	8,092
<b>Plan Fiduciary Net Position-Ending</b>	<u>\$ 11,795</u>	<u>\$ 9,777</u>
<b>Net OPEB Liability</b>	<u>\$ 538</u>	<u>\$ 3,055</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	95.6%	76.2%
<b>Covered Payroll</b>	\$ —	\$ —
<b>Net OPEB Liability as a Percentage of Covered Payroll</b>	N/A	N/A

*The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations  
Required Supplementary Information - OPEB Information  
Schedule of Changes in Net OPEB Asset and Related Ratios  
Last Two Fiscal Years  
(Expressed in Thousands)**

**Judges Plan**

Year Ended	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2018	June 30, 2017
<b>Total OPEB Liability</b>		
Service cost	\$ 15	\$ 20
Interest	68	50
Benefit Changes	—	—
Differences between expected and actual experience	(271)	(306)
Changes of assumptions	—	503
Benefit payments	72	138
<b>Net Change in Total OPEB Liability</b>	<u>(116)</u>	<u>405</u>
<b>Total OPEB Liability-Beginning</b>	1,322	917
<b>Total OPEB Liability-Ending</b>	<u>\$ 1,206</u>	<u>\$ 1,322</u>
<b>Plan Fiduciary Net Position</b>		
Employer contributions	\$ —	\$ —
Net investment income	293	334
Benefit payments	72	138
Administrative expenses	(6)	—
Other	54	26
<b>Net Change in Plan Fiduciary Net Position</b>	<u>\$ 413</u>	<u>\$ 498</u>
<b>Plan Fiduciary Net Position-Beginning</b>	3,700	3,202
<b>Plan Fiduciary Net Position-Ending</b>	<u>\$ 4,113</u>	<u>\$ 3,700</u>
<b>Net OPEB Liability (Asset)</b>	<u>\$ (2,907)</u>	<u>\$ (2,378)</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	341.0 %	279.9 %
<b>Covered Payroll</b>	\$ 10,746	\$ 10,746
<b>Net OPEB Asset as a Percentage of Covered Payroll</b>	(27.1)%	(22.1)%

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See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of Changes in Net OPEB Liability and Related Ratios**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**State Police Plan**

<b>Year Ended</b>	<b>June 30, 2019</b>	<b>June 30, 2018</b>
<b>Measurement Date</b>	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>Total OPEB Liability</b>		
Service cost	\$ 3,920	\$ 3,836
Interest	4,148	4,202
Benefit Changes	—	—
Differences between expected and actual experience	(907)	(174)
Changes of assumptions	—	(6,005)
Benefit payments	(2,849)	(3,130)
<b>Net Change in Total OPEB Liability</b>	<b>4,312</b>	<b>(1,271)</b>
<b>Total OPEB Liability-Beginning</b>	<b>82,423</b>	<b>83,694</b>
<b>Total OPEB Liability-Ending</b>	<b>\$ 86,735</b>	<b>\$ 82,423</b>
<b>Plan Fiduciary Net Position</b>		
Employer contributions	\$ 7,919	\$ 7,702
Net investment income	3,413	3,491
Benefit payments	(2,849)	(3,130)
Administrative expenses	(73)	(1)
Other	197	163
<b>Net Change in Plan Fiduciary Net Position</b>	<b>\$ 8,607</b>	<b>\$ 8,225</b>
<b>Plan Fiduciary Net Position-Beginning</b>	<b>37,537</b>	<b>29,312</b>
<b>Plan Fiduciary Net Position-Ending</b>	<b>\$ 46,144</b>	<b>\$ 37,537</b>
<b>Net OPEB Liability</b>	<b>\$ 40,591</b>	<b>\$ 44,886</b>
<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	<b>53.2%</b>	<b>45.5%</b>
<b>Covered Payroll</b>	<b>\$ 21,334</b>	<b>\$ 21,334</b>
<b>Net OPEB Liability as a Percentage of Covered Payroll</b>	<b>190.3%</b>	<b>210.4%</b>

*The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of Changes in Net OPEB Asset and Related Ratios**  
**Last Two Fiscal Years**  
**(Expressed in Thousands)**

**Legislators Plan**

Year Ended	June 30, 2019	June 30, 2018
Measurement Date	June 30, 2018	June 30, 2017
<b>Total OPEB Liability</b>		
Service cost	\$ 54	\$ 63
Interest	74	66
Benefit Changes	—	—
Differences between expected and actual experience	102	168
Changes of assumptions	—	(45)
Benefit payments	(161)	(36)
<b>Net Change in Total OPEB Liability</b>	<u>69</u>	<u>216</u>
<b>Total OPEB Liability-Beginning</b>	<u>1,525</u>	<u>1,309</u>
<b>Total OPEB Liability-Ending</b>	<u><u>\$ 1,594</u></u>	<u><u>\$ 1,525</u></u>
<b>Plan Fiduciary Net Position</b>		
Employer contributions	\$ 14	\$ 27
Net investment income	247	283
Benefit payments	(161)	(36)
Administrative expenses	(4)	—
Other	42	29
<b>Net Change in Plan Fiduciary Net Position</b>	<u>\$ 138</u>	<u>\$ 303</u>
<b>Plan Fiduciary Net Position-Beginning</b>	<u>2,904</u>	<u>2,601</u>
<b>Plan Fiduciary Net Position-Ending</b>	<u><u>\$ 3,042</u></u>	<u><u>\$ 2,904</u></u>
<b>Net OPEB Liability (Asset)</b>	<u><u>\$ (1,448)</u></u>	<u><u>\$ (1,379)</u></u>
<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	190.9 %	190.4 %
<b>Covered Payroll</b>	\$ 1,719	\$ 1,719
<b>Net OPEB Asset as a Percentage of Covered Payroll</b>	(84.2)%	(80.2)%

*The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Teachers Plan**

	2019	2018
Actuarially determined contribution	\$ 2,321	\$ 2,321
Contributions in relation to the actuarially determined contribution	2,277 *	2,321
Contribution deficiency (excess)	\$ 44	\$ —
Covered payroll	N/A	N/A
Contributions as a percentage of covered payroll	N/A	N/A

\* The contribution funded in Fiscal 2019 was the amount appropriated by the General Assembly.

There is no covered payroll because there are no active members of the plan.

The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.

See Notes to Required Supplementary Information.



**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Judges Plan**

	2019	2018
Actuarially determined contribution	\$ —	\$ —
Contributions in relation to the actuarially determined contribution	—	—
Contribution deficiency (excess)	\$ —	\$ —
Covered payroll	\$ 11,297	\$ 10,746
Contributions as a percentage of covered payroll	—%	—%

*An actuarial valuation determined that no contribution was required for this OPEB plan.*

*The State of Rhode Island adopted GASB Statement No. 75 in fiscal 2018. This schedule is to be reported prospectively until 10 years of data are presented.*

See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**State Police Plan**

	2019	2018
Actuarially determined contribution	\$ 8,257	\$ 7,919
Contributions in relation to the actuarially determined contribution	8,257	7,919
Contribution deficiency (excess)	\$ —	\$ —
Covered payroll	\$23,666	\$22,698
Contributions as a percentage of covered payroll	34.9%	34.9%

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See Notes to Required Supplementary Information.

**State of Rhode Island and Providence Plantations**  
**Required Supplementary Information - OPEB Information**  
**Schedule of State Contributions**  
**Last Two Fiscal Years Ended June 30**  
**(Expressed in Thousands)**

**Legislators Plan**

	2019	2018
Actuarially determined contribution	\$ 15	\$ 14
Contributions in relation to the actuarially determined contribution	15	14
Contribution deficiency (excess)	\$ —	\$ —
Covered payroll	\$ 1,812	\$ 1,728
Contributions as a percentage of covered payroll	0.8%	0.8%

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See Notes to Required Supplementary Information.

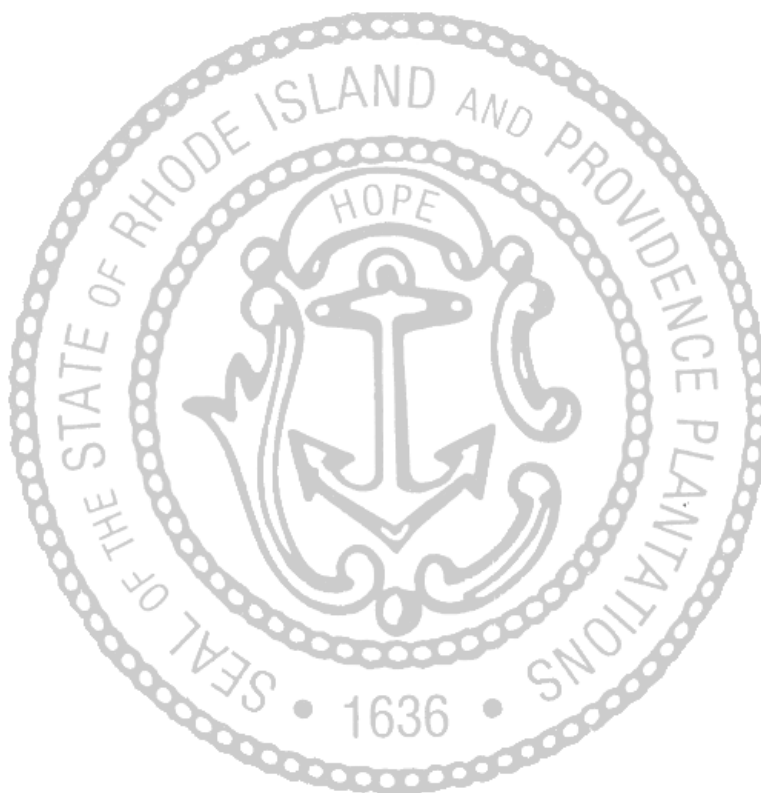
**Required Supplementary Information - OPEB**

**Significant Methods and Assumptions used in calculating the actuarially determined contributions**

The actuarially determined contribution rates for fiscal 2019 were determined based on valuations performed as of June 30, 2015. Significant methods and assumptions are summarized for each plan in the table below:

	State Employees	Teachers	Judges	State Police	Legislators	Board of Education
<b>Actuarial Cost Method</b>	Entry Age Normal					
<b>Amortization Method</b>	Level Percent of Pay	Level Dollar	Level Percent of Pay	Level Percent of Pay	Level Percent of Pay	Level Percent of Pay
<b>Remaining amortization period</b>	21 Years Closed	Determined by Statutory Contribution	30 Years Open	21 Years Closed	30 Years Open	21 Years Closed
<b>Asset valuation method</b>	4 Year smoothed market; 20% corridor					
<b>Actuarial Assumptions</b>						
<b>Investment Rate of Return</b>	5%, net of OPEB plan expenses, including inflation					
<b>Projected Salary Increases</b>	3.50% to 6.50%	N/A	3.50%	3.75% to 11.75%	3.50% to 6.50%	3.50% to 6.50%
<b>Retirement Age</b>	Experience-based table of rates that are specific to the type of eligibility condition.					
<b>Mortality</b>	<b>Post-Retirement Mortality</b>					
	Fully Generational Mortality					
	Healthy Males (with the exception of teachers): 115% of RP-2000 Combined Health for Males with white-collar adjustments, projected with Scale AA from 2000.					
	Healthy Females (with the exception of teachers): 95% of RP-2000 Combined Health for Females with white-collar adjustments, projected with Scale AA from 2000.					
	Healthy Male Teachers: 97% of rates in a GRS table based on male teacher experience, projected with Scale AA from 2000.					
	Healthy Female Teachers: 92% of rates in a GRS table based on female teacher experience, projected with Scale AA from 2000.					
<b>Mortality</b>	<b>Disabled Mortality</b>					
	Disabled Males: 60% of the PBGC Table Va for disabled males eligible for Social Security disability benefits. Disabled Females: 60% of the PBGC Table Va for disabled females eligible for Social Security disability benefits.					
<b>Mortality</b>	<b>Pre-Retirement Mortality</b>					
	The mortality tables used to project the pre-termination mortality experience of plan members are the RP-2000 Combined tables with white-collar adjustments for males and females as the base table, and then to apply a 75% multiplier for state employees and a 50% multiplier for teachers.					
<b>Health Care Trend Rates</b>	Based on the Getzen Model, with trend starting at 9.00% and gradually decreasing to an ultimate trend rate of 3.5%.					
<b>Aging Factors</b>	The tables used in developing the retiree only premium are based on a recent Society of Actuaries study of health costs.					
<b>Inflation</b>	Not explicitly used, consistent with 2.75% assumption.					

Schedule of Expenditures  
of Federal Awards



**Schedule of Expenditures of  
Federal Awards**

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

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and Entity Award Number</b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Agriculture (USDA)</b>						
Agricultural Research Basic and Applied Research	10.001				\$ 32,698	
Plant and Animal Disease, Pest Control, and Animal Care	10.025				186,050	\$ 24,731
Avian Influenza Indemnity Program	10.029				3,084	
Federal-State Marketing Improvement Program	10.156				24,558	22,954
Inspection Grading and Standardization	10.162				12,079	
Market Protection and Promotion	10.163				18	
Specialty Crop Block Grant Program - Farm Bill	10.170				233,994	136,488
Organic Certification Cost Share Programs	10.171				1,314	
Trade Mitigation Program Eligible Recipient Agency Operational Funds	10.178				20	
CACFP Meal Service Training Grants	10.534				22,679	
SNAP Cluster:						
Supplemental Nutrition Assistance Program	10.551			\$ 250,083,646		
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561			22,037,157	272,120,803	1,587,570
Child Nutrition Cluster:						
School Breakfast Program	10.553			10,315,899		9,490,281
National School Lunch Program (See Notes 3 and 10)	10.555			35,715,691		28,886,388
Special Milk Program for Children	10.556			35,075		35,075
Summer Food Service Program for Children (See Notes 3 and 10)	10.559			1,529,378	47,596,043	1,426,682
WIC Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557				21,257,878	4,180,351
Child and Adult Care Food Program	10.558				9,493,342	9,160,351
State Administrative Expenses for Child Nutrition	10.560				819,981	
Food Distribution Cluster:						
Commodity Supplemental Food Program	10.565			114,101		99,125
Emergency Food Assistance Program (Administrative Costs)	10.568			285,167	399,268	249,224
WIC Farmers' Market Nutrition Program (FMNP)	10.572				113,041	92,522
Team Nutrition Grants	10.574				177,491	
Senior Farmers Market Nutrition Program	10.576				24,762	
WIC Grants to States (WGS)	10.578				1,101,693	
Child Nutrition Discretionary Grants Limited Availability	10.579				108,359	105,954
Fresh Fruit and Vegetable Program	10.582				1,151,614	1,151,614
Cooperative Forestry Assistance	10.664				380,555	108,323
Forest Legacy Program	10.676				52,107	
Forest Health Protection	10.680				369	
<b>Total U.S. Department of Agriculture (USDA)</b>					<b>\$ 355,313,800</b>	<b>\$ 56,757,633</b>
<b>U.S. Department of Commerce (DOC)</b>						
Economic Development Cluster:						
Investments for Public Works and Economic Development Facilities	11.300			\$ (216)		
Economic Adjustment Assistance (See Note 2)	11.307			8,869,664	\$ 8,869,448	
Interjurisdictional Fisheries Act of 1986	11.407					87,589

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and Entity Award Number</b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
Sea Grant Support	11.417				2	
Coastal Zone Management Administration Awards	11.419				1,801,766	\$ 217,240
Coastal Zone Management Estuarine Research Reserves	11.420				616,985	
Marine Fisheries Initiative	11.433				578,807	
Regional Fishery Management Councils	11.441				49,865	
Unallied Science Program	11.472				(551)	
Office for Coastal Management	11.473				900,450	
Atlantic Coastal Fisheries Cooperative Management Act	11.474				283,763	
State and Local Implementation Grant Program	11.549				220,717	
<b>Total U.S. Department of Commerce (DOC)</b>					<u>\$ 13,408,841</u>	<u>\$ 217,240</u>
<b>U.S. Department of Defense (DOD)</b>						
Procurement Technical Assistance for Business Firms	12.002				\$ 310,005	
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113				618,331	
EASE 2.0	12.219				(22,295)	
Basic and Applied Scientific Research	12.300				79,469	
National Guard Military Operations and Maintenance (O&M) Projects	12.401				31,787,908	\$ 4,459,418
Economic Adjustment Assistance for State Governments	12.617				127,758	
GenCyber Grants Program	12.903				15,329	
<b>Total U.S. Department of Defense (DOD)</b>					<u>\$ 32,916,505</u>	<u>\$ 4,459,418</u>
<b>U.S. Department of Housing and Urban Development (HUD)</b>						
Mortgage Insurance Homes (See Note 2)	14.117				\$ 278,846,869	
Qualified Participating Entities (QPE) Risk Sharing (See Note 2)	14.189				241,896,534	
Section 8 Project-Based Cluster:						
Section 8 Housing Assistance Payments Program	14.195			\$ 175,761,725		
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856			520,071	176,281,796	
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (See Note 2)	14.228				14,486,461	\$ 5,413,854
Emergency Solutions Grant Program	14.231				787,961	787,961
Home Investment Partnerships Program (See Note 2)	14.239				26,174,981	
Housing Opportunities for Persons with AIDS	14.241				683,443	324,250
Continuum of Care Program	14.267				3,103,513	
CDBG - Disaster Recovery Grants - Pub. L. No. 113-2 Cluster:						
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	14.269				3,640,378	2,896,874
Fair Housing Assistance Program State and Local	14.401				265,811	
Housing Voucher Cluster:						
Section 8 Housing Choice Vouchers	14.871				16,006,060	
Family Self-Sufficiency Program	14.896				130,553	
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900				1,037,144	
<b>Total U.S. Department of Housing and Urban Development (HUD)</b>					<u>\$ 763,341,504</u>	<u>\$ 9,422,939</u>



**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and Entity Award Number</b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of the Interior (DOI)</b>						
Hurricane Sandy Disaster Relief – Coastal Resiliency Grants	15.153				\$ 1,132,865	\$ 482,336
Fish and Wildlife Cluster:						
Sport Fish Restoration	15.605			\$ 4,556,441		
Wildlife Restoration and Basic Hunter Education	15.611			3,226,548	7,782,989	
Fish and Wildlife Management Assistance	15.608				33,813	
Cooperative Endangered Species Conservation Fund	15.615				8,456	
Clean Vessel Act	15.616				116,423	102,703
Sportfishing and Boating Safety Act	15.622				384,382	
Coastal	15.630				8,686	
State Wildlife Grants	15.634				413,191	
Endangered Species Conservation – Recovery Implementation Funds	15.657				29,067	
Historic Preservation Fund Grants-In-Aid	15.904				549,923	39,305
Outdoor Recreation Acquisition, Development and Planning	15.916				224,608	
National Maritime Heritage Grants	15.925				123,225	121,226
Emergency Supplemental Historic Preservation Fund	15.957				48,717	
<b>Total U.S. Department of the Interior (DOI)</b>					<b>\$ 10,856,345</b>	<b>\$ 745,570</b>
<b>U.S. Department of Justice (DOJ)</b>						
Sexual Assault Services Formula Program	16.017				\$ 325,246	\$ 314,720
Juvenile Justice and Delinquency Prevention	16.540				324,808	125,280
Missing Children's Assistance	16.543				273,444	
State Justice Statistics Program for Statistical Analysis Centers	16.550				27,636	
National Criminal History Improvement Program (NCHIP)	16.554				138,109	
National Institute of Justice W.E.B. DuBois Fellowship Program	16.566				628,984	
Crime Victim Assistance	16.575				9,450,452	8,203,798
Crime Victim Compensation	16.576				540,481	
Edward Byrne Memorial Formula Grant Program	16.579				16,722	
Crime Victim Assistance/Discretionary Grants	16.582				34,080	34,063
Drug Court Discretionary Grant Program	16.585				40,288	
Violence Against Women Formula Grants	16.588				840,162	401,564
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590				134,432	112,674
Residential Substance Abuse Treatment for State Prisoners	16.593				21,714	
State Criminal Alien Assistance Program	16.606				874,842	
Public Safety Partnership and Community Policing Grants	16.710				14,794	
Juvenile Mentoring Program	16.726				3,625	
PREA Program: Strategic Support for PREA Implementation	16.735				3	
Edward Byrne Memorial Justice Assistance Grant Program	16.738				368,128	235,590
DNA Backlog Reduction Program	16.741				365,701	
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742				176,170	
Support for Adam Walsh Act Implementation Grant Program	16.750				58,652	
Edward Byrne Memorial Competitive Grant Program	16.751				2	
Harold Rogers Prescription Drug Monitoring Program	16.754				97,065	

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and Entity Award Number</b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
Second Chance Act Reentry Initiative	16.812				98,553	
John R. Justice Prosecutors and Defenders Incentive Act	16.816				28,699	
Justice Reinvestment Initiative	16.827				14,377	
Comprehensive Opioid Abuse Site-Based Program	16.838				25,875	
Equitable Sharing Program	16.922				15,155,925	
<b>Total U.S. Department of Justice (DOJ)</b>					<u>\$ 30,078,969</u>	<u>\$ 9,427,689</u>
<b>U.S. Department of Labor (DOL)</b>						
Labor Force Statistics	17.002				\$ 765,654	
Compensation and Working Conditions	17.005				15,251	
Employment Service Cluster:						
Employment Service/Wagner-Peyser Funded Activities	17.207			\$ 2,860,569		
Disabled Veterans' Outreach Program (DVOP)	17.801			329,075		
Local Veterans' Employment Representative Program	17.804			<u>267,544</u>	3,457,188	
Unemployment Insurance (See Note 5)	17.225				158,994,660	
Senior Community Service Employment Program	17.235				254,122	
Trade Adjustment Assistance	17.245				1,641,352	\$ 22,513
WIOA Cluster:						
WIOA Adult Program	17.258			3,230,367		557,908
WIOA Youth Activities	17.259			3,426,854		1,418,526
WIOA Dislocated Worker Formula Grants	17.278			<u>3,471,304</u>	10,128,525	453,249
WIOA Pilots, Demonstrations, and Research Projects	17.261				1,184,317	
Incentive Grants - WIA Section 503	17.267				(39,349)	
H-1B Job Training Grants	17.268				919,273	
Reentry Employment Opportunities	17.270				23,088	
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	17.277				1,453,122	
WIOA Dislocated Worker National Reserve Demonstration Grants	17.280				753,390	
Apprenticeship USA Grants	17.285				83,467	
Consultation Agreements	17.504				475,421	
Other Department of Labor Awards	17.U01	10.073.1750104			(7,809)	
<b>Total U.S. Department of Labor (DOL)</b>					<u>\$ 180,101,672</u>	<u>\$ 2,452,196</u>
<b>U.S. Department of Transportation (DOT)</b>						
Airport Improvement Program	20.106				\$ 1,335,059	
Highway Research and Development Program	20.200				848,180	
Highway Planning and Construction Cluster:						
Highway Planning and Construction	20.205			\$ 269,787,578		\$ 2,765,211
Recreational Trails Program	20.219			<u>1,583,722</u>	271,371,300	19,375
Highway Training and Education	20.215				33,789	
Motor Carrier Safety Assistance	20.218				1,197,050	
Commercial Driver's License Program Implementation Grant	20.232				62,040	

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and Entity Award Number</b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>Federal Transit Cluster:</b>						
Federal Transit Capital Investment Grants	20.500			607,504		607,504
Federal Transit Formula Grants	20.507			30,567,455		
State of Good Repair Grants Program	20.525			6,499,384		
Buses and Bus Facilities Formula, Competitive, and Low or No Emissions Programs	20.526			<u>1,405,528</u>	39,079,871	
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505				578,836	
Formula Grants for Rural Areas and Tribal Transit Program	20.509				387,687	
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513				157,584	
Public Transportation Emergency Relief Program	20.527				8,929	
<b>Highway Safety Cluster:</b>						
State and Community Highway Safety	20.600			2,628,546		1,172,167
Incentive Grant Program to Prohibit Racial Profiling	20.611			228,702		151,510
Incentive Grant Program to Increase Motorcyclist Safety	20.612			(2,865)		
National Priority Safety Programs	20.616			<u>1,542,199</u>	4,396,582	1,026,702
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608				2,228,821	430,088
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants and Cooperative Agreements	20.614				27,032	
Pipeline Safety Program State Base Grant	20.700				177,974	
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703				31,683	4,534
National Infrastructure Investments	20.933				3,018,954	
<b>Total U.S. Department of Transportation (DOT)</b>					<u>\$ 324,941,371</u>	<u>\$ 6,177,091</u>
<b>U.S. Department of the Treasury (TREAS)</b>						
Capital Magnet Fund	21.011				\$ 204,263	
Equitable Sharing	21.016				5,756	
<b>Total U.S. Department of the Treasury (TREAS)</b>					<u>\$ 210,019</u>	<u>\$ -</u>
<b>Equal Employment Opportunity Commission (EEOC)</b>						
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002				\$ 179,189	
<b>Total Equal Employment Opportunity Commission (EEOC)</b>					<u>\$ 179,189</u>	<u>\$ -</u>
<b>General Services Administration (GSA)</b>						
Donation of Federal Surplus Personal Property (See Notes 3 and 10)	39.003				\$ 2,346,428	\$ 2,346,428
<b>Total General Services Administration (GSA)</b>					<u>\$ 2,346,428</u>	<u>\$ 2,346,428</u>
<b>National Endowment for the Arts (NEA)</b>						
Promotion of the Arts Partnership Agreements	45.025				\$ 690,646	\$ 417,097
Grants to States	45.310				1,119,469	158,481
<b>Total National Endowment for the Arts (NEA)</b>					<u>\$ 1,810,115</u>	<u>\$ 575,578</u>

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and Entity Award Number</b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>U.S. Department of Veterans Affairs (VA)</b>						
Grants to States for Construction of State Home Facilities	64.005				\$ 1	
Veterans State Nursing Home Care	64.015				10,201,842	
All-Volunteer Force Educational Assistance	64.124				3,329	
All Volunteer Force Education Assistance	64.U01	V101(223C) P-5453			82,110	
<b>Total U.S. Department of Veterans Affairs (VA)</b>					<b>\$ 10,287,282</b>	<b>\$ -</b>
<b>Environmental Protection Agency (EPA)</b>						
State Indoor Radon Grants	66.032				\$ 136,907	
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034				861,228	
State Clean Diesel Grant Program	66.040				163,312	\$ 112,837
Southeastern U.S. Regional Targeted Watershed Initiative	66.127				233,533	
State Public Water System Supervision	66.432				455,833	
Water Quality Management Planning	66.454				52,409	
National Estuary Program	66.456				6,371	
Clean Water State Revolving Fund Cluster: Capitalization Grants for Clean Water State Revolving Funds	66.458				9,652,737	9,482,543
Drinking Water State Revolving Fund Cluster: Capitalization Grants for Drinking Water State Revolving Funds	66.468				7,805,364	5,040,827
Beach Monitoring and Notification Program Implementation Grants	66.472				222,250	
Performance Partnership Grants	66.605				4,598,244	279,863
Environmental Information Exchange Network Grant Program and Related Assistance	66.608				24,252	
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701				106,735	
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707				156,978	
Pollution Prevention Grants Program	66.708				59,672	
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802				408,386	
Underground Storage Tank Prevention, Detection and Compliance Program	66.804				174,235	
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805				731,410	
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809				89,765	
State and Tribal Response Program Grants	66.817				668,135	
Brownfields Assessment and Cleanup Cooperative Agreements	66.818				254,670	
<b>Total Environmental Protection Agency (EPA)</b>					<b>\$ 26,862,426</b>	<b>\$ 14,916,070</b>
<b>U.S. Department of Energy (DOE)</b>						
ARRA - State Energy Program	81.041				\$ 494,796	
State Energy Program	81.041				374,628	
Weatherization Assistance for Low-Income Persons	81.042				155,817	\$ 118,498
Office of Science Financial Assistance Program	81.049				84,292	
Conservation Research and Development	81.086				24,028	

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and Entity Award Number</b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117				1,075	
State Energy Program Special Projects	81.119				145,119	101,414
State Heating Oil and Propane Program	81.138				17,715	
<b>Total U.S. Department of Energy (DOE)</b>					<u>\$ 1,297,470</u>	<u>\$ 219,912</u>
<b>U.S. Department of Education (ED)</b>						
Adult Education - Basic Grants to States	84.002				\$ 2,041,826	\$ 1,680,164
Student Financial Assistance Cluster: (See Note 6)						
Federal Supplemental Educational Opportunity Grants	84.007			\$ 2,506,143		
Federal Work-Study Program	84.033			1,961,384		
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038			13,989,040		
Federal Pell Grant Program	84.063			56,038,813		
Federal Direct Student Loans (See Note 2)	84.268			125,374,123		
Teacher Education Assistance for College and Higher Education Grants (Teach Grants)	84.379			<u>4,000</u>	199,873,503	
Title I Grants to Local Educational Agencies	84.010				53,794,939	50,186,439
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013				284,749	
Special Education (IDEA) Cluster:						
Special Education Grants to States	84.027			48,557,749		41,947,883
Special Education Preschool Grants	84.173			<u>1,610,903</u>	50,168,652	1,096,391
TRIO Cluster:						
TRIO Student Support Services	84.042			568,417		
TRIO Talent Search	84.044			499,375		
TRIO Upward Bound	84.047			614,360		
TRIO Educational Opportunity Centers	84.066			798,201		
TRIO McNair Post-Baccalaureate Achievement	84.217			<u>270,872</u>	2,751,225	
Career and Technical Education - Basic Grants to States	84.048				5,779,536	4,143,886
Career and Technical Education - National Programs	84.051				20,740	
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126				10,187,336	
Independent Living - State Grants	84.169				905	
Rehabilitation Services Independent Living Services for Older Individuals Who Are Blind	84.177				112,075	
Special Education - Grants for Infants and Families	84.181				2,314,009	427,418
School Safety National Activities (formerly, Safe and Drug-Free Schools and Communities - National Programs)	84.184				123,450	
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187				453,583	
Education for Homeless Children and Youth	84.196				200,672	139,651
Assistive Technology	84.224				327,053	
Charter Schools	84.282				555,490	499,182
Twenty-First Century Community Learning Centers	84.287				5,780,704	4,830,742
Special Education - State Personnel Development	84.323				49,244	
Research in Special Education	84.324				(6,545)	

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b> Program Title	CFDA or Contract Number	Additional Award Identification Number	Name of Pass-Through Entity and <i>Entity</i> <i>Award Number</i>	Cluster Expenditures	Total Expenditures	Passed Through to Subrecipients
Research in Special Education	84.324		University of Kansas Center for Research N/A		6,567	
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325		University of Connecticut Health Center N/A		51,420	
Special Education Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326				84,946	
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334				3,206,380	3,204,556
Teacher Quality Partnership Grants	84.336		North Providence School Department N/A		282,826	282,826
English Language Acquisition State Grants	84.365				2,304,480	1,918,571
Mathematics and Science Partnerships	84.366				185,349	182,462
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367				11,135,457	10,053,709
Competitive Grants for State Assessments (formerly Grants for Enhanced Assessment Instruments)	84.368				117,973	117,973
Grants for State Assessments and Related Activities	84.369				4,345,347	
Statewide Longitudinal Data Systems	84.372				7,629	
School Improvement Grants	84.377				2,292,312	1,315,530
State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants, Recovery Act	84.395				(28)	
Transition Programs for Students with Intellectual Disabilities into Higher Education	84.407				387,494	
Preschool Development Grants	84.419				5,516,739	3,863,830
Student Support and Academic Enrichment Program	84.424				3,632,570	3,313,019
Hurricane Education Recovery	84.938				1,137,000	
National Center For Educational Statistics	84.U01	ED-IES-14-C-0100			5,082	
National Assessment Of Educational Programs	84.U02	ED-IES-14-C-0100			164,836	
<b>Total U.S. Department of Education (ED)</b>					<b>\$ 369,677,525</b>	<b>\$ 129,204,232</b>
<b>Election Assistance Commission (EAC)</b>						
Help America Vote Act Requirements Payments	90.401				\$ 2	
2018 HAVA Election Security Grants	90.404				907,311	
<b>Total Election Assistance Commission (EAC)</b>					<b>\$ 907,313</b>	<b>\$ -</b>
<b>U.S. Department of Health and Human Services (HHS)</b>						
Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041				\$ 20,403	
Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	93.042				87,467	\$ 87,426

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
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**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and Entity Award Number</b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	93.043				110,963	110,849
Aging Cluster:						
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044			\$ 2,546,016		1,859,231
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045			2,660,952		2,287,658
Nutrition Services Incentive Program	93.053			<u>413,525</u>	5,620,493	413,313
Special Programs for the Aging, Title IV, and Title II, Discretionary Projects	93.048				241,481	119,083
National Family Caregiver Support, Title III, Part E	93.052				873,434	857,199
Environmental Public Health and Emergency Response	93.070				1,611,188	82,829
Medicare Enrollment Assistance Program	93.071				82,442	71,414
Lifespan Respite Care Program	93.072				327,421	230,956
Birth Defects and Developmental Disabilities - Prevention and Surveillance	93.073				205,488	6,548
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074				5,522,439	598,511
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079				229,373	1
Guardianship Assistance	93.090				296,981	
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092				187,356	95,789
Affordable Care Act (ACA) Personal Responsibility Education Program	93.094				113,601	2,000
Food and Drug Administration Research	93.103				768,198	
Maternal and Child Health Federal Consolidated Programs	93.110				787,798	232,169
Maternal and Child Health Federal Consolidated Programs	93.110		Rhode Island Hospital N/A		144,148	
Environmental Health	93.113				4,346	
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116				195,844	
Emergency Medical Services for Children	93.127				180,480	
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130				166,357	
Injury Prevention and Control Research and State and Community Based Programs	93.136				3,463,555	830,961
Projects for Assistance in Transition from Homelessness (PATH)	93.150				316,877	316,697
Grants to States for Loan Repayment Program	93.165				153,395	43,385
Childhood Lead Poisoning Prevention Projects, State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197				373,568	500
Family Planning Services	93.217				1,337,454	727,909
Traumatic Brain Injury State Demonstration Grant Program	93.234				90,502	
Grants to States to Support Oral Health Workforce Activities	93.236				182,197	
Substance Abuse and Mental Health Services Projects of Regional and National Significance (See Note 8)	93.243				10,233,681	6,475,240
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Brown University N/A		8,123	
Universal Newborn Hearing Screening	93.251				240,292	65,126

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and Entity Award Number</b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
Immunization Cooperative Agreements (See Note 3)	93.268				13,422,973	193,808
Viral Hepatitis Prevention and Control	93.270				183,495	19,884
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283				1,199,495	530,180
State Partnership Grant Program to Improve Minority Health	93.296				231,491	176,937
PPHF 2018: Office of Smoking and Health - National State-Based Tobacco Control Programs, financed in part by 2018 Prevention and Public Health Funds (PPHF)	93.305				1,484,478	265,093
State Health Insurance Assistance Program	93.324				256,559	119,311
Behavioral Risk Factor Surveillance System	93.336				320,155	
Student Financial Assistance Cluster: (See Note 6)						
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (See Note 2)	93.342			2,894,794		
Nursing Student Loans (See Note 2)	93.364			2,582,513	5,477,307	
Public Health Emergency Response: Cooperative Agreement for Emergency Response: Public Health Crisis Response	93.354				1,940,225	532,084
State Actions to Improve Oral Health Outcomes and Partner Actions to Improve Oral Health Outcomes	93.366				615,697	14,828
ACL Independent Living State Grants	93.369				280,462	
The State Flexibility to Stabilize the Market Grant Program	93.413				65,914	
Strengthening Public Health Systems and Services through National Partnerships to Improve and Protect the Nation's Health	93.421				50,150	
Improving the Health of Americans through Prevention and Management of Diabetes and Heart Disease and Stroke	93.426				1,359,128	258,541
Every Student Succeeds Act/Preschool Development Grants	93.434				155,920	94,050
Innovative State and Local Public Health Strategies to Prevent and Manage Diabetes and Heart Disease and Stroke	93.435				582,729	137,596
Well-Integrated Screening and Evaluation for Women Across the Nation (WISEWOMAN)	93.436				305,270	40,524
Food Safety and Security Monitoring Project	93.448				268,918	
Alzheimer's Disease Program Initiative (ADPI)	93.470				13,842	13,839
Pregnancy Assistance Fund Program	93.500				678,295	530,109
Public Health Training Centers Program	93.516				9,483	
The Affordable Care Act: Building Epidemiology, Laboratory, and Health Information Systems Capacity in the Epidemiology and Laboratory Capacity for Infectious Disease (ELC) and Emerging Infections Program (EIP) Cooperative Agreements; PPHF	93.521				2,932,832	
Promoting Safe and Stable Families	93.556				962,103	
TANF Cluster:						
Temporary Assistance for Needy Families	93.558				85,396,343	7,572,265
Child Support Enforcement	93.563				11,351,042	
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566				338,695	152,291
Low-Income Home Energy Assistance	93.568				25,256,759	23,920,347
Community Services Block Grant	93.569				4,315,580	4,258,078



**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and <i>Entity</i> <i>Award Number</i></b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
CCDF Cluster:						
Child Care and Development Block Grant	93.575			11,432,950		1,173,349
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596			<u>11,611,009</u>	23,043,959	124,415
Refugee and Entrant Assistance Discretionary Grants	93.576				190,154	166,216
State Court Improvement Program	93.586				214,752	
Community-Based Child Abuse Prevention Grants	93.590				172,833	
Grants to States for Access and Visitation Programs	93.597				101,897	
Chafee Education and Training Vouchers Program (ETV)	93.599				91,447	
Head Start	93.600				156,165	
Adoption and Legal Guardianship Incentive Payments	93.603				224,981	
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624				8,309,460	2,112,044
Affordable Care Act State Health Insurance Assistance Program (SHIP) and Aging and Disability Resource Center (ADRC) Options Counseling for Medicare / Medicaid Individuals in States with Approved Financial Alignment Models	93.626				149,015	53,476
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632				569,150	
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632		University of Connecticut Health Center N/A		54,898	
Support for Ombudsman and Beneficiary Counseling Programs for States Participating in Financial Alignment Model Demonstrations for Dually Eligible Individuals	93.634				195,841	29,882
Children's Justice Grants to States	93.643				141,063	
Stephanie Tubbs Jones Child Welfare Services Program	93.645				754,336	
Adoption Opportunities	93.652				602,105	
Foster Care Title IV-E	93.658				11,573,144	
Adoption Assistance	93.659				10,319,801	
Social Services Block Grant	93.667				11,549,173	2,408,233
Child Abuse and Neglect State Grants	93.669				130,919	
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671				889,798	889,427
John H. Chafee Foster Care Program for Successful Transition to Adulthood	93.674				464,926	
Mental and Behavioral Health Education and Training Grants	93.732				186,774	
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance, financed in part by Prevention and Public Health Funds (PPHF)	93.733				19,196	
Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs, financed by Prevention and Public Health Funds (PPHF)	93.734				345,841	14,212

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
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**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and <i>Entity</i> <i>Award Number</i></b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
State Public Health Approaches for Ensuring Quiltline Capacity, funded in part by Prevention and Public Health Funds (PPHF)	93.735				51,374	
Elder Abuse Prevention Interventions Program	93.747				229,185	
Cancer Prevention and Control Programs for State, Territorial and Tribal Organizations, financed in part by Prevention and Public Health Funds (PPHF)	93.752				1,521,160	283,926
Child Lead Poisoning Prevention Surveillance, financed in part by Prevention and Public Health (PPHF) Program	93.753				78,497	1,740
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757				1,897,910	630,764
Preventive Health and Health Services Block Grant, funded solely with Prevention and Public Health Funds (PPHF)	93.758				263,873	113,691
Children's Health Insurance Program (See Note 4)	93.767				84,989,350	
Medicaid Cluster:						
State Medicaid Fraud Control Units	93.775			886,563		
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII)						
Medicare	93.777			3,143,328		
Medical Assistance Program (See Notes 4, 9 and 10)	93.778			<u>1,750,069,264</u>	1,754,099,155	
Opioid STR (See Note 8)	93.788				6,399,813	5,121,726
Money Follows the Person Rebalancing Demonstration	93.791				1,413,771	3,751
Organized Approaches to Increase Colorectal Cancer Screening	93.800				645,027	198,383
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.815				295,330	
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	93.817				432,025	410,932
Section 223 Demonstration Programs to Improve Community Mental Health Services	93.829				(35,843)	
Allergy and Infectious Diseases Research	93.855				158,383	
Maternal, Infant and Early Childhood Home Visiting Cluster:						
Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870				8,375,509	6,753,663
The Health Insurance Enforcement and Consumer Protections Grant Program	93.881				426,931	
Family and Community Violence Prevention Program	93.910				518,971	240,376
Grants to States for Operation of State Offices of Rural Health	93.913				208,911	6,599
HIV Care Formula Grants (See Note 4)	93.917				7,191,563	679,968
HIV Prevention Activities Health Department Based	93.940				1,287,577	348,156
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944				36	
Assistance Programs for Chronic Disease Prevention and Control	93.945				383,189	19,023
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946				150,593	
Block Grants for Community Mental Health Services	93.958				2,538,764	2,138,256
Block Grants for Prevention and Treatment of Substance Abuse	93.959				7,286,008	6,424,836
Sexually Transmitted Diseases (STD) Prevention and Control Grants	93.977				360,064	59,674
Preventive Health and Health Services Block Grant	93.991				579,182	244,264

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Maternal and Child Health Services Block Grant to the States	93.994				1,477,590	611,583
Mammography Quality Standards Act	93.U01	HHSF223201710206C			29,811	
Vital Records - National Death Index	93.U02	200-2017-M-93737			11	
Vital Records - SSA Death Data	93.U03	SS00-12-60050			20,526	
Vital Records - SSA Birth Data/EAB	93.U04	SS00-14-61090			48,054	
Food Inspections	93.U05	HHSF223201710096C			231,135	
Vital Records - Data Collection	93.U06	200-2017-92545			255,043	
<b>Total U.S. Department of Health and Human Services (HHS)</b>					<b>\$ 2,147,892,791</b>	<b>\$ 85,607,124</b>
<b>Corporation for National and Community Service (CNCS)</b>						
State Commissions	94.003				\$ 193,065	
AmeriCorps	94.006				1,356,985	\$ 1,356,897
Training and Technical Assistance	94.009				80,219	5,901
Foster Grandparent/Senior Companion Cluster:						
Senior Companion Program	94.016				360,756	224,436
<b>Total Corporation for National and Community Service (CNCS)</b>					<b>\$ 1,991,025</b>	<b>\$ 1,587,234</b>
<b>Social Security Administration (SSA)</b>						
Disability Insurance/SSI Cluster:						
Social Security Disability Insurance	96.001				\$ 8,805,818	
Social Security - Work Incentives Planning and Assistance Program	96.008				139,395	
Social Security Investigations	96.U01	10.066.3005117			132,880	
<b>Total Social Security Administration (SSA)</b>					<b>\$ 9,078,093</b>	<b>\$ -</b>
<b>U.S. Department of Homeland Security (DHS)</b>						
Boating Safety Financial Assistance	97.012				\$ 750,879	
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023				87,661	
Flood Mitigation Assistance	97.029				15	
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036				6,425,926	\$ 5,821,032
Hazard Mitigation Grant	97.039				932,547	802,147
National Dam Safety Program	97.041				56,144	
Emergency Management Performance Grants	97.042				3,125,822	346,333
State Fire Training Systems Grants	97.043				13,488	
Pre-Disaster Mitigation	97.047				182,585	78,360
Port Security Grant Program	97.056				8,635	3,667
Homeland Security Grant Program	97.067				4,447,943	1,406,046
National Explosives Detection Canine Team Program	97.072				102,318	
Law Enforcement Officer Reimbursement Agreement Program	97.090				116,800	
Port Security Grant Program	97.116				87,409	
<b>Total U.S. Department of Homeland Security (DHS)</b>					<b>\$ 16,338,172</b>	<b>\$ 8,457,585</b>

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<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and <i>Entity</i> <i>Award Number</i></b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>Research and Development Cluster: (See Note 1)</b>						
<b>U.S. Department of Agriculture (USDA)</b>						
Agricultural Research Basic and Applied Research	10.001			\$ 107,294		
Plant and Animal Disease, Pest Control, and Animal Care	10.025			48,932	\$	5,500
Plant and Animal Disease, Pest Control, and Animal Care	10.025		Louisiana State University 76657	59,686		
Plant and Animal Disease, Pest Control, and Animal Care	10.025		University of Connecticut Storrs 119005	3,463		
Federal-State Marketing Improvement Program	10.156			9,762		
Acer Access Development Program	10.174			47,844		
Grants for Agricultural Research, Special Research Grants	10.200		University of Maryland 28598-Z5659005	74,081		51,420
Grants for Agricultural Research, Special Research Grants	10.200		University of Maryland 56375	10,799		
Grants for Agricultural Research, Special Research Grants	10.200		University of Maine UMS-1090	1,443		
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203			1,916,939		
Animal Health and Disease Research	10.207			15,549		6,000
Sustainable Agriculture Research and Education	10.215		University of Vermont GNE17-145-31064	7,890		
Sustainable Agriculture Research and Education	10.215		University of Vermont LNE15-342-29994	57,434		14,188
Sustainable Agriculture Research and Education	10.215		University of Vermont ONE17-291-31064	212		
Sustainable Agriculture Research and Education	10.215		University of Vermont SNE17-23-31064	7,602		
Sustainable Agriculture Research and Education	10.215		University of Vermont SNE18-23-33243	13,048		
Sustainable Agriculture Research and Education	10.215		University of Vermont LNE19-381-33243	2,985		
Agricultural and Rural Economic Research, Cooperative Agreements and Collaborations	10.250			57,359		5,403
Integrated Programs	10.303		University of Connecticut Storrs Subaward #76428	9,981		
Integrated Programs	10.303		West Virginia University 18-726-URI	14,024		
Homeland Security Agricultural	10.304		Cornell University 80289-10775	24,156		
Agriculture and Food Research Initiative (AFRI)	10.310			555,147		
Agriculture and Food Research Initiative (AFRI)	10.310		University of Washington UWSC10287	68,832		

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Agriculture and Food Research Initiative (AFRI)	10.310		State University of New York 550-1125193-71549	72,163		
National Food Safety Training, Education, Extension, Outreach, and Technical Assistance Competitive Grants Program	10.328		University of Massachusetts, Amherst 18 10161A00	54,725		
Crop Protection and Pest Management Competitive Grants Program	10.329			120,683		
Crop Insurance Education in Targeted States	10.458		National Crop Insurance Services <i>Risk Management</i>	13,629		
Crop Insurance Education in Targeted States	10.458		National Crop Insurance Services <i>NCISAlm2018</i>	104,458		
Cooperative Extension Service	10.500			1,212,280		
Cooperative Extension Service	10.500		University of Connecticut Storrs 99414	571		
Cooperative Extension Service	10.500		University of Connecticut Storrs 322723	6,328		
Cooperative Extension Service	10.500		Kansas State University S17120.01	1,017		
Cooperative Extension Service	10.500		Kansas State University S17120	1,918		
Expanded Food and Nutrition Education Program	10.514			156,666		
Renewable Resources Extension Act and National Focus Fund Projects	10.515			6,603		6,603
Soil and Water Conservation	10.902			47,001		
Soil Survey	10.903			59,108		
Environmental Quality Incentives Program	10.912			50,079		
Regional Conservation Partnership Program	10.932			10,139		
Regional Conservation Partnership Program	10.932		Connecticut Council on Soil & Water Conservation N/A	44,414		
Technical Agricultural Assistance	10.960			165,683		
Other Research and Development - Department of Agriculture	10.RD	G24493093001		4,865		
<b>U.S. Department of Commerce (DOC)</b>						
Ocean Exploration	11.011			521,727		
Ocean Exploration	11.011		Ocean Exploration Trust 60110-1	118,000		
Ocean Exploration	11.011		Ocean Exploration Trust 60110-2	3,677		

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Integrated Ocean Observing System (IOOS)	11.012		Northeastern Regional Association of Coastal Ocean Observing Systems A008-003	47,323		
Integrated Ocean Observing System (IOOS)	11.012		Rutgers University 655153	13,196		
Sea Grant Support	11.417			2,683,466		555,899
Sea Grant Support	11.417		University of Puerto Rico 2016-2017-006	47,941		
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427			163,705		15,950
Marine Sanctuary Program	11.429		Ocean Exploration Trust 2018-078	28,000		
Climate and Atmospheric Research	11.431			11,426		
Marine Fisheries Initiative	11.433			134,170		88,671
Unallied Management Projects	11.454			38,256		
Meteorologic and Hydrologic Modernization Development	11.467		University of Delaware 44585	2,316		
Meteorologic and Hydrologic Modernization Development	11.467		University of Delaware 47742	9,163		
Unallied Science Program	11.472			39,773		
Science, Technology, Business and/or Education Outreach	11.620			5,634		
Other Research and Development - Department of Commerce	11.RD	WC133R17SU0143		10,727		10,727
Other Research and Development - Department of Commerce	11.RD	NOAA-0040/03	Eastern Research Group NOAA-0040/03	2,809		
Other Research and Development - Department of Commerce	11.RD	Subcontract 2013-11-01	Fisheries Specialists Subcontract 2013-11-01	4,054		
Other Research and Development - Department of Commerce	11.RD	S613	Creare LLC S613	38,886		
Other Research and Development - Department of Commerce	11.RD	NA18NWS4670073-SURI	NESEC NA18NWS4670073-SURI	61,544		
<b>U.S. Department of Defense (DOD)</b>						
Basic and Applied Scientific Research	12.300			2,975,925		322,867
Basic and Applied Scientific Research	12.300		Creare LLC 92249	14,947		
Basic and Applied Scientific Research	12.300		McLaughlin Research Corporation PO-19-0129	17,859		
Basic and Applied Scientific Research	12.300		McLaughlin Research Corporation PO-18-0604	8,097		

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Basic and Applied Scientific Research	12.300		McLaughlin Research Corporation <i>1222.1497.0001.02.1.02</i>	10,104		
Basic and Applied Scientific Research	12.300		Massachusetts Institute of Technology <i>5710003986</i>	687		
Basic and Applied Scientific Research	12.300		University of Connecticut Storrs <i>N00014-19-1-2327</i>	115,022		
Basic and Applied Scientific Research	12.300		University of Connecticut Storrs <i>165273</i>	268,384		
Basic and Applied Scientific Research	12.300		Massachusetts Institute of Technology <i>PO #4502114933</i>	77,475		
Basic and Applied Scientific Research	12.300		Naval Undersea Warfare Center <i>N00174-19-1-0005</i>	1,682		
Basic and Applied Scientific Research	12.300		Undersea Technology Innovation Consortium <i>2018-475</i>	97,194		
Basic and Applied Scientific Research	12.300		Electro Standards Laboratories <i>FSElectro12019</i>	32,956		
Scientific Research - Combating Weapons of Mass Destruction	12.351			72,153		
Military Medical Research and Development	12.420			503,810		181,759
Basic Scientific Research	12.431			32,124		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education <i>0054URI18-CHN280-P01</i>	487,066		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education <i>0054URI18-SCC280-P02</i>	7,000		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education <i>0054URI18SSC-280-PO3</i>	(7,000)		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education <i>0054URI18SSC-280-PO4</i>	97,577		
The Language Flagship Grants to Institutions of Higher Education	12.550		Institute for International Education <i>0054URI18SSC-280-PO5</i>	167,500		
Basic, Applied, and Advanced Research in Science and Engineering	12.630			348,230		

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Basic, Applied, and Advanced Research in Science and Engineering	12.630		Harvard University <i>124152-5105177</i>	18,967		
Air Force Defense Research Sciences Program	12.800			297,989		
Air Force Defense Research Sciences Program	12.800		TRITON Systems, Inc. <i>TSI-2550-18-107647</i>	29,096		
Air Force Defense Research Sciences Program	12.800		Electro Standards Laboratories <i>FSElectro12017</i>	115,061		
Air Force Defense Research Sciences Program	12.800		Strategic Environ Res & Develop Program <i>W912HQ18C0057</i>	173,396		143,100
Air Force Defense Research Sciences Program	12.800		LiBama LLC <i>LiBama-Lucht2019</i>	40,078		
Other Research and Development - Department of Defense	12.RD	15700-0040/001	Creare LLC <i>15700-0040/001</i>	(607)		
Other Research and Development - Department of Defense	12.RD	PO 429	Propel LLC <i>PO429</i>	48,305		
<b>U.S. Department of the Interior (DOI)</b>						
Hurricane Sandy Disaster Relief - Coastal Resiliency Grants	15.153			28,682		634
Bureau of Ocean Energy Management Renewable Energy	15.408			139,918		22,744
Bureau of Ocean Energy Management (BOEM) Environmental Studies (ES)	15.423			327,602		214,932
Bureau of Ocean Energy Management (BOEM) Environmental Studies (ES)	15.423		HDR / e2M <i>1000300001127</i>	2,797		
Bureau of Ocean Energy Management (BOEM) Environmental Studies (ES)	15.423		HDR / e2M <i>1000300001036</i>	30,545		
Marine Minerals Activities	15.424			105,375		10,217
Water Desalination Research and Development	15.506			57,833		13,745
Fish and Wildlife Management Assistance	15.608			(9,422)		
Coastal	15.630		Wildlife Management Institute <i>FS2018McGreevy</i>	116,635		
Migratory Bird Monitoring, Assessment and Conservation	15.655			56,282		
Hurricane Sandy Disaster Relief Activities - FWS	15.677			38,051		
Assistance to State Water Resources Research Institutes	15.805			92,015		
Earthquake Hazards Program Assistance	15.807			24,769		
U.S. Geological Survey Research and Data Collection	15.808			29,254		
National Land Remote Sensing Education Outreach and Research	15.815			(21,930)		
National Land Remote Sensing Education Outreach and Research	15.815		HDR / e2M <i>1000300001232</i>	109,368		
Cooperative Research and Training Programs – Resources of the National Park System	15.945			202,828		
Other Research and Development - Department of the Interior	15.RD	M16PC00016		54,942		
Other Research and Development - Department of the Interior	15.RD	G17PA00033		348		



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Other Research and Development - Department of the Interior	15.RD	140M0118C0001		327,266		
Other Research and Development - Department of the Interior	15.RD	18-1076		10,301		
Other Research and Development - Department of the Interior	15.RD	10000300000843	HDR / e2M 10000300000843	177,229		54,796
Other Research and Development - Department of the Interior	15.RD	1000300000288	HDR / e2M 1000300000288	835		
Other Research and Development - Department of the Interior	15.RD	1000300000695	HDR / e2M 1000300000695	36,839		
Other Research and Development - Department of the Interior	15.RD	AV18-RI-01	AmericaView AV18-RI-01	9,056		
<b>U.S. Department of Justice (DOJ)</b>						
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560			136,031		
<b>U.S. Department of State (DOS)</b>						
Environmental and Scientific Partnerships and Programs	19.017		Western Indian Ocean Marine Science Association S-LMAQM-16-GR-1235	60,313		
<b>U.S. Department of Transportation (DOT)</b>						
Highway Planning and Construction	20.205		Cornell University 78666-10717	63,752		
Other Research and Development - Department of Transportation	20.RD	UMS-1185	University of Maine UMS-1185	146,706		
<b>National Aeronautics and Space Administration (NASA)</b>						
Science	43.001			765,269		63,181
Science	43.001		West Virginia University SUB: 14-764-URI	1,586		
Science	43.001		University of Colorado Boulder 1552614	89,359		
Science	43.001		Woods Hole Oceanographic Institution 23164800	12,676		
Science	43.001		Earth and Science Research 2017-241-URI	53,564		
Science	43.001		Woods Hole Group, Inc. 23156800 / A101249	17,938		
Science	43.001		University of Washington UWSC10146	25,504		
Science	43.001		Skidmore College 32175-2	60,270		
Education	43.008		Brown University 00000785	4,806		

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Education	43.008		Brown University <i>00001012</i>	181,146		120,788
Education	43.008		Brown University <i>00001086</i>	10,035		
Education	43.008		Brown University <i>00001247</i>	44,257		
Education	43.008		Brown University <i>00001248</i>	31,420		
Education	43.008		Brown University <i>0001291</i>	3,226		
Other Research and Development - National Aeronautics and Space Administration	43.RD	5710004170	Massachusetts Institute of Technology <i>5710004170</i>	51,135		
Other Research and Development - National Aeronautics and Space Administration	43.RD	00001236	Brown University <i>00001236</i>	13,411		
<b>National Endowment for the Humanities (NEH)</b> National Leadership Grants	45.312			5,268		
<b>National Science Foundation (NSF)</b> Engineering Grants	47.041			1,668,109		
Engineering Grants	47.041		North Carolina State University <i>260259A</i>	40,605		
Mathematical and Physical Sciences	47.049			343,491		
Geosciences	47.050			9,255,599		512,429
Geosciences	47.050		University of Southern California <i>76246595</i>	58,803		
Geosciences	47.050		Research Foundation of CUNY <i>40F93-F</i>	26,200		
Geosciences	47.050		Woods Hole Oceanographic Institution <i>PO# E117571</i>	2,999		
Geosciences	47.050		Woods Hole Oceanographic Institution <i>85568600</i>	92,111		
Geosciences	47.050		Brown University <i>1141</i>	27,553		
Geosciences	47.050		University of Miami <i>SPC-000424</i>	16,344		

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Geosciences	47.050		Texas A&M Research Foundation <i>F001472*TAMRF/ OD</i>	32,200		
Geosciences	47.050		Lamont-Doherty Earth Observatory <i>OCE 1450528</i>	70,883		
Geosciences	47.050		Columbia University <i>32BGG009393</i>	21,814		
Computer and Information Science and Engineering	47.070			1,228,329		
Biological Sciences	47.074			1,063,339		263,805
Biological Sciences	47.074		University of Arizona <i>466240</i>	63,751		
Education and Human Resources	47.076			1,549,171		96,634
Polar Programs	47.078			81,260		
Polar Programs	47.078		University of Connecticut Storrs <i>KFS#5628610, PO13627</i>	59,584		
Office of International Science and Engineering	47.079			1,684,932		1,047,177
Office of International Science and Engineering	47.079		Brown University <i>N/A</i>	26,003		
Office of International Science and Engineering	47.079		University of New Hampshire <i>16-019</i>	361,847		
Office of Experimental Program to Stimulate Competitive Research	47.081			(3,268)		
Office of Integrative Activities	47.083			4,694,948		1,188,948
Office of Integrative Activities	47.083		University of Southern California <i>88919743</i>	282,013		
Other Research and Development - National Science Foundation	47.RD	1244657		(11,064)		
Other Research and Development - National Science Foundation	47.RD	1819530		66,529		
Other Research and Development - National Science Foundation	47.RD	AD23041	University of Miami <i>AD23041</i>	7,080		
Other Research and Development - National Science Foundation	47.RD	IGAOSU2018	Oregon State University <i>IGAOSU2018</i>	55,238		
<b>Small Business Administration (SBA)</b>						
Small Business Development Centers	59.037			690,717		
<b>Environmental Protection Agency (EPA)</b>						
Southeast New England Coastal Watershed Restoration	66.129		Restore America's Estuaries <i>SNEPWG18-6-URI</i>	58,631		
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436		Rural Community Assistance Partnership <i>83938801</i>	7,014		

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National Estuary Program	66.456		New England Interstate Water Pollution <i>CE00A00366</i>	33,160		
National Estuary Program	66.456		New England Interstate Water Pollution <i>CE00A00004</i>	20,879		
Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies	66.716		Extension Foundation <i>SA-2017-31</i>	14,880		
Other Research and Development - Environmental Protection Agency	66.RD	EP-17-Z-000012		(263)		
Other Research and Development - Environmental Protection Agency	66.RD	00A00249	Barnstable County <i>00A00249</i>	56,203		
Other Research and Development - Environmental Protection Agency	66.RD	00A00252	Mass Audubon <i>00A00252</i>	113,779		
Other Research and Development - Environmental Protection Agency	66.RD	56.000.6200.000	Town of Charlestown <i>56.000.6200.000</i>	77,249		
<b>U.S. Nuclear Regulatory Commission (NRC)</b>						
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008			49,004		
<b>U.S. Department of Energy (DOE)</b>						
Office of Science Financial Assistance Program	81.049		Brown University <i>00000475/PO# P276735</i>	126,063		
Office of Science Financial Assistance Program	81.049		Donald Danforth Plant Science Center <i>23021-R</i>	220,848		
Office of Science Financial Assistance Program	81.049		Pennsylvania State University <i>5027-URI-DOE-1090</i>	73,679		
Office of Science Financial Assistance Program	81.049		Pennsylvania State University <i>5949-URI-DOE-1090</i>	43,191		
Office of Science Financial Assistance Program	81.049		University of Georgia <i>SUB00001808</i>	34,536		
Conservation Research and Development	81.086			2,223		
Los Alamos National Laboratory - Fire Protection	81.140		Triad National Security, LLC <i>526876</i>	7,818		
Los Alamos National Laboratory - Fire Protection	81.140		Triad National Security, LLC <i>526766</i>	4,472		
Other Research and Development - Department of Energy	81.RD	TSI-2576-19-109768	Triton Systems, Inc. <i>TSI-2576-19-109768</i>	2,581		
Other Research and Development - Department of Energy	81.RD	USABC-Gotion	Gotion <i>USABC-Gotion</i>	11,164		

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and <i>Entity</i> <i>Award Number</i></b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
Other Research and Development - Department of Energy	81.RD	7456216	Lawrence Berkeley National Laboratory 7456216	12,583		
<b>U.S. Department of Education (ED)</b>						
Undergraduate International Studies and Foreign Language Programs	84.016			31,099		
Fund for the Improvement of Postsecondary Education	84.116		Endicott College 0005383	6,000		
Special Education - Grants for Infants and Families	84.181		Rhode Island Parent Information Network 51400	35,730		
Ready-to-Learn Television	84.295		PBS URI/Sweetman	159,761		
<b>U.S. Department of Health and Human Services (HHS)</b>						
Area Health Education Centers	93.107		Brown University 1125	73,693		
Maternal and Child Health Federal Consolidated Programs	93.110			7,313		
Environmental Health	93.113			554,815		6,941
Environmental Health	93.113		Harvard University 114185-102737	365		
NIEHS Superfund Hazardous Substances - Basic Research and Education	93.143			1,615,568		596,626
NIEHS Superfund Hazardous Substances - Basic Research and Education	93.143		Brown University 00000846	19,508		
Mental Health Research Grants	93.242		Rhode Island Hospital 7137207	1,272		
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Kent Center URI/Stein	11,877		
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243		Community Care Alliance URI/Stein	2,956		
Advanced Nursing Education Workforce Grant Program	93.247			407,792		4,155
Occupational Safety and Health Program	93.262			462,693		244,712
Alcohol Research Programs	93.273			902,090		241,038
Drug Abuse and Addiction Research Programs	93.279			595,025		54,896
Drug Abuse and Addiction Research Programs	93.279		Brown University 1079	70,890		
Drug Abuse and Addiction Research Programs	93.279		Boston Medical Center BMC ID 6706	10,336		
Drug Abuse and Addiction Research Programs	93.279		The Miriam Hospital 7147060LAS	12,464		
Trans-NIH Research Support	93.310			97,141		

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b> Program Title	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and <i>Entity</i> Award Number</b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
Nursing Research	93.361			72,474		
Nursing Research	93.361		Yale University <i>M17A12609(A10935)</i>	99,195		
Cancer Cause and Prevention Research	93.393			108,823		29,734
Cancer Biology Research	93.396			294,612		
Cancer Research Manpower	93.398		Brown University <i>00000941</i>	13,910		
Developmental Disabilities Basic Support and Advocacy Grants	93.630			473,870		456,774
Accountable Health Communities	93.650		Care New England Health System <i>100001-2</i>	65,696		
Cardiovascular Diseases Research	93.837			193,262		64,164
Cardiovascular Diseases Research	93.837		Brown University <i>SUB AWARD# 00000729</i>	26,422		
Cardiovascular Diseases Research	93.837		Brown University <i>00000729/PUR-0018995</i>	43,075		
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853			1,811,013		162,237
Allergy and Infectious Diseases Research	93.855			2,228,119		1,232,971
Allergy and Infectious Diseases Research	93.855		Harvard University <i>114170-5102735</i>	(2,800)		
Allergy and Infectious Diseases Research	93.855		University of California at Davis <i>SUB. 201303042-03</i>	46,073		
Allergy and Infectious Diseases Research	93.855		Yale University <i>GR105325</i>	31,685		
Allergy and Infectious Diseases Research	93.855		Brown University <i>00001216</i>	67,812		
Allergy and Infectious Diseases Research	93.855		Institut Pasteur de Tunis <i>Institut Pasteur de Tunis</i>	6,089		
Microbiology and Infectious Diseases Research	93.856			10,610		
Biomedical Research and Research Training	93.859			3,955,586		1,676,524
Biomedical Research and Research Training	93.859		Brown University <i>00000938</i>	179,783		
Biomedical Research and Research Training	93.859		Brown University <i>00001023</i>	148,561		
Biomedical Research and Research Training	93.859		Brown University <i>00001044</i>	22,707		
Biomedical Research and Research Training	93.859		Brown University <i>0001244</i>	10,686		
Biomedical Research and Research Training	93.859		Brown University <i>00001279</i>	5,113		

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and <i>Entity</i> <i>Award Number</i></b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
Biomedical Research and Research Training	93.859		Brown University <i>00001098</i>	16,989		
Biomedical Research and Research Training	93.859		Brown University <i>00001142</i>	168,169		
Biomedical Research and Research Training	93.859		Brown University <i>0001396</i>	69,275		
Biomedical Research and Research Training	93.859		Yale University <i>M16A12388 (A10553)</i>	224,491		
Biomedical Research and Research Training	93.859		Celdara Medical, LLC <i>CMCho2018</i>	19,211		
Biomedical Research and Research Training	93.859		The Miriam Hospital <i>7147123KLL</i>	13,249		
Child Health and Human Development Extramural Research	93.865			89,464		61,884
Child Health and Human Development Extramural Research	93.865		Boston University <i>4500002896</i>	68,343		
Aging Research	93.866			107,789		
Aging Research	93.866		The Research Foundation for SUNY <i>82900</i>	136,146		
Aging Research	93.866		Yale University <i>GR104571</i>	68,032		
Aging Research	93.866		Yale University <i>GR100954CON80000919</i>	108,987		
Research, Prevention, and Education Programs on Lyme Disease in the United States	93.942		Western Connecticut State University <i>CDC2017A</i>	48,006		
Research, Prevention, and Education Programs on Lyme Disease in the United States	93.942		Western Connecticut State University <i>CDC2018A</i>	97,752		
PPHF Geriatric Education Centers	93.969			882,957		263,907
<b>Corporation for National and Community Service (CNCS)</b>						
AmeriCorps	94.006		Jumpstart for Young Children, Inc. <i>340200</i>	17,595		
<b>U.S. Department of Homeland Security (DHS)</b>						
State and Local Homeland Security National Training Program	97.005			55,424		5,477
Centers for Homeland Security	97.061		University of North Carolina - Chapel Hill <i>5101662</i>	184,792		

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

<b>Federal Grantor</b>	<b>CFDA or Contract Number</b>	<b>Additional Award Identification Number</b>	<b>Name of Pass-Through Entity and <i>Entity</i> <i>Award Number</i></b>	<b>Cluster Expenditures</b>	<b>Total Expenditures</b>	<b>Passed Through to Subrecipients</b>
<b>Program Title</b>						
Centers for Homeland Security	97.061		Northeastern University <i>SUB 505035-78059</i>	652,770		150,000
Other Research and Development - Department of Homeland Security	97.RD	S-539-G40001-00-URI		102,554		
<b>U.S. Agency for International Development (USAID)</b>						
USAID Foreign Assistance for Programs Overseas	98.001			8,658,016		2,800,093
USAID Foreign Assistance for Programs Overseas	98.001		International Union for Conservation <i>P002510</i>	3,051		
USAID Foreign Assistance for Programs Overseas	98.001		International Union for Conservation <i>IUCN-Ricci06102019</i>	502		
USAID Foreign Assistance for Programs Overseas	98.001		Institut Pertanian Bogor <i>USAID SHERA: Interdi</i>	(4,157)		
USAID Foreign Assistance for Programs Overseas	98.001		Institut Pertanian Bogor <i>URI11/IT3.2/KSP/2018</i>	89,864		
USAID Foreign Assistance for Programs Overseas	98.001		Mississippi State University <i>N/A</i>	141,296		
USAID Foreign Assistance for Programs Overseas	98.001		PACT <i>72068718C00001</i>	394,664		
USAID Foreign Assistance for Programs Overseas	98.001		PACT <i>USAID 612-A-14-00004</i>	505,264		
Other Research and Development - Agency for International Development	98.RD	N/A	Mississippi State University <i>N/A</i>	3,640		
<b>Total Research and Development Cluster</b>					<b>\$ 71,450,465</b>	<b>\$ 13,070,250</b>
<b>Total Expenditures of Federal Awards</b>					<b>\$ 4,371,287,320</b>	<b>\$ 345,644,189</b>



**NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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). This Schedule is presented for purposes of additional analysis and in accordance with Title 2 U.S. Code of Federal Regulations Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”).

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). When federal financial assistance is received by one state entity and passed through to another state organization (contained within the reporting entity), the federal financial assistance is reflected by the primary recipient organization to avoid duplication and overstatement of the aggregate level of federal financial assistance expended by the State.

Expenditures reported on the Schedule are recognized following, as applicable, either the cost principles contained in the Uniform Guidance, or, in limited instances, the cost principles in Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. 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 the Catalog of Federal Domestic Assistance (CFDA) numerical order by federal funding agency. When the CFDA number is not available from the State or component unit’s accounting records, the federal funding agency is identified and these amounts are included in the Schedule along with federal awards for that federal grantor agency (e.g., 84.U01). The Research and Development (R&D) Cluster is presented at the end of the Schedule because there are multiple federal funding agencies. As a result, total expenditures of federal awards presented for some federal funding agencies do not include expenditures for R&D programs.

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

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

Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Loans have been included in the Schedule in accordance with the Uniform Guidance, whereby, loans with continuing federal compliance requirements are recorded at the value of new loans made or received during the audit period, plus beginning of the audit period balance of loans from previous years, plus cash and/or administrative cost allowances. Loans that do not have continuing federal compliance requirements are recorded at the value of new loans made or received during the audit period, plus cash and/ or administrative cost allowances.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Fiscal Year Ended June 30, 2019

**NOTE 1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

None of the State’s large loan programs met the criteria that would require such amounts to be excluded from the State’s Type “A” major program threshold.

Non-monetary assistance is also included in the Schedule consistent with Uniform Guidance requirements. Additionally, all non-monetary assistance has been included in determining major programs as defined by the Uniform Guidance. Non-monetary assistance included in the Schedule is listed by federal program in Note 3 to this Schedule.

**NOTE 2. LOAN, LOAN GUARANTEE AND INSURANCE PROGRAMS**

Expenditures of federal awards include assistance in the form of loans, loan guarantees, and insurance. The following table details all loans, loan guarantees, and insurance included in the Schedule of Expenditures of Federal Awards.

<u>CFDA Number</u>	<u>Loan, Loan Guarantee and Insurance Programs</u>	<u>Expenditures of Federal Awards Year Ended June 30, 2019</u>	<u>Loans Assistance June 30, 2019</u>	<u>Loan Outstanding Balance June 30, 2019</u>
11.307	Economic Adjustment Assistance	\$ 8,869,664	\$ 8,869,664	\$ 5,628,233
14.117	Mortgage Insurance Homes	278,846,869	278,846,869	N/A
14.189	Qualified Participating Entities (QPE) Risk Sharing	241,896,534	221,922,798	232,459,364
14.228	Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii	14,486,461	8,623,819	8,604,375
14.239	Home Investment Partnerships Program	26,174,981	23,514,191	25,678,458
84.038	Federal Perkins Loan Program – Federal Capital Contributions	13,989,040	13,989,040	9,124,034
84.268	Federal Direct Student Loans	125,374,123	125,374,123	N/A
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	2,894,794	2,422,849	1,996,885
93.364	Nursing Student Loans	2,582,513	2,216,503	1,669,910

*Note: Outstanding Loan Balance containing “N/A” indicates no continuing compliance requirements.*

Federal awards which include loan, loan guarantee and insurance programs are presented as follows:

**Loan, Loan Guarantee and Insurance Programs**

- Economic Adjustment Assistance (CFDA 11.307) includes the outstanding principal balance of loans originated under, and the balance of cash and cash equivalents of, the Revolving Loan Fund, and the administrative expenses paid from income earned.
- The following guaranteed/insured mortgage loan programs are reported at the value of loans originated or purchased during the fiscal year: Mortgage Insurance Homes (CFDA 14.117).
- Other guaranteed/insured mortgage loan programs are reported at the beginning loan balances of the audit period plus loans originated or purchased during the fiscal year: Qualified Participating Entities (QPE) Risk Sharing (CFDA 14.189); Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii (CFDA 14.228); Home Investment Partnerships Program (CFDA 14.239).

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Fiscal Year Ended June 30, 2019

**NOTE 2. LOAN, LOAN GUARANTEE AND INSURANCE PROGRAMS (continued)**

- Federal Direct Student Loans (CFDA 84.268) are reported at the value of loans made during the fiscal year.
- Federal Perkins Loan Program – Federal Capital Contributions (CFDA 84.038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) are reported at the beginning of the audit period loan balances plus loans made during the year and any administrative cost allowances.
- Federal Family Education Loans – Guarantee Agency (CFDA 84.032) loans were returned to the federal government in July 2018 and are therefore not included in the Schedule for fiscal 2019.

**NOTE 3. NON-MONETARY ASSISTANCE**

Expenditures of federal awards include non-monetary assistance in the form of donated food commodities, vaccines, and property. The following table details all non-monetary assistance included in the Schedule of Expenditures of Federal Awards.

<u>CFDA Number</u>	<u>Program</u>	<u>Expenditures of Federal Awards Year Ended June 30, 2019</u>	<u>Non-monetary Assistance Year Ended June 30, 2019</u>
10.555	National School Lunch Program	\$ 35,715,691	\$ 4,621,563
10.559	Summer Food Service Program for Children	1,529,378	5,906
39.003	Donation of Federal Surplus Personal Property	2,346,428	2,346,428
93.268	Immunization Cooperative Agreements	13,422,973	11,451,156

Non-Monetary Assistance is presented as follows:

- National School Lunch Program (CFDA 10.555) and Summer Food Service Program for Children (CFDA 10.559) are reported at the fair market value of food distributed.
- Donation of Federal Surplus Personal Property (CFDA 39.003) is reported at the assessed value provided by the federal agency.
- Immunization Cooperative Agreements (CFDA 93.268) includes the value of vaccines received at the contracted price (amount paid by the federal Centers for Disease Control to the manufacturer) and cash assistance for administrative costs.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
 Fiscal Year Ended June 30, 2019

**NOTE 4. REBATES OF PROGRAM EXPENDITURES**

The State received the following program expenditure rebates during fiscal 2019:

<u>CFDA Number</u>	<u>Program</u>	<u>Rebate Amount</u>
10.557	WIC Special Supplemental Nutrition Program for Women, Infants and Children	\$ 5,168,635
93.767	Children's Health Insurance Program (CHIP)	3,358,797
93.778	Medical Assistance Program	96,572,456
93.917	HIV Care Formula Grants	7,839,557

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance, CHIP, and HIV) remitted the rebates. The Medical Assistance Program and CHIP rebates reduced previously incurred program expenditures; therefore, expenditures of these programs are reported net of the applicable federal share of rebates earned during fiscal year 2019. Rebates received under the HIV Care Formula Grants are considered program income. WIC program expenditures include amounts funded by rebates earned as well as direct federal assistance.

**NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES**

Expenditures of federal awards for Unemployment Insurance (CFDA 17.225) represent \$144.6 million funded from the State's account in the federal Unemployment Trust Fund and \$14.3 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 \$205,350,810.

**NOTE 7. EXPENDITURES OF OTHER AWARDS**

Some expenditures of federal awards included in the Schedule are not specifically identified by CFDA number. When the federal funding agency is known, these amounts are included in the Schedule along with federal awards for that federal grantor agency (e.g., 84.U01). In these instances, an Additional Award Identification Number or information, such as, a federal contract award number or state account number are included in the Schedule.

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

**NOTE 8. DE MINIMIS INDIRECT COST RATE**

Agencies that have never received a negotiated cost rate may elect to charge a de minimis rate of 10% of modified total direct costs that may be used indefinitely. This methodology must be used consistently for all federal awards until such time as an agency chooses to negotiate for a rate, which an agency may apply to do at any time. The Department of Behavioral Health, Developmental Disabilities and Hospitals (BHDDH) elected to use the 10% de minimis rate for the following programs: Substance Abuse and Mental Health Services Projects of Regional and National Significance (CFDA 93.243) and Opioid STR (CFDA 93.788).

**NOTE 9. MEDICAL ASSISTANCE PROGRAM - ACCRUED PROGRAM EXPENDITURES**

The Schedule of Expenditures of Federal Awards reports federal expenditures for the Medical Assistance Program (CFDA 93.778) on an accrual basis causing timing differences with federal expenditures claimed on a cash basis on federal reports. These accrued expenditures are typically claimed/reported in the next quarter. In certain instances, as described below, the timing differences may be longer. The following are examples of accruals made for the Medical Assistance Program to properly reflect the following program activity in the State's financial statements:

- a) The federal share of advances to nursing home providers, required due to delays in determining recipient eligibility, was estimated for financial reporting purposes (including the SEFA). These advances will not be claimed on federal reports until eligibility is documented and the related claims are adjudicated through the Medicaid Management Information System (MMIS).
- b) The federal share of contract settlements with managed care organizations was estimated for financial reporting purposes (including the SEFA). These amounts are not claimed on federal reports until final settlements are calculated and paid or received by the State.
- c) The federal share of accrued drug rebates was estimated for financial reporting purposes based on the pharmacy claim date of service. These rebate credits are claimed on federal reports when received from the drug manufacturer.

**NOTE 10. RECONCILIATION BETWEEN THE STATE'S BASIC FINANCIAL STATEMENTS AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The State's SEFA for fiscal 2019 includes expenditures of federal awards totaling \$8,654,970 within CFDA 93.778 - Medical Assistance Program related to a portion of the Health System Transformation Program (HSTP). The HSTP is funded through regular federal financial participation (FFP) for the Medical Assistance Program and specific qualifying expenditures of the State's public institutions of higher education related to the training of students in the health care related fields pursuant to the Designated State Health Programs (DSHP). The State has authority to claim FFP under the DSHP to solely support the goals of the HSTP. The DSHP qualifying expenditures are quantified and reimbursed by the federal government independent of the HSTP expenditures. For financial reporting purposes in the basic financial statements, the DSHP amounts are reported as restricted revenue when drawn (to designate their HSTP restricted use) with the State share of HSTP expenditures funded by that restricted revenue source. For purposes of presentation in the Schedule of Expenditures of Federal Awards, the State share of HSTP expenditures are presented (reclassified) as expenditures of federal awards to recognize the expenditure of the DSHP federal reimbursement to the State.

In accordance with guidance included in the OMB Compliance Supplement, and 12 USC 5702, amounts received by the State under the Build America Bonds are not included in the Schedule of Expenditures of Federal Awards. The State received \$1,886,958 during fiscal year 2019, which was reported as federal revenue in the State's financial statements.

Non-monetary assistance (Note 3) for National School Lunch Program (CFDA 10.555), Summer Food Service Program for Children (10.559), and Donation of Federal Surplus Personal Property (39.003) is included in the Schedule of Expenditures of Federal Awards; however, these amounts are not included in the State's basic financial statements.

## Auditor's Reports



**Auditor’s Reports**

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# Office of the Auditor General

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

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## **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, in accordance with the 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, 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, 2019, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 31, 2019. Our report includes a reference to other auditors who audited the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 1% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 2% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 24% of the assets and deferred outflows and 2% of the revenues of the business-type activities;
- the HealthSource RI Trust, an agency fund, the Ocean State Investment Pool, an investment trust fund, and the Rhode Island Higher Education Savings Trust, a private-purpose trust fund, which collectively represent 35% of the assets and 23% of the revenues of the aggregate remaining fund information; and
- all the component units comprising the aggregate discretely presented component units.

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



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

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed in the accompanying *Schedule of Findings and Questioned Costs* (Section D), we and the other auditors identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

*A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* as findings 2019-002, 2019-003, 2019-004, 2019-013, 2019-020 and 2019-029 to be material weaknesses. Other auditors of the discretely presented component units considered the deficiency described in the accompanying *Schedule of Findings and Questioned Costs* as findings 2019-031 and 2019-033 to be material weaknesses.

*A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* as findings 2019-001, 2019-005, 2019-006, 2019-007, 2019-008, 2019-009, 2019-010, 2019-011, 2019-012, 2019-014, 2019-015, 2019-016, 2019-017, 2019-018, 2019-019, 2019-021, 2019-022, 2019-023, 2019-024, 2019-025, 2019-026, 2019-027, 2019-028, 2019-034, 2019-035 and 2019-036 to be significant deficiencies. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying *Schedule of Findings and Questioned Costs* as finding 2019-032 to be a significant deficiency.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying *Schedule of Findings and Questioned Costs* as finding 2019-030.

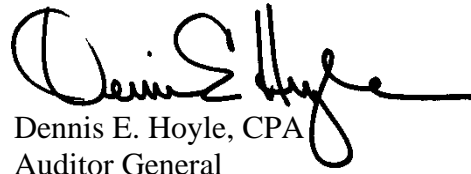
Finance Committee of the House of Representatives and  
Joint Committee on Legislative Services, General Assembly

### **State's Response to Findings**

The State's responses and corrective action plans to the findings identified in our audit are described in the accompanying *State's Corrective Action Plan* (Section E). The State's responses and corrective action plans were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses or corrective action plans.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dennis E. Hoyle, CPA  
Auditor General

December 31, 2019



# Office of the Auditor General

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

[oag.ri.gov](http://oag.ri.gov)

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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY THE UNIFORM GUIDANCE

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

### Report on Compliance for Each Major Federal Program

We have audited the State of Rhode Island and Providence Plantations' (the State) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2019.

The State's major federal programs are identified in Section I - *Summary of Auditor's Results* of the accompanying *Schedule of Findings and Questioned Costs* (Section D).

We did not audit the major federal programs or percentages of federal programs listed below. Those programs were audited by other auditors whose reports on compliance with requirements applicable to each major federal program were furnished to us, and our opinion, insofar as it relates to compliance requirements for these programs, is based solely on the reports of the other auditors.

<b>2019 Major Programs Audited by Other Auditors</b>	
<i>Program Title:</i>	<i>CFDA Number</i>
Mortgage Insurance Homes	14.117
Section 8 Project-Based Cluster:	
Section 8 Housing Assistance Payments Program	14.195
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii *	14.228
Housing Vouchers Cluster:	
Section 8 Housing Choice Vouchers	14.871
Mainstream Vouchers	14.879
Federal Transit Cluster: **	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
State of Good Repair Grants Program	20.525
Bus and Bus Facilities Formula Program	20.526
* <i>The CDBG program was administered by both the primary government (State) and a component unit (Rhode Island Housing)</i>	
** <i>The Federal Transit Cluster was administered by both the primary government (State) and a component unit (Rhode Island Public Transit Authority)</i>	

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

### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the State's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 qualified and unmodified opinions on compliance for major federal programs. However, our audit does not provide a legal determination of the State's compliance.

### Basis for Qualified Opinions on SNAP Cluster, Unemployment Insurance, TANF Cluster, CCDF Cluster, Children's Health Insurance Program, and Medicaid Cluster

As identified in the following table and as described in the accompanying *Schedule of Findings and Questioned Costs*, the State did not comply with requirements that are applicable to the following major federal programs:

CFDA #	Program (Cluster) Name	Compliance Requirement	Finding
10.551 10.561	<b>Supplemental Nutrition Assistance Program (SNAP) Cluster</b>	Special Tests and Provisions – ADP System Special Tests and Provisions – EBT Reconciliation	2019-039 2019-040
17.225	<b>Unemployment Insurance</b>	Special Tests and Provisions – UI Program Integrity – Overpayments	2019-043
93.558	<b>Temporary Assistance for Needy Families (TANF) Cluster</b>	Eligibility Special Tests and Provisions – IEVS	2019-047 2019-050
93.575 93.596	<b>Child Care and Development Fund (CCDF) Cluster</b>	Eligibility	2019-056
93.767	<b>Children's Health Insurance Program</b>	Eligibility Special Tests and Provisions – MCO Provider Eligibility	2019-057 2019-064
93.775 93.777 93.778	<b>Medicaid Cluster</b>	Eligibility Special Tests and Provisions – MCO Provider Eligibility	2019-058 2019-064

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those major federal programs.

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

### **Qualified Opinions on SNAP Cluster, Unemployment Insurance, TANF Cluster, CCDF Cluster, Children's Health Insurance Program, and Medicaid Cluster**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the SNAP Cluster, Unemployment Insurance, TANF Cluster, CCDF Cluster, Children's Health Insurance Program, and Medicaid Cluster for the year ended June 30, 2019.

### **Unmodified Opinion on Each of the Other Major Federal Programs**

In our opinion, based on our audit and the reports of the other auditors, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in Section I - *Summary of Auditor's Results* of the accompanying *Schedule of Findings and Questioned Costs* for the year ended June 30, 2019.

### **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance or other matter, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying *Schedule of Findings and Questioned Costs* as finding 2019-060. Our opinion on each major program is not modified with respect to this matter.

The State's responses and corrective action plans to the noncompliance findings identified in our audit are described in the accompanying *State's Corrective Action Plan* (Section E). The State's responses and corrective action plans were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses and corrective action plans.

### **Report on Internal Control Over Compliance**

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we, and the other auditors, considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

Our consideration, and the consideration of the other auditors, of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis.

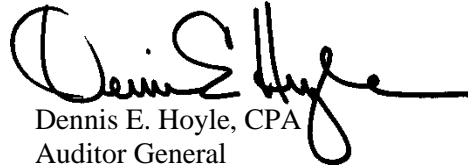
Finance Committee of the House of Representatives and  
Joint Committee on Legislative Services, General Assembly

A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as findings 2019-037, 2019-038, 2019-039, 2019-040, 2019-041, 2019-043, 2019-043, 2019-047, 2019-048, 2019-049, 2019-050, 2019-053, 2019-056, 2019-057, 2019-058, 2019-061, 2019-062, 2019-064, 2019-065, 2019-066 and 2019-067 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying *Schedule of Findings and Questioned Costs* as findings 2019-042, 2019-044, 2019-045, 2019-046, 2019-051, 2019-052, 2019-054, 2019-055, 2019-059, 2019-060, 2019-063 and 2019-068 to be significant deficiencies.

The State's responses and corrective action plans to the internal control over compliance findings identified in our audit are described in the accompanying *State's Corrective Action Plan* (Section E). The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses and corrective action plans.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Dennis E. Hoyle, CPA  
Auditor General

May 22, 2020

Schedule of Findings  
and Questioned Costs



**Schedule of Findings and  
Questioned Costs**

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**Basic Financial Statements**

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

<u>Opinion Unit</u>	<u>Opinion</u>
Governmental Activities	Unmodified
Business-type Activities	Unmodified
Aggregate Discretely Presented Component Units	Unmodified
Major funds –	
General	Unmodified
Intermodal Surface Transportation	Unmodified
Lottery	Unmodified
Convention Center Authority	Unmodified
Employment Security	Unmodified
Aggregate Remaining Fund Information	Unmodified

- 2) The audit of the basic financial statements disclosed significant deficiencies and material weaknesses in internal control over financial reporting.
- 3) The audit disclosed an instance of noncompliance, which was material to the basic financial statements, and is required to be reported in accordance with *Government Auditing Standards*.

**Federal Awards**

- 4) The audit disclosed significant deficiencies in internal control over major programs, some of which were classified as material weaknesses.
- 5) The independent auditor’s report on compliance for major programs expressed:

a qualified opinion for the following major programs;

Program	CFDA #
SNAP Cluster	10.551 and 10.561
Unemployment Insurance	17.225
TANF Cluster	93.558
CCDF Cluster	93.575 and 93.596
Children’s Health Insurance Program	93.767
Medicaid Cluster	93.775, 93.777 and 93.778

and an unmodified opinion for all remaining major programs.

- 6) The audit disclosed findings that must be reported in accordance with 2 CFR 200.516(a) of OMB Uniform Guidance provisions.

7) Major programs are listed in the table below.

<b>2019 Major Programs</b>	
<i>Program Title:</i>	<i>CFDA Number</i>
SNAP Cluster:	
Supplemental Nutrition Assistance Program	10.551
State Administrative Matching Grants for the SNAP Program	10.561
Mortgage Insurance Homes	14.117
Section 8 Project-Based Cluster:	
Section 8 Housing Assistance Payments Program	14.195
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii	14.228
Housing Vouchers Cluster:	
Section 8 Housing Choice Vouchers	14.871
Unemployment Insurance	17.225
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
State of Good Repair Grants Program	20.525
Bus and Bus Facilities Formula Program	20.526
Veterans State Nursing Home Care	64.015
Performance Partnership Grants	66.605
Title I Grants to Local Educational Agencies	84.010
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367
Immunization Cooperative Agreements	93.268
TANF Cluster:	
Temporary Assistance for Needy Families	93.558
Low-Income Home Energy Assistance	93.568
CCDF Cluster:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care Development Fund	93.596
Children’s Health Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777
Medical Assistance Program	93.778

8) The dollar threshold used to distinguish between Type A and Type B programs was \$13,113,862.

9) The State did not qualify as a low-risk auditee as defined by OMB Uniform Guidance.

10) Major Programs audited by other auditors are listed in the table below:

<b>2019 Major Programs Audited by Other Auditors</b>	
<i><b>Program Title:</b></i>	<i><b>CFDA Number</b></i>
Mortgage Insurance Homes	14.117
Section 8 Project-Based Cluster:	
Section 8 Housing Assistance Payments Program	14.195
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii *	14.228
Housing Vouchers Cluster:	
Section 8 Housing Choice Vouchers	14.871
Federal Transit Cluster: **	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
State of Good Repair Grants Program	20.525
Bus and Bus Facilities Formula Program	20.526
* The CDBG program was administered by both the primary government (State) and a component unit (Rhode Island Housing)	
** The Federal Transit Cluster was administered by both the primary government (State) and a component unit (Rhode Island Public Transit Authority)	

**Finding 2019-001**

**(significant deficiency – repeat finding – 2018-001)**

**IMPLEMENTATION OF THE STRATEGIC PLAN FOR CRITICAL FINANCIAL AND ADMINISTRATIVE COMPUTER SYSTEMS**

**The State recently completed a strategic plan to coordinate needed replacements/enhancements to its key statewide financial and administrative systems. Implementation and funding of the strategic plan is essential to ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations.**

**Background:** Following continued audit recommendations, the State recently completed a strategic plan to assess options and to develop a path forward to coordinate needed replacements/enhancements to its key statewide financial and administrative systems. The strategic plan report details the need for, and the benefits to be derived from, an enterprise applications modernization effort highlighting that “the risks of inaction far outweigh the cost of upgrades in capability.”

The State’s Oracle E-Business Suite – the original platform for the State’s RIFANS accounting system - was not fully implemented, and, therefore critical needs such as Human Resources and Payroll were not addressed. The intent of an Enterprise Resource Planning (ERP) system is to optimize integration thereby enhancing efficiency and facilitating strong internal controls. More recently, the State attempted to implement separate software solutions without a comprehensive plan for achieving a fully integrated ERP system – this resulted in wasted resources and failed integration. The State halted work on a time and effort reporting system project due to an inability to interface the system with other State information systems (\$2 million expended through fiscal 2017). The State also terminated the implementation of a Grants Management system (\$974 thousand expended through fiscal 2018).

**Criteria:** Management needs well-designed financial systems that support comprehensive internal controls over financial reporting, enable organization-wide efficiencies, and promote business continuity.

**Condition:** Important functionalities are minimally met through legacy systems and multiple departmental processes without intended integration and efficiencies. This results in business continuity risk, decreased efficiency and effectiveness, and control weaknesses. Some of the State’s critical systems utilize outdated technology which makes these operations vulnerable from a business continuity and systems security perspective. Certain legacy systems utilize software that is no longer supported and the availability of skilled personnel to work on these systems is limited.

Many of the needed financial functionalities are interdependent and, consequently, the risk of failed integration is increased absent appropriate strategic planning and sequencing.

Examples of deficiencies in the current RIFANS system include, but are not limited to; a.) a lack of integrated time and effort reporting needed to support centralized cost allocation processes and federal grants management, b.) a grants management system that ensures that the State does not overspend federal grant authorizations, and c.) inefficient cash management and reconciliation tools that support critical management functions.

Use of two computer systems to account for the activities of the Intermodal Surface Transportation (IST) Fund is unduly complex and weakens controls over financial reporting. While recording transactions in two accounting systems is inherently duplicative, this process would be less challenging if the configuration and accounting conventions were the same.

**Cause:** The State’s current accounting and financial reporting system lacks the integration and functionality of a comprehensive ERP system. Prior to the recent strategic plan development, the State was attempting functional enhancements without sufficient consideration of overall system requirements, design, and needed integration.

**Effect:** Business continuity risks, deficiencies in internal control over financial reporting, and the lack of organization-wide efficiencies exist and are exacerbated due to the lack of an integrated ERP system.

RECOMMENDATION

2019-001      Implement the comprehensive strategic plan to address the business continuity risks, deficiencies in controls over financial reporting and operational inefficiencies identified in the State’s current financial systems.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-002**

*(material weakness – repeat finding – 2018-002)*

MEDICAID PROGRAM COMPLEXITY AFFECTS FINANCIAL REPORTING AND OVERALL PROGRAM CONTROLS

**The continued and growing complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid program related financial activity within the State’s financial statements.**

**Background:** The complexity of the Medicaid program increases each year through new federal regulations, various new State initiatives, and additional challenges resulting from its implementation of an eligibility system, RIBridges. Medicaid is the State’s single largest program activity - representing nearly 40% of the annual budgeted outlays of the State’s General Fund. Consequently, the financial aspects of this program are material to the State’s financial reporting objectives.

The added complexity and related challenges are mainly attributable to the following:

- New program initiatives have changed the way services are reimbursed through the program;
- Program changes are often implemented through managed care organizations (MCOs) increasing an already significant segment of Medicaid that is being administered outside of the Executive Office of Health and Human Services’ (EOHHS) direct financial systems and controls;
- Contracts with MCOs are subject to complex settlement provisions. These settlements are increasingly dependent on data received from the MCOs and require substantial data analysis and evaluation prior to determining if additional payments or recoveries are due for financial reporting purposes. EOHHS is largely dependent on contractors to conduct the data analysis and tracking of these settlement provisions;
- The State lacks effective auditing and monitoring of MCO financial activity;
- Financial activity relating to Medicaid that is manually accounted for, in total or in part, has increased the risk that certain receivables or liabilities may be omitted from the State’s financial reporting processes and not be detected; and
- The RIBridges eligibility system has caused uncertainties in eligibility determinations which results in claims processing issues including duplicate MCO capitation payments and the inability to process claims for long-term care providers. This required estimated payments to providers in lieu of actual claims processing.

**Criteria:** Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles.

**Condition:** Significant Medicaid program activity as detailed above is currently being accounted for external to the systemic controls and processes of normal Medicaid activities. In addition, the State relies on contract services to manually accumulate, evaluate and determine settlements and/or payments relating to these program activities. Due to the length of settlement periods, the extended duration of eligibility system issues, and the volume of transactions being accumulated and evaluated independent of regular program controls, risks relating to inaccurate financial activity and federal compliance have increased.

Several issues related to RIBridges implementation issues (e.g., newborn eligibility, long-term care eligibility) have negatively impacted the MCOs and severely complicated settlement processes between the State and those entities. Significant managed care financial activity (most notably, final contract year settlements) and final settlements with federally qualified health centers (FQHC) within the Medicaid program remain reliant on claims and financial data submitted by those respective entities. Substantial manual analysis by the State’s managed care consultant is required to validate the underlying expenditures reported by these entities. Controls (procedures employed by EOHHS) over these processes are not deemed sufficient to identify when errors are made in the underlying manual processes.

See related federal compliance finding 2019-062.

**Cause:** Ensuring all financial activity is properly and completely recorded in the State’s financial statements is an increasingly complex task. MCO risk and gain share settlements, settlements with FQHC providers, outstanding amounts due MCOs for eligible births and stop loss expenditures for services reimbursed outside of capitation all required manual accumulation by consultants as part of the year-end accrual process. The financial effect of these settlements and program provisions totaled in the hundreds of millions of dollars. Much of this activity is higher risk from a financial reporting and federal program compliance perspective as it is less subject to systemic controls and instead is accounted for through manual independent processes.

**Effect:** Potential effects of this control deficiency include unrecorded or inaccurately recorded financial transactions, incorrect reimbursements to providers or managed care organizations, and noncompliance with federal regulations.

#### RECOMMENDATIONS

- |           |                                                                                                                                                                                                                                                        |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-002a | Evaluate and document control processes to meet the financial reporting objectives for the Medicaid program. Delineate those responsibilities delegated to contractors and how those responsibilities are integrated in the overall control structure. |
| 2019-002b | Improve financial oversight of the MCOs as a basis for enhancing program compliance objectives and enhancing data available for financial reporting purposes.                                                                                          |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-003**

*(material weakness – repeat finding – 2018-003)*

SYSTEM PAYOUTS AND MANUAL DISBURSEMENTS BY THE MEDICAID FISCAL AGENT

**The Executive Office of Health and Human Services (EOHHS) authorized in excess of \$188 million in system payouts and manual disbursements in fiscal 2019, representing provider advances, payments to managed care organizations for contract settlements and/or non-claims based financial activity, and other program disbursements. The reporting and internal control processes relating to these types of disbursements are manual and external to other established control procedures. Such amounts are not easily identified or quantified by the Medicaid Management Information System (MMIS).**

**Background:** As indicated in Finding 2019-002, a significant amount of Medicaid program financial activity has commenced external to the normal internal control processes of the program (claims processing and adjudication) and is more reliant on manual control processes for determination of payment amounts and recording of financial activity, most of which is performed by consultants.

Advances to nursing home providers (and to a lesser extent, assisted living and hospice providers) during fiscal 2019 (approximately \$28 million) were necessary due to significant delays in processing eligibility through RIBridges. These advances were largely made through manual checks issued by the fiscal agent upon authorization by EOHHS (via Fiscal Agent Control Notes – FACN). These advances were (1) tracked manually (in Excel) by the fiscal agent for purposes of identifying receivables pending recoupment (2) recorded in the State accounting system by a journal entry prepared by EOHHS, and (3) required additional journal entries to properly report these transactions in the State’s financial statements. The level of manual processes employed in the recording of these transactions is characteristic of these types of payments. Other significant categories of system/manual payments include payments to MCOs for accountable entities, risk share and stop loss payments to MCOs, retroactive capitation adjustments, and FQHC transition payments.

**Criteria:** Management is responsible for establishing and maintaining internal control over financial reporting to ensure accurate and complete reporting of transactions in accordance with generally accepted accounting principles. Such processes should support the validity and accuracy of all payments made by the fiscal agent, the completeness of reported program activity, and to ensure compliance with federal regulations for allowable cost principles and activities allowed or unallowed.

**Condition:** System payouts and manual disbursements are authorized by EOHHS through the FACN process. EOHHS executes FACN authorizations to the Medicaid fiscal agent for various financial related activities including direction of system payouts and manual disbursements to providers and managed care organizations. FACN authorizations require manual recording and tracking and do not interface into the MMIS.

The MMIS lacks formalized reporting that details system payouts and manual disbursements. During fiscal 2019, EOHHS began receiving a log of FACN authorizations processed by the fiscal agent and reviewed the log for authorized financial transactions. While this improved oversight of authorized financial transactions, it would not identify if unauthorized payments were processed by the fiscal agent.

See related federal compliance finding 2019-062.

**Cause:** The significant disbursements (and other related financial transactions) represented by system payouts and manual disbursements coupled with inadequate reporting and management oversight of these types of payments pose a significant risk to internal control over financial reporting and federal compliance.

**Effect:** Improper payments, errors or omissions in financial reporting and federal noncompliance are possible effects of this control deficiency.

RECOMMENDATIONS

- 2019-003a Consider alternatives to issuing system payouts and manual disbursements through the State fiscal agent when possible.
- 2019-003b Develop comprehensive reporting for system payouts and manual disbursements to improve oversight and monitoring by EOHHS.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

***Finding 2019-004***

***(material weakness – repeat finding – 2018-004)***

COMPREHENSIVE DOCUMENTATION OF THE STATE’S INTERNAL CONTROL STRUCTURE

**Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are assessing and documenting internal control consistent with management’s overall responsibility for the adequacy of the design and operation of internal control. Internal controls safeguard public resources and support accurate financial reporting.**

**Background:** The State’s management has responsibility for the design and operation of internal control. The Committee of Sponsoring Organizations (COSO) has designed a framework for internal control that consists of three categories of objectives – *operations, reporting and compliance* – and five components – *control environment, control activities, risk assessment, information and communication, and monitoring*. The Government Accountability Office’s “Green Book” - *Standards for Internal Control in the Federal Government* tailors this conceptual framework to the public environment. The “Green Book” is required for federal agencies and is useful to other governments when applying the principles of an internal control framework.

**Criteria:** An internal control framework, such as COSO and/or the Green Book, provides an overall structure for management to design, document, and monitor its internal control policies and procedures. Both within and outside government, management has responsibility for the adequacy of design and operation of an entity’s control structure.

**Condition:** While certain control policies and processes have been documented, there is a lack of formalized documentation and comprehensive internal control structure throughout State government that complies with an accepted framework such as COSO and/or the Green Book. Opportunity exists for a coordinated effort to implement the revised internal control framework and to reassess the design of its current control structure (both statewide and at the individual agency level) with emphasis on risk assessment and monitoring - both essential components of internal control. As the State considers implementing a fully integrated ERP system, which will likely include modification of certain processes and related controls, opportunities exist to evaluate and document amended control procedures consistent with the internal control framework.

**Cause:** Management focus, training and implementation resources have been insufficient to ensure that departments and agencies are adequately documenting their internal control structures to reflect an understanding of its required elements as prescribed by the revised framework.

**Effect:** Control weaknesses could exist and go undetected either through inadequate design or through noncompliance resulting from insufficient monitoring.



## RECOMMENDATIONS

- 2019-004a Commit additional resources to training and implementation materials to ensure that departments and agencies are adequately documenting their internal control structures to reflect an understanding of its required elements as prescribed by the revised framework.
- 2019-004b Implement an internal control assessment and documentation effort to coincide with the implementation of a fully integrated ERP system.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-005**

**(significant deficiency – new finding)**

### EVALUATION OF CONTROLS OVER FUNCTIONS PERFORMED BY EXTERNAL PARTIES

**The State can continue to improve its consideration of controls over functions performed by external parties by enhancing use and documentation of Service Organization Control (SOC) reports provided by the external parties. These improvements are necessary and consistent with management’s responsibility for the overall adequacy of the design and operation of internal control.**

**Background:** SOC reports are provided by service organizations to assure customers/clients that controls are sufficiently designed and in operation over relevant activities. Management of the user entity should use these reports as part of their overall consideration and documentation of the adequacy of the design and operation of internal control.

**Criteria:** Management has responsibility for the adequacy of design and operation of an entity’s control structure including functions performed by external parties.

**Condition:** The State made significant enhancements during fiscal 2019 by training employees and implementing a uniform SOC report assessment tool to document the consideration of controls at the service organizations. Further training and monitoring are needed to ensure all SOC reports are appropriately and consistently evaluated. Additionally, the State must ensure that relevant complimentary user entity (State) controls identified by service organizations are also in place and operating effectively.

When SOC reports identify exceptions, or auditors’ reports on the operation of internal controls are modified due to exceptions, evaluation of such matters must be timely and thorough. The SOC auditor’s report for one of the State’s electronic benefit providers was qualified for multiple exceptions.

**Cause:** The enhancements to the State’s SOC report evaluation process were newly implemented in fiscal 2019 and will improve with continued emphasis and training. Continued training is recommended along with specific monitoring and follow-up with departments and agencies where warranted.

**Effect:** Many functions performed by external parties are material to the State’s overall operations. Deficiencies in the design or operation of controls at service organizations could materially impact the State’s overall controls over financial reporting and compliance.

## RECOMMENDATIONS

- 2019-005a Enhance training and monitoring to ensure compliance with newly implemented SOC report evaluation procedures.
- 2019-005b Ensure that relevant complimentary user entity (State) controls identified by service organizations are also in place and operating effectively.
- 2019-005c Ensure exceptions and auditor report modifications included in SOC reports are evaluated timely and documented regarding the impact on the State’s overall control procedures.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

### **Finding 2019-006**

*(significant deficiency – new finding)*

#### PERIODIC INVENTORY OF CAPITAL ASSETS

**The processes followed for periodic physical inventories of capital assets and the evaluation of inventory results can be enhanced to ensure that accurate capital asset records are maintained.**

**Background:** The Office of Accounts and Control requires departments to perform agency-specific inventory verification for capital assets on a three-year cycle. Inventories are conducted by departmental staff without staff participation from the Office of Accounts and Control. Inventory results are reported to the Office of Accounts and Control which prompts any required accounting adjustments.

**Criteria:** Periodic physical capital asset inventories are a best-practice and important control procedure to ensure the accuracy of the State’s capital asset accounting records.

**Condition:** Cyclical departmental inventories are conducted without participation by the Office of Accounts and Control to ensure completeness and consistency. Inventory results are accepted without sufficient review and inquiry before adjusting the State’s capital asset records. A fiscal 2019 capital asset inventory conducted by the Department of Environmental Management identified a total of \$3.1 million (net book value) of assets that could not be located. Documentation forwarded to the Office of Accounts and Control included required certification by the DEM Director. As a result of the inventory results forwarded by DEM to the Office of Accounts and Control, the assets were removed from the capital asset records. Among the assets that could not be located was a building acquired in 2013 at a recorded cost of \$883,000.

Upon audit inquiry, it was subsequently discovered that the building had been mis-identified by street address which led to the erroneous “asset not found” status. Significant capital assets reported as “asset not found” should prompt robust inquiry and investigation by both the Department and the Office of Accounts and Control before the asset is written-off or removed from the capital asset inventory system.

**Cause:** The Office of Accounts and Control does not actively participate in observing and monitoring the performance of physical capital asset inventories performed by departments. Over-reliance is placed on the certification provided by the departments when assets are not located without sufficient inquiry and investigation for material assets reported as not found.

**Effect:** Capital asset records and the State’s financial statements could be misstated. Physical control of capital assets is diminished when there is insufficient follow-up and consequence for lost material assets.

RECOMMENDATIONS

- 2019-006a Include staff from Office of Accounts and Control on the team performing each cyclical, departmental capital asset inventory.
- 2019-006b Enhance review and inquiry for material capital assets reported as not found before assets are removed from the State’s capital asset inventory records.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-007**

**(significant deficiency – new finding)**

CONTROLS OVER HIERARCHY OF SPENDING RESOURCES

**The State did not comply with its spending hierarchy policy when multiple funding sources existed for a single activity.**

**Background:** Many state activities are funded by multiple funding sources such as federal and restricted revenue sources in addition to general revenue. When multiple funding sources exist, a spending hierarchy must be established which prescribes which source(s) are used first.

**Criteria:** The Office of Accounts and Control has established a spending hierarchy policy, as disclosed in the notes to the financial statements, which establishes the order in which multiple resources are used for a single activity. In general, restricted sources, including federal funds, are used before general revenue or unrestricted sources.

**Condition:** During fiscal 2019, the Department of Human Services adjusted expenditures totaling \$534,000 from a restricted revenue source to a general revenue account with a preexisting deficit (actual expenditures exceeded final budgeted expenditures). The Rhode Island Veterans’ Home is funded by a combination of federal grants, restricted revenue and general revenue appropriations. This action increased the fiscal 2019 deficit for general revenue sources and decreased the allocation of expenditures to restricted sources. This was inconsistent with the stated spending hierarchy policy.

**Cause:** There are no systemic controls within the RIFANS accounting system to ensure compliance with the spending hierarchy policy. The order in which expenditures are applied to multiple funding sources can be complicated by matching requirements for federal funds and specific limitations on the use of federal and restricted funds.

**Effect:** The State is not fully complying with its established spending hierarchy policy, and, in the case of the Rhode Island Veterans’ Home for fiscal 2019, restricted sources were available, but not used, to avert a general revenue deficit for that budget line item.

RECOMMENDATION

- 2019-007 Develop controls to ensure departments and agencies comply with the hierarchy of spending resources policy. Provide additional training and guidance to departmental and agency users as required.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-008**

**(significant deficiency – repeat finding – 2018-006)**

CONTROLS OVER FUND BALANCE COMPONENTS WITHIN THE GOVERNMENTAL FUNDS

**Controls can be enhanced within the accounting system to better track the distinct components of fund balance required for presentation in the fund level financial statements.**

**Background:** Generally accepted accounting principles require that the financial statements reflect fund balance within the governmental funds in the following categories:

- Nonspendable
- Restricted
- Unrestricted:
  - Committed
  - Assigned
  - Unassigned

These classifications signify fund balance that is earmarked for specific purposes and amounts ultimately available for future appropriation. Such classifications are important not only for financial reporting purposes but also from an operational and budget planning perspective.

**Criteria:** GASB Statement No. 54 prescribed the required components of fund balance for governmental funds. Fund balance must be arrayed in these required components to demonstrate amounts available to support future governmental operations including any specific restrictions or amounts earmarked by management or those charged with governance.

Building more functionality into the State’s accounting system to support fund balance presentation by, for example, tracking fund balance changes by source of funds (e.g., general revenues, federal, restricted, etc.) would enhance controls. Building other reconciliation control processes to substantiate the changes in fund balance components between years would also enhance controls.

**Condition:** The process of determining the components of fund balance for financial reporting purposes is more of an “offline” process rather than supported by the accounting system. While the Office of Accounts and Control implemented procedures designed to enhance controls over the calculation of fund balance components, further improvement is required to ensure the completeness and appropriate presentation of fund balance components and to ensure fiscal year activity supports the changes in fund balance components between fiscal years.

**Cause:** These functionalities have not been programmed into the State’s accounting system and other comprehensive reconciliation controls are not currently sufficient to ensure that all known factors are incorporated in the appropriate component of fund balance.

**Effect:** Fund balance components could be misstated in the financial statements. The amount of unassigned fund balance available for appropriation could be over or understated which could result in an inappropriate use of such resources in subsequent budgets.

RECOMMENDATIONS

- |           |                                                                                                                                          |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-008a | Continue to modify fiscal closing procedures within the RIFANS accounting system to support the presentation of fund balance components. |
| 2019-008b | Review and reassess established reconciliation processes to validate the change in fund balance components between fiscal years.         |

**Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

**Finding 2019-009**

*(significant deficiency – new finding)*

ACCOUNTING POLICY FOR INFORMATION TECHNOLOGY INTERNAL SERVICE FUND

**Policies need to be further enhanced to guide the manner in which costs are charged to and reimbursed from the Information Technology internal service fund.**

**Background:** The Information Technology internal service fund was created during fiscal 2018 to distribute various centralized information technology costs of the State to departments and agencies. The costs included in the internal service fund are generally for costs of the Division of Information Technology (Department of Administration) including the operations of the State Data Center. The Information Technology internal service fund accounted for activity totaling \$38.4 million during fiscal 2019.

**Criteria:** Internal service funds are created as a means to distribute common costs to multiple departments and agencies. Internal service funds are intended to operate on a break-even basis and therefore there needs to be appropriate and consistent matching of expenses and charges to user agencies.

**Condition:** The State purchased 4,700 personal computers (desktops and laptops) to replace existing outdated computer equipment and recorded the expense totaling approximately \$3.1 million in the Information Technology internal service fund. Because the cost of each individual computer was less than the State’s capitalization threshold for computer equipment, the asset purchase was not capitalized and was expensed in fiscal 2019. The computers were distributed to departments and agencies in fiscal 2020 and charges to the departments and agencies will commence in fiscal 2020 and for the succeeding four years.

Had the asset purchase been capitalized, the depreciation expense each year would be matched by the user charges to each agency. In this instance, the expense is in 2019 and the user charge revenue will be in fiscal years 2020 through 2024 which is inconsistent with the intent of a break-even operating model for internal service funds. It will also distort operating results in future years.

Accounting policies should be established which provide for consistent recognition of revenue and expense to ensure the internal service fund operates on as close to a break-even model as possible.

**Cause:** The internal service fund was newly established in fiscal 2018 and comprehensive policies are still evolving.

**Effect:** Expenditures within the operating funds of the State (e.g., General Fund) could be misstated due to inappropriate accounting policies employed within the Information Technology internal service fund.

RECOMMENDATION

2019-009      Develop policies consistent with the State’s accounting policies and generally accepted accounting principles to provide for consistent recognition of revenue and expense to ensure the internal service fund operates on as close to a break-even model as possible.

**Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-010**

**(significant deficiency – repeat finding – 2018-009)**

**MONITORING RIFANS ACCESS PRIVILEGES AND AGENCY APPROVAL HIERARCHIES**

**The State can enhance certain system access controls within the RIFANS statewide accounting system.**

**Background:** Authorizing and monitoring access to RIFANS, the State’s centralized accounting system, is a key control over financial reporting. Access roles for all RIFANS users are assigned and controlled through unique passwords. Ensuring access is consistent and appropriate with each individual’s responsibilities is an important control process. Individuals with “Super User” access require specific monitoring procedures due to their unlimited system access and the ability to potentially override established control procedures.

**Criteria:** Controls over system access by users and system administrators is critical to ensure that transactions in RIFANS are properly authorized and recorded for financial reporting purposes.

**Condition:** The State’s lack of adequate monitoring of user and administrator access represents a collective weakness in internal control over financial reporting. There are three distinct, but interrelated areas where the State can improve its monitoring of RIFANS access privileges by implementing reporting functionalities that allow for the periodic review of RIFANS user and administrator access:

- *RIFANS “Super Users”* - Activities of individuals with system administrator or “super user” roles are logged but not reported and reviewed by qualified personnel. These individuals have unlimited access to RIFANS functions and data. Consequently, any RIFANS transactions or activity initiated by system administrators should be monitored. The Division of Information Technology’s (DoIT) policies and procedures require the activities of privileged users (system administrators) to be logged by the system and reviewed for propriety by assigned personnel.
- *Agency Hierarchies* - Access roles for all RIFANS users are controlled through unique passwords. These roles, which are assigned based on job functions and responsibilities, permit access to various system capabilities. Agency hierarchies permit specific transaction types and dollar authorization limits. Other transaction-specific authorization controls are managed through workflow directories within RIFANS. The Office of Accounts and Control (Accounts and Control) is responsible for the design and control of system access by RIFANS users. This “blueprint” of the RIFANS control structure is periodically documented through hierarchies detailing access and approval flows for each department or agency and system workflows documenting the routing of certain types of transactions.
- *RIFANS Delegated Authority* - RIFANS users may delegate their authority to other users in certain situations (e.g., vacation rules). The State implemented a policy that restricts employees from delegating their authority to others with a lower level of authority and requiring notification of the delegation to Accounts and Control in certain circumstances.

The State created a report designed for monitoring changes to the agency hierarchies, authorization thresholds, and other systemic changes; however, there were no procedures in place requiring periodic review of the report by DoIT IT Security personnel who possess sufficient knowledge in IT security protocols to monitor “super user” activity. Further refinements to the report are required to capture all “super user” activity on the system. For example, there are no existing policies restricting super users from effecting changes to their own access or authorization levels. We observed during fiscal 2019 that a super user modified their access and authorization levels without prior authorization.

**Cause:** The State did not have sufficient reporting to allow for comprehensive “super user” access monitoring during fiscal 2019. Using the current accounting system, the tracking of all changes made by “super users” may exceed current capabilities. The State should consider incorporating the need for adequate audit tracking of super user activities when completing its strategic ERP plan.

While the use of reports designed to identify and review changes made to RIFANS access was improved during fiscal 2019, additional efforts are required to ensure that system access is designed properly and is implemented in accordance with that design. Additionally, further modifications are required to existing procedures to ensure that delegated authority, as documented in the new report, is being monitored timely.

**Effect:** Potential for unauthorized transactions being recorded in RIFANS.

### RECOMMENDATIONS

- 2019-010a Enhance current procedures for reviewing the activities of “super users” (system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate. Assess the potential for systemic changes when completing the State’s strategic plan for designing and implementing a fully-integrated ERP system.
- 2019-010b Implement policies regarding “super users” modification of their own access and authorization.
- 2019-010c Improve controls over RIFANS access by ensuring consistent use of the reporting functions and by modifying existing procedures to ensure that all changes are being properly authorized and reflected in agency hierarchies and system workflows.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

### ***Finding 2019-011***

***(significant deficiency – repeat finding – 2018-010)***

### COMPREHENSIVE GENERAL LEDGER CONTROLS OVER RECEIVABLES

#### **Statewide accounting controls over receivables should be enhanced.**

**Background:** Revenues are collected at many points throughout the State and, in many instances, due to volume and complexity (e.g., tax revenues), independent systems must be maintained to control and account for those revenues and related receivables.

Currently, general ledger balances are adjusted at fiscal year-end to match the summary balances reported by the various revenue collecting agencies. Long-term receivables, which are included in the State’s government-wide financial statements, are typically recorded and then reversed each year without a “permanent” general ledger or subsidiary ledger detail record of such amounts.

The lack of an integrated revenue and receivables functionality within the RIFANS accounting system requires that receipts/revenue be recorded via journal entry transactions (directly to the general ledger). Typically, receipts/revenue would be recorded in a separate module with expanded functionality that would interface with and post information to the general ledger.

The Office of Accounts and Control has added certain receivable categories to an existing revenue/receivables module that is part of RIFANS. However, since that module is more designed to track receivables on a unique customer basis, it does not easily match the need to control receivables within the State’s various subsidiary systems (e.g., tax receivables). Other options need to be considered to meet the State’s comprehensive control objectives for receivables, given the complicated and decentralized nature of revenue collection points throughout the State.

During fiscal 2019, a Central Collections Unit (CCU) was created as a separate division within the Department of Revenue. This unit was formed with the intent to collect delinquent debt owed to Rhode Island state agencies through litigation. Debt is referred to the CCU for collection, but receivable balances and revenue ultimately remain with the originating agency. Upon collecting on assigned debt, the CCU remits the funds from their bank account to the agencies.

**Criteria:** Controls are enhanced when there are effective general ledger controls over all receivable balances with periodic reconciliation to detailed subsidiary accounts receivable systems. Additions and reductions (receipts) of receivables should be recorded in aggregate at the general ledger level with the detailed recording at the customer/taxpayer level within the various subsidiary receivable systems.

**Condition:** The State must enhance its comprehensive general ledger controls over amounts owed to the State. Receivable balances are generally maintained by the revenue-collecting department or agency (e.g., Division of Taxation, Courts, and Department of Environmental Management). Summary balances are reported only annually to the Office of Accounts and Control for inclusion in the State’s financial statements. The effectiveness of receivable recording at year-end is dependent upon agencies fully reporting balances to the Office of Accounts and Control and procedures performed by Accounts and Control to identify possible omissions. This manual process provides a level of compensating control but is susceptible to omission. Accounting and monitoring controls over the State’s receivables in aggregate are limited.

Controls can also be enhanced over the newly formed CCU. Certain of the balances referred for collection to the CCU had never been reflected within the State’s general ledger or financial statements as receivables. We also believe that depositing CCU collection receipts in a separate bank account prior to being reflected as cash receipts in the RIFANS accounting system is unnecessary and may result in untimely recognition and require additional reconciliation. Upon collection, receipts can be directly posted and deposited to RIFANS and RIFANS-linked bank accounts.

**Cause:** Inadequate general ledger controls over accounts receivable.

**Effect:** Potential for misstatement or omission of accounts receivable and related revenue in the State’s financial statements.

RECOMMENDATIONS

2019-011a      Explore options to enhance statewide general ledger controls over receivables. Ensure all balances referred to the CCU for collection have been reflected in the RIFANS general ledger and financial statements.

2019-011b      Eliminate use of the separate bank account maintained for the CCU collections.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*



**Finding 2019-012**

**(significant deficiency – repeat finding – 2018-011)**

**FORMAT OF ENACTED BUDGET TO FACILITATE BUDGETARY CONTROL AND REQUIRED BUDGETARY FINANCIAL REPORTING**

**The form and content of the State’s annual operating budget should be enhanced to facilitate alignment with the specific funds used to account for activities and to provide more effective planning, management and monitoring tools.**

**Background:** The State’s financial statements include budgetary schedules to compare budgeted to actual results. The State prepares budgetary comparison schedules on a fund basis while the budget is enacted on a comprehensive, state-wide basis. Budgetary comparison schedules are included in the State’s financial statements for the General Fund, Intermodal Surface Transportation Fund (IST), Temporary Disability Insurance Fund and RI Capital Plan Fund.

**Criteria:** Generally accepted accounting principles require budgetary comparison schedules be included in governmental financial statements. Effective budgetary control requires continual measurement of actual to budgeted amounts. The format of budgets should reflect current operations and provide meaningful information to measure performance.

**Condition:** Because the enacted budget is presented on a comprehensive, state-wide basis, significant effort is required to disaggregate the budget data for comparison with the fund level information reported in the State’s financial statements. In addition, certain budgetary resources and outlays on an individual fund budget presentation are omitted from the comprehensive budget presentation to avoid duplication.

Net income from the Lottery is a General Fund “revenue” source for the State budget; however, the enacted budget also includes certain operational expenses of the Lottery. This is an example of a budget presentation component that doesn’t align with financial reporting practices. Inclusion of a separate proforma operating statement for the Lottery in the annual budget which supports the budgeted net income transfer to the General Fund may be more appropriate.

Transportation activities included in the annual budget are so highly summarized (e.g. infrastructure-engineering) that it limits effective analysis of the budget as a financial compliance and management tool. Transportation funding and activities have significantly changed in recent years without changes in the budget presentation. The enacted budget does not include all the transportation related activity which is now accounted for within five separate special revenue funds which for financial reporting purposes, are combined. A complete transportation budget which corresponds with all activity reported in the IST Fund is needed for this significant component of overall State operations.

**Cause:** The State’s annual enacted budget is prepared on a comprehensive basis by governmental function which encompasses multiple funds. The format of the budget and the budgetary comparison schedules required for financial reporting purposes are not aligned. The format of the budget information for transportation activities is highly aggregated and hasn’t been revised to reflect current operations and to serve as a meaningful management tool.

**Effect:** The current format of the operating budget and the budgetary comparison schedules limits the effectiveness of the information provided as planning, management and monitoring tools. The budgetary comparison schedule preparation process is prone to error and requires significant year-end effort to ensure that the information is correct and corresponds to financial statement amounts and the enacted budget.

## RECOMMENDATIONS

- 2019-012a Improve the presentation of the budget amounts for transportation activities. Consider changes in the level of detail and include all transportation activity.
- 2019-012b Modify how the Lottery operations are included in the annual budget by including a separate pro forma operating statement supporting the net transfer to the General Fund.
- 2019-012c Include fund information within the budget to facilitate recording the budget in the accounting system and preparing budget-to-actual comparisons.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

### **Finding 2019-013**

**(material weakness – repeat finding – 2018-014)**

## CONTROLS OVER FEDERAL PROGRAM FINANCIAL ACTIVITY

**The State can 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.**

**Background:** Federal programs represented 39% of fiscal 2019 General Fund expenditures. Financial reporting risks include categorizing expenditures as federally reimbursable when grant funds have either been exhausted or the expenditures do not meet the specific program limitations. Further, the State can improve its overall centralized monitoring of federal program operations to ensure compliance with federal requirements.

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.

**Criteria:** Federal revenue and expenditures recorded by the State must be consistent with the limitations of grant awards from the federal government and claimed expenditures on federal reports must be consistent with amounts recorded in the State’s accounting system.

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

The Office of Accounts and Control requires departments to complete a Federal Grants Information Schedule (FGIS) to reconcile RIFANS program activity with amounts drawn and claimed on federal reports. The FGIS process is not effective and there is no other statewide control measure to ensure that grant expenditures do not exceed available award authority.

In conjunction with our audits of federal programs, we have observed the following examples that highlight the lack of adequate controls over recording federal activity:

*Medicaid* – During fiscal 2019, we became aware of a CMS Medicaid program deferral totaling \$11.2 million relating to expenditures claimed in prior years. Due to a lack of accounting control over federal grant authorizations, the State did not make the necessary adjustments in the accounting system and federal reports to reflect this funding deferral. The deferral related to compliance with time limitations for a program initiative funded by Medicaid. Reversal of the deferral is now being pursued, but the deferral went unrecognized due to inadequate controls over grant awards.

*Supplemental Nutrition Assistance Program (SNAP)* – At fiscal year end June 30, 2019, the State recorded a federal receivable for the SNAP program of \$4.9 million. Available award authority was just \$576,000 at that date. Upon audit inquiry, requests for a supplemental award were made.

The State’s RIFANS accounting system does not meet the State’s needs in three important and interrelated areas – time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to management of federal programs. These functions are currently performed independent of RIFANS and generally through multiple departmental systems - most of which are duplicative and utilize old and sometimes unsupported technology.

**Cause:** Sufficient controls have not been implemented within the statewide accounting system to ensure amounts are consistent with the limitations of grant awards from the federal government and claimed expenditures on federal reports are consistent with amounts recorded in the State’s accounting system. The current FGIS process is ineffective.

Enhanced statewide accounting functionalities that support time reporting/payroll, grants management, and cost allocation are being contemplated through the strategic plan initiative which recognizes the need for a grants management component within the overall planned ERP implementation.

**Effect:** Federal revenue could be overstated and not detected for financial reporting purposes. The share of program costs allocable to funding sources (e.g., general revenue vs. federal) could be misstated.

RECOMMENDATION

2019-013      Implement controls to ensure that the allocable share of federal program expenditures is consistent with grant award limitations. Reassess the current FGIS process with the goal of enhancing compliance and effectiveness.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-014**

**(significant deficiency – repeat finding – 2018-012)**

**MONITORING RESPONSIBILITY FOR FUNDS ON DEPOSIT WITH FISCAL AGENTS**

**Responsibility for monitoring the investment activity and other compliance aspects of funds on deposit with a fiscal agent (trustee) should be vested with the Office of the General Treasurer.**

**Background:** At June 30, 2019, \$329 million was on deposit with fiscal agents (trustees). These amounts generally are bond or certificate of participation proceeds pending disbursement for projects. Amounts are invested pending disbursement. At June 30, 2019, investments included government debt securities, commercial paper, certificates of deposit and money market funds.

**Criteria:** The safety and liquidity of investments made from undisbursed debt proceeds, as well as compliance with permitted investment limitations, should be actively monitored. The Office of the General Treasurer has similar responsibilities for other State funds and is the appropriate choice to effect appropriate oversight of these balances.

**Condition:** Responsibility among various State agencies for monitoring investment activity for funds on deposit with a fiscal agent remains fragmented without sufficient oversight and monitoring. Efforts to improve oversight and monitoring by the Office of the General Treasurer during fiscal 2019 were incomplete and require additional effort. The nature and timing of specific monitoring procedures can be better defined and coordinated.

We noted cash reserves of \$97 million of the \$329 million balance at June 30, 2019 were uninsured and uncollateralized.

**Cause:** The Office of the General Treasurer generally has responsibility for investment of State funds. Because these amounts are held by trustees and invested independently, they have not historically been included within the oversight of the Office of the General Treasurer and no other State agency has been designated specific responsibility. During fiscal 2019, the Office of the General Treasurer began discussion of required procedures, but oversight was not fully implemented.

**Effect:** Funds held by fiscal agents are insufficiently monitored to ensure safety, liquidity and compliance with debt related covenants.

**RECOMMENDATION**

2019-014      Complete implementation of effective oversight and monitoring responsibilities for funds on deposit with fiscal agents.

**Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-015**

*(significant deficiency – new finding)*

**BANK RECONCILIATIONS – SEGREGATION OF DUTIES**

**The State can enhance controls by assigning all bank account reconciliations to the Office of the General Treasurer Business Office - Reconciliation Team.**

**Background:** Two new bank accounts were opened in fiscal year 2019 for (1) collection of Department of Transportation Rhode Island Turnpike and Bridge Authority (RITBA) bridge maintenance tolls and (2) collection of delinquent debts by the Department of Revenue Central Collection Unit (CCU).

The Office of the General Treasurer Business Office - Reconciliation team typically performs the function of reconciling State bank accounts to the general ledger. The State also has 106 accounts (collateralized deposit, insured cash sweep municipal money market, and Ocean State Investment Pool) for short term investments maintained by the Office of the General Treasurer as of June 30, 2019.

**Criteria:** Appropriate controls over cash receipts and disbursements require proper segregation of duties. Authorization of transactions and movement of funds should be separate from functions related to the reconciliation of bank and general ledger balances.

**Condition:** Bank to general ledger reconciliations for RITBA and CCU accounts are not being prepared by the Office of the General Treasurer Business Office - Reconciliation Team.

The Office of the General Treasurer Cash Management employees who are directly involved in the authorization and movement of funds in short term investment accounts are currently preparing the bank to general ledger reconciliations for short term investments.

**Cause:** The Office of the General Treasurer Business Office - Reconciliation team has not been assigned the responsibility of reconciling the bank to general ledger accounts for these accounts.

**Effect:** Lack of adequate segregation of duties within the reconciliation function could result in unauthorized transactions and increases the risk of material misstatement due to fraud or error.

**RECOMMENDATION**

2019-015      Assign the bank to general ledger reconciliation process for RITBA, CCU, and short-term investment accounts to the Office of the General Treasurer Reconciliation team.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-016**

*(significant deficiency – new finding)*

BANK ACCOUNTS – AUTHORIZED SIGNERS

**The State can enhance controls over cash disbursements by ensuring authorized signers on State bank accounts are current.**

**Background:** Authorized signatories for bank accounts under the control of the General Treasurer are provided to each financial institution.

**Criteria:** Authorized signers on bank accounts should be limited to appropriate designated signatories who are active employees to ensure there is no misappropriation of assets.

**Condition:** There are eleven State deposit accounts with six banks under the control of the General Treasurer that continue to have a former Office of the General Treasurer employee listed as an authorized signer well after their termination from the Office of the General Treasurer.

**Cause:** The process to ensure timely removal of terminated employee signers from State bank accounts was not followed.

**Effect:** Maintaining State bank accounts with terminated authorized signers on the accounts could result in unauthorized transactions and increases the risk of material misstatement due to fraud or error.

RECOMMENDATION

2019-016      Maintain current authorized signers for all State bank accounts and make timely notification and adjustments when personnel changes occur.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-017**

*(significant deficiency – new finding)*

FAITHFUL PERFORMANCE BONDS – OFFICE OF THE GENERAL TREASURER

**The State must ensure faithful performance bonds are maintained for key public officials performing critical treasury functions.**

**Background:** Public officials are required to be bonded as a way to hold them financially accountable for decisions and actions.

**Criteria:** State General Law 42-10-3 states that “the general treasurer is hereby empowered, from time to time, to appoint one or more deputies under him or her who shall be engaged to the faithful performance of his or her duties, and shall, before entering the duties of his or her office, give bond to the state with sufficient sureties to the satisfaction of the governor, in the sum of five hundred thousand dollars (\$500,000) for the true and faithful performance of the duties of his or her office; which bond shall be deposited with and kept by the secretary of the state. The general treasurer shall be liable for any misconduct, neglect, or default of those deputies”.

**Condition:** As of June 30, 2019, faithful performance bonds had not been obtained for two key Office of the General Treasurer positions – the Chief of Staff and Cash Manager who entered these positions during fiscal year 2019.

**Cause:** The required bonding process was not completed before the Chief of Staff and Cash Manager began their duties.

**Effect:** Failure to maintain faithful performance and honesty bonds for key individuals could expose the State to potential loss in the event of misconduct or misappropriation.

RECOMMENDATION

2019-017      Maintain current public official bonds when personnel changes occur in the Office of the General Treasurer.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-018**

*(significant deficiency – new finding)*

DEPARTMENT OF LABOR AND TRAINING – TDI BENEFIT OVERPAYMENTS RECEIVABLE

**The Department of Labor and Training (DLT) Business Affairs Office should improve procedures to ensure that accurate receivable balances are maintained and reported to the Office of Accounts and Control for financial reporting purposes.**

**Background:** The DLT Business Affairs Office is responsible for maintaining accurate accounts receivable balances and transmitting these balances to the Office of Accounts and Control for inclusion in the State's financial statements. Receivables result from overpayments to temporary disability beneficiaries.

**Criteria:** Detailed subsidiary receivable balances should be maintained and reconciled to general ledger balances and cash receipt collections.

**Condition:** The TDI Benefit Overpayment receivable balance at June 30, 2019, as originally submitted to the Office of Accounts and Control, was negative and unsupported by other departmental reporting. A material audit adjustment was required to correct the balance for financial reporting purposes.

**Cause:** DLT was transitioning receivable balances to a new system. Department management did not sufficiently review and consider the appropriateness of reporting negative receivables to the Office of Accounts and Control. Reconciliation of subsidiary to control balances were ineffective for this receivable balance.

**Effect:** Without correction the financial statement for the TDI Benefit Fund would have been materially misstated.

RECOMMENDATION

2019-018      Monitor accounts receivable balances, including recoveries, so that accurate balances can be maintained and submitted to Accounts and Control for financial reporting purposes.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-019**

*(significant deficiency – repeat finding – 2018-015)*

DIVISION OF INFORMATION TECHNOLOGY – DISASTER RECOVERY TESTING

**The State should formalize identification of major systems, standardize application testing, and incorporate business continuity planning within its overall disaster recovery testing.**

**Background:** Periodic tests of the disaster recovery plan are a vital component of an overall business continuity plan to increase the likelihood that critical systems can be restored should a disaster disable or suspend operations at the State’s data center. DoIT has a designated disaster recovery facility in New Jersey (operated by a vendor).

**Criteria:** Industry best practices stipulate that disaster recovery testing be performed twice a year to accommodate the ever-changing systems environment. The State should perform a full disaster recovery test at least annually. Also, off-site storage of backups should be geographically diverse enough to successfully recover from a regional disaster.

**Condition:** The State continued tests of its disaster recovery plan during fiscal 2019; however, a list of prioritized major systems needs to be developed. In addition, while further progress was noted in restoration of specific applications not all aspects of major systems were sufficiently tested. For example, due to time limitations, in some instances the system and database were recovered, but there was insufficient time to fully validate the application functionality.

**Cause:** Major system identification and prioritization has not been formalized. Sufficient time was not allotted to test all systems thoroughly. In addition, a repeatable level of application testing has not been formally established nor has business continuity planning been incorporated in disaster recovery testing.

**Effect:** Incomplete disaster recovery testing reduces the assurance that all mission critical systems can be restored, should a disaster disable or suspend operations.

RECOMMENDATIONS

- 2019-019a      Formalize the identification and prioritization of major applications within disaster recovery tests at the State’s designated disaster recovery site.
- 2019-019b      Establish a repeatable level of application testing and incorporate business continuity planning within periodic disaster recovery testing.

**Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.***



**Finding 2019-020**

**(material weakness – repeat finding – 2018-016)**

**DIVISION OF INFORMATION TECHNOLOGY – PROGRAM CHANGE CONTROLS**

**The State does not follow uniform enterprise-wide program change control procedures for the various IT applications operating within State government. This increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.**

**Background:** Program change controls are a critical component of any IT control environment, which ensures that only authorized changes are made to programs (after adequate and sufficient user acceptance testing) before being placed into a production environment. Additionally, program change control procedures prevent and detect unauthorized program modifications from being made.

Almost all custom-developed computer applications require changes and/or updates throughout their production lifecycles. Consequently, these customized, home-grown applications require a formalized change management system to ensure that only authorized changes are made.

While some agencies have formally implemented program change controls, a standardized statewide approach has not been implemented.

**Criteria:** The State’s change management process should be standardized so that all movement of code, modifications, testing, acceptance, and implementation provide management with a tracking history and record of approvals. This leads to consistent outcomes, efficient use of resources, auditability, and enhanced integrity of the application systems, which flow through the process. Automated tools help control this process and make the process consistent, predictable, repeatable and aids in the reduction of “human error” in the process.

DoIT should develop procedural guidance that details the correct use of change management software and mandated internal control practices and procedures, thus ensuring a documented, monitored, auditable, and repeatable process.

**Condition:** The State lacks a uniform enterprise-wide program change control management process for the various IT applications operating within State government. This led to inconsistent methods, as well as noncompliance and circumvention of DoIT’s change control policy and procedures. In a number of instances, automated change control system procedures were lacking to substantiate that only authorized and proper changes had been implemented.

**Cause:** Various methods are used to control program change management which rely mostly upon manual and semi-automated procedures that incorporate emails, memorandums and other paper-based forms to document application changes. In response to prior audit recommendations made since fiscal 2007, DoIT has attempted to implement change control software.

**Effect:** A lack of a uniform enterprise-wide program change control management process increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

RECOMMENDATIONS

- 2019-020a      Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.
- 2019-020b      Determine the appropriate combination of operational, procedural and/or technical adjustments required to use change management software to result in adequate program change control for the entire enterprise.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-021**

***(significant deficiency – repeat finding – 2018-017)***

DIVISION OF INFORMATION TECHNOLOGY – COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES AND PERIODIC RISK ASSESSMENTS

**The State can enhance its enterprise-wide security policies and procedures and communication of these policies and procedures with State agencies. Additionally, the State can enhance its ongoing security posture by periodically performing risk assessments to identify if mission critical systems comply with IT policies and procedures.**

**Background:** The Division of Information Technology (DoIT) within the Department of Administration (DOA) has responsibility for the State’s varied and complex information systems. This includes ensuring that appropriate security measures are operational over each system and the State’s information networks. Information security is critically important to ensure that information technology dependent operations continue uninterrupted and that sensitive data accumulated within State operations remains secure with access appropriately controlled.

A cybersecurity review which included a comprehensive risk assessment of information technology security was completed during fiscal 2018 by an external vendor.

Periodic comprehensive technology risk assessments are key to uncovering underlying vulnerabilities in the environment as well as providing guidance on where to best spend limited assets to reduce risk. Recent cybersecurity attacks demonstrate the ongoing need to periodically assess the technology infrastructure for threats.

During our audit we focused on the following mission critical systems due to their impact on the State’s financial reporting: RIFANS, STAARS, RIBridges, MMIS, DMV- RIMS, and DLT Benefit and Revenue systems.

**Criteria:** Risk assessment policies and procedures must be documented (National Institute of Standards and Technology – NIST RA-1). Risk assessments should be performed every three years or whenever there are significant changes (e.g. new system implementations) (NIST RA-3).

The oversight and management of the State’s information security program relies upon the implementation of DoIT’s comprehensive information systems security plan, which includes detailed policies and procedures that are designed to safeguard all the information contained within the State’s critical systems.

Assessments of compliance to IT policies and procedures for all critical IT applications should be performed on a periodic basis as part of the risk assessment.

**Condition:** The State has updated and created new policies and procedures for its critical information systems; however, it has lagged in approving, communicating, and implementing these policies. Further, the State has not implemented a practice of conducting security risk assessments on a cyclical basis to determine whether its IT systems comply with State IT security policies and procedures.

Due to the number and complexity of systems within State government, a risk-based approach should be employed where those systems deemed most critical, or most at risk, are prioritized.

The State should make continued use of external system assessments and reviews to complement on-going risk assessment monitoring. When State systems are operated by external parties or interface with external processing entities, these entities often provide Service Organization Controls (SOC) reports, which describe key controls within the application or organization and testing of the operational effectiveness of those controls. These reports should be accumulated and reviewed within DoIT as part of a risk-based approach to assessing and ensuring IT security compliance. Any user-entity controls identified in the SOC reports should be considered, evaluated and documented. This may assist in expanding coverage of the State’s many systems considering the minimal resources allocated to this function.

**Cause:** The State maintains IT security policies and procedures; however, they are not regularly updated and appropriately communicated with State agencies.

Policy and practice to perform comprehensive information security risk assessments is improving but can be further enhanced.

**Effect:** Critical systems may be exposed to security vulnerabilities and cyber-attacks when comprehensive information security risk assessments are not performed routinely. This could impact the State’s ability to ensure continued operation of mission critical systems,

RECOMMENDATIONS

- |           |                                                                                                                                                                                                                                                                                                                     |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-021a | Continue to update IT security policies and procedures to ensure such policies and procedures conform to current standards and address all critical systems security vulnerabilities.                                                                                                                               |
| 2019-021b | Perform risk assessments at least once every three years with the results documented and communicated to management for action. Contract for the performance of IT security compliance reviews and make use of available Service Organization Control reports to extend IT security monitoring of critical systems. |
| 2019-021c | Prepare a plan that prioritizes significant system security risks with the goal of achieving compliance with DoIT’s formalized system security standards for all significant State systems.                                                                                                                         |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-022**

**(significant deficiency – repeat finding – 2018-019)**

**DIVISION OF TAXATION – STAARS FINANCIAL REPORTING IMPACTS**

**Processing functionalities within the Division of Taxation’s STAARS system result in a volume of returns held in suspense pending resolution. This complicates financial reporting estimates due to the uncertain effect of returns that had not fully processed at fiscal year end.**

**Background:** The Division’s State Tax Administration and Revenue System (STAARS) system functionalities suspend returns from complete processing when any variety of conditions exist. A significant volume of returns remains in suspense (posted exceptions report) until workers resolve the issue thereby allowing the return to complete processing. The volume of returns has decreased as the system matures and additional system experience is gained.

**Criteria:** Revenue recognition for financial reporting purposes involves estimating the effect of returns received but awaiting full processing to determine the likely revenue impact. Other revenue estimates are developed on historical filing patterns which are impacted by complete processing of returns and system data for a tax year.

**Condition:** For returns held in suspense at fiscal year end, the cause for suspension is not easily used as a basis for estimating the revenue impact (i.e., result in no revenue impact, a refund liability or a receivable) upon final processing. Worker intervention is required to clear system processing edits and exceptions.

Based on our testing, the amounts listed and cause for return suspension continue to be unreliable as an appropriate indication of taxes owed or refunds due. This indicates that suspended return information must be carefully evaluated when considered for financial reporting purposes.

The Division asserts that the suspension of returns is an intended consequence of the STAARS system design which has enhanced screening to suspend invalid returns. The Division claims that suspended return activity is now approaching a normally expected volume. The Division is better utilizing the system functionalities to prioritize worker efforts based on seasonal demands and other operational considerations. Systemic clearance of suspended returns has also been effectively employed. However, the volume of returns still requires consideration for financial reporting purposes. As part of the fiscal closing process additional analysis can be performed to identify unusual items requiring immediate correction, reduce the overall volume where possible, and to support year-to-year comparison of the volume of suspended returns pending clearance by category.

**Cause:** STAARS employs higher-level edits for more effective and controlled processing; however, the volume of returns pending resolution/clearance can be significant. The Division can continue to increase its use of advanced analytical tools, in concert with the STAARS development vendor, to (1) prioritize resolution efforts for items included on the posted exceptions report, and (2) apply “system” resolutions to groups of returns to reduce the number of returns requiring staff intervention.

**Effect:** The resolution of returns held in suspense could affect revenue amounts used for financial reporting.

RECOMMENDATIONS

- 2019-022a Continue to utilize advanced analytical tools to (1) prioritize resolution efforts for items included on the posted exception report, and (2) potentially apply a system resolution to groups of returns to reduce the number of returns requiring staff intervention.
- 2019-022b Perform additional analysis at fiscal close to identify unusual items requiring immediate correction, reduce the overall volume where possible, and to support year-to-year comparison of the volume of suspended returns pending clearance by category.

***Auditee views: The auditee disagrees with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-023**

**(significant deficiency – repeat finding – 2018-022)**

DIVISION OF TAXATION – STAARS SYSTEM ACCESS

**Monitoring of STAARS system user access rights can be further enhanced to ensure access is consistent with and appropriate for each employee’s responsibilities. User access rights should be modified timely when responsibilities change and terminated immediately when terminating employment.**

**Background:** User access roles control the specific functions that an employee may perform within their scope of duties and the data within a system that they are allowed to access.

In fiscal 2019, an oversight function was added to better monitor access to STAARS.

**Criteria:** System access controls should be designed and monitored such that users have access tailored to their specific job functions and duties yet maintain appropriate segregation of duties.

**Condition:** While there was noted improvement in timely monitoring and modification of system access when required, we found one individual with “super-user” access which was inappropriate and unintended and two temporary employees who were found to have access that continued in excess of one-month after their last log-in date.

**Cause:** During a system implementation, user access is often broader than ultimately necessary. A Security Management Plan was developed that outlines access control policies and procedures and the use of role management within STAARS. Full review and mitigation of STAARS access management is expected to be completed by December 2020.

**Effect:** Excessive system access could lead to unauthorized access to restricted data and/or data manipulation.

RECOMMENDATION

- 2019-023 Complete a thorough review of system access for all STAARS users to ensure user access is appropriately limited and consistent with each user’s specific job function and responsibilities.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-024**

**(significant deficiency – repeat finding – 2018-023)**

DIVISION OF TAXATION – CONTROLS OVER COUNTER TAX COLLECTIONS

**Controls should be improved over the counter tax collections accepted at the Division of Taxation by upgrading the cashiering technology and integrating that functionality into the Division’s STAARS system.**

**Background:** The vast majority of tax payments are received electronically or through mail payments, however, some taxpayers make payments in person at the Division of Taxation. Such payments totaled approximately \$50.8 million in fiscal 2019. A cashiering application was internally developed more than a decade ago that lacks appropriate information technology controls. Additionally, the cashiering application is not integrated with the Division’s new STAARS system.

The necessary funding to replace the existing counter tax collection application was secured and a Request for Proposal was issued in fiscal 2019 to procure a replacement system.

**Criteria:** Adequate application controls must be in place to ensure taxpayer payments are properly recorded and identifiable to the individual employee processing the transaction. Per National Institute of Standards and Technology (NIST) – Information Technology Lab (ITL) bulletin 1997-03, “Audit trails are a technical mechanism that help managers maintain individual accountability”.

**Condition:** The cashiering application lacks an appropriate audit trail to identify the employee performing the transaction, sufficient password access controls, and data back-up procedures. The system is not integrated with STAARS. A manual process is required to create the transaction record so it can be scanned and processed to post to the taxpayer’s account.

Funds were approved and responses to requests for proposals are being evaluated for a project to replace the counter cashiering system.

**Cause:** This results from outdated technology and lack of integration and upgrade upon implementation of the new STAARS system.

**Effect:** Controls over tax collections made in person at the Division of Taxation are weakened.

RECOMMENDATION

2019-024      Complete the planned application implementation and related technology upgrades used to process counter payments at the Division of Taxation and ensure the cashiering application is integrated to the Division’s STAARS system.

**Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-025**

**(significant deficiency – repeat finding – 2018-025)**

DIVISION OF MOTOR VEHICLES – REVENUES COLLECTED FOR USE WITHIN THE INTERMODAL SURFACE TRANSPORTATION (IST) FUND

**Controls can be improved over the recording of license, registration and surcharge fees collected by the Division of Motor Vehicles (DMV) and deposited in the IST Fund.**

**Background:** The DMV collected and remitted revenues totaling \$72.9 million of taxes and \$24.0 million of licenses, fines, sales and services revenue for recording in the IST Fund during fiscal 2019.

**Criteria:** DMV must have controls in place to ensure the completeness of revenue reflected within the IST Fund. RI General Law 39-18.1 designates certain fees to be deposited in the IST Fund for transportation purposes.

**Condition:** DMV lacks effective controls to ensure that all revenues collected by the DMV for deposit within the IST Fund have been recorded. RIDOT should have procedures in place to provide reasonable assurance that the appropriate fees have been earmarked for the IST Fund and have been received and recorded as revenue. This should include documentation of the fee structure identified by RI General Law 39-18.1, the surcharge amount being applied to each DMV transactions code, and how the DMV computer system is programmed to identify such amounts for the IST Fund. RIDOT and the DMV should periodically assess the reasonableness of the actual revenue recognized for recording in the IST Fund. We identified the following control deficiencies:

- There is no monthly or yearly reconciliation performed between RIFANS and the Rhode Island Modernization System – (RIMS) to ensure that RIMS data supports the revenue recorded in RIFANS.
- There is no “cross-walk” of the fee structure identified by RI General Law for licenses, registrations, surcharges, etc. and how the DMV computer system is programmed to identify such amounts. Changes to the General Laws affecting fees should be documented to ensure RIMS programming changes are appropriate and consistent with the law.
- Overages/Shortages are not tracked separately in RIFANS but are netted against registration fee revenue. A RIFANS account number should be created to track these separately.
- Manual write offs are not recorded in RIMS; they are maintained outside of the system. Manual write offs should be recorded within RIMS to maintain a log of the adjustments and to facilitate RIMS/RIFANS reconciliation.
- Deposit date within the RIMS system is pre-populated – the date should reflect the actual deposit date to allow matching RIMS activity to RIFANS receipt entries.

**Cause:** The DMV’s focus has been on successful system implementation, while using the system for enhanced monitoring of compliance with statutory revenue requirements and enhancing the control environment has not been fully explored.

**Effect:** Controls to ensure the completeness of the DMV revenues earmarked for transportation purposes within the IST Fund are ineffective.

## RECOMMENDATIONS

- 2019-025a Strengthen and document control procedures over the fees collected by the Division of Motor Vehicles (DMV) and transferred to RIDOT to ensure compliance with RI General Law Chapter 39-18.1. Implement monitoring procedures to assess the reasonableness of revenue amounts collected by the DMV for deposit in the IST Fund.
- 2019-025b Perform a reconciliation between RIFANS and RIMS on a monthly and annual basis to ensure the data in RIMS supports the revenue recorded in RIFANS.
- 2019-025c Establish a process and control structure to document the DMV’s review of the General Laws related to changes in its fee structure and ensure any changes are properly made to RIMS and any relevant excel files used to support the recording of revenue into RIFANS.
- 2019-025d Establish new accounts to record overages and shortages. Record the actual deposit date in the RIMS deposit date field.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-026**

**(significant deficiency – repeat finding – 2018-028)**

### DIVISION OF MOTOR VEHICLES – SYSTEM SECURITY PLAN – RIMS

**A comprehensive system security plan should be implemented to guide timely consideration of all critical system security requirements.**

**Background:** Security procedures and related documentation are still being developed for the DMV RIMS system which was implemented during fiscal 2019. A strong and well-designed information security program is essential for protecting an organization’s communications, systems, and assets from both internal and external threats.

**Criteria:** Per NIST 800-53, PM-2, “The organization appoints a senior information security officer with the mission and resources to coordinate, develop, implement, and maintain an organization-wide information security program.”

Per NIST SP800-18, “The purpose of the system security plan is to provide an overview of the security requirements of the system and describe the controls in place or planned for meeting those requirements. The system security plan also delineates responsibilities and expected behavior of all individuals who access the system.”

A data inventory is essential for identifying and tracking an organization’s financial data, intellectual property as well as other sensitive data such as personally identifiable information, in addition to helping organizations apply required access controls and security safeguards.

**Condition:** A draft System Security Plan has recently been developed in conjunction with DoIT but has not yet been completed and implemented.

There was no assigned Senior Information Security Officer in place during fiscal 2019.

A sensitive data inventory should be maintained for the DMV RIMS database.

Formal Incident Response training (such as handling a data breach) was not provided for employees.

**Cause:** The DMV had been focused on the complete implementation of RIMS - additional focus is needed on the key elements of a well-designed information security program.



**Effect:** The lack of a documented System Security Plan places the DMV at risk as no one person in the organization has the full overall understanding of the required security controls in place. Without such a document, it is also difficult to assess where deficiencies may exist, and additional controls are needed.

The overall information security program is weakened in the absence of a senior information security officer.

The lack of a sensitive data inventory leaves data susceptible to unauthorized access, theft, and loss. Understanding the type of data collected, where it is held, whom has access, and how it is transferred is a critical component of data privacy and data security programs. In the event of a data breach, the organization would not be able to quickly and accurately identify which data was accessed and/or lost. Additionally, if data is not properly classified, inventoried, and stored, unauthorized users within the organization may be able to access sensitive/confidential data.

### RECOMMENDATIONS

- |           |                                                                                                                                                         |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-026a | Complete the development, review and approval of the System Security Plan and once implemented, assess compliance with the designated security program. |
| 2019-026b | Establish a senior information security officer function to manage security oversight.                                                                  |
| 2019-026c | Implement procedures to classify and inventory sensitive data within the RIMS database.                                                                 |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-027**

*(significant deficiency – repeat finding – 2018-027)*

### DIVISION OF MOTOR VEHICLES – BUSINESS CONTINUITY PLAN

**The Department of Revenue – Division of Motor Vehicles should finalize and test a Business Continuity Plan (BCP) to ensure that critical business processes can continue during a time of emergency or disaster.**

**Background:** Business Continuity Plans help to ensure that critical business processes can continue during a time of emergency or disaster. By documenting and testing business contingency plans that would be performed by agency personnel in the event of an emergency, they complement disaster recovery plans so business operations can continue as IT applications and infrastructure are recovered.

A successful recovery of agency IT systems per the disaster recovery plan by itself is insufficient to fully resume key business operations. Key personnel identified in the BCP are necessary to communicate information to agency employees (e.g. where to report for work, changes in connection and login information) to continue agency business operations.

**Criteria:** NIST Special Publication 800-34 discusses key items needed for contingency planning including having a Business Continuity Plan. This is also an industry best practice.

**Condition:** A draft Business Continuity Plan was developed during fiscal 2019 but has not yet been finalized or tested. The RIMS system is a critical State system with multiple interfaces to other state agencies, that, in the event of disruption, could impact critical state operations.

**Cause:** The DMV was focused on various competing priorities in fiscal 2019.

**Effect:** Without a fully implemented BCP plan, there is increased risk of failure to resume normal business operations in the event of an incident or disaster.

RECOMMENDATION

2019-027 Finalize and test a Business Continuity Plan covering critical DMV operations and focusing specifically on RIMS system functionalities.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-028**

**(significant deficiency – repeat finding – 2018-029)**

INTERMODAL SURFACE TRANSPORTATION FUND – FINANCIAL REPORTING

**Controls can be enhanced over the presentation of financial statements to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles.**

**Background:** The Intermodal Surface Transportation (IST) Fund, a special revenue fund, includes financial reporting for transportation related activities of the State, including the highway construction programs, 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, various license and registration fees collected by the Division of Motor Vehicles, toll revenues, in addition to the funds received from the sale of excess land to the I-195 Redevelopment District Commission.

**Criteria:** Controls over the preparation of financial statements should ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles. Additionally, fund balance components are to be presented in accordance with generally accepted accounting principles (GASB codification section 1800 paragraphs 177 and 179) reflecting any restrictions on use or commitments by management. Classification of fund balance components, particularly within the IST Fund, demonstrates amounts available to support the transportation program consistent with any limitations or restrictions on use.

**Condition:** During our audit, we identified misclassifications of various fund balance categories which were corrected in the financial statements.

Due to the multiple computer systems used by RIDOT, the department must identify accounts payable within each subsystem. The use of those systems makes the identification of accounts payable more challenging. There were several transactions included in accounts payable, which the Department subsequently determined were either previously paid or not liabilities. Additionally, the accounting structure between RIFANS and the other systems are not the same, causing the department to manually assign RIFANS accounting structures to thousands of detailed transactions to record the accounts payable.

Accounts payable were booked to clearing accounts, causing the expenditures to be associated with an incorrect funding source. This resulted in incorrect federal revenue and federal receivable amounts reflected in the draft financial statements.

RIDOT recorded debt service principal payments of \$37,580,000 as interest and other charges in error.

The Department recorded expenditure reimbursements totaling \$355,315 as Departmental Restricted Revenue, when it is the Department’s policy to record such collections as expenditure credits.

RIDOT did not record an adequate allowance for uncollectible tolls receivable – an allowance of \$615,072 (\$258,050 for tolls and \$357,022 for administrative costs) was established through audit adjustment for financial reporting purposes.

**Cause:** Financial reporting for the IST Fund grows in complexity as additional funding sources are added to support the State’s transportation program. Certain of the distinct funding sources are maintained in separate funds; however, for financial reporting purposes all the transportation related funds are combined. Although combined for financial reporting purposes, each activity or funding stream requires separate analysis to ensure amounts (revenue and expenditures) are accurately reported. Classification of fund balance by category – nonspendable, restricted, committed, assigned, and unassigned - is dependent upon the analysis of each activity and/or funding stream (federal, Highway Maintenance Fund, RICAP, Gas Tax, etc.). RIDOT did not fully reconcile all the funding sources to fund balance components. A full reconciliation is necessary to identify expenditures and/or revenue booked to incorrect funding sources in addition to ensuring that the fund balance is properly recorded for financial statement purposes.

The accounts payable identification process for fiscal closing is manual, complex, labor-intensive and susceptible to error. For example, due to the timing of processing expenditures through the multiple systems, the fiscal year accounts payable process increases the risk of including the same expenditure in multiple accounts payable journal entries. This process should be re-assessed with the goal of streamlining and simplifying the process. Greater use of estimates should be considered when appropriate.

Truck tolls largely commenced during fiscal 2019 and RIDOT lacked collection history for billed tolls to establish an appropriate allowance for uncollectible amounts.

**Effect:** Account balances within the IST financial statements could be misstated.

**RECOMMENDATIONS**

- 2019-028a      Ensure the transactions identified through the analysis of each activity and/or funding source within the IST Fund result in the appropriate categorization and reporting of fund balance components on the financial statements and general ledger. Ensure a complete reconciliation of activity by funding source to the fund balance components included on the financial statements is performed.
- 2019-028b      Re-assess policies, procedures and controls to identify and record accounts payable at fiscal close with the aim of streamlining and simplifying where possible. Consider increased use of estimates where appropriate.
- 2019-028c      Enhance fiscal closing procedures to ensure all expenditures recorded in clearing accounts are properly allocated to the correct accounts by fiscal year end. Consider whether recording accrual entries to the clearing accounts is appropriate.
- 2019-028d      Generate an accounts payable aging report on a periodic basis and document the reasons for older invoices being unpaid.
- 2019-028e      Improve controls over the FMS to RIFANS mapping table by ensuring all FMS accounts have an associated RIFANS account.
- 2019-028f      Accumulate collection history for billed toll receivables and develop an appropriate allowance for uncollectible amounts for financial reporting purposes.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-029**

**(material weakness – repeat finding – 2018-030)**

TRANSPORTATION INFRASTRUCTURE REPORTING

**Controls over the identification of transportation infrastructure assets have been improved but can be further enhanced to ensure the accuracy of such amounts. Controls should be improved to identify impaired infrastructure assets as well as removing infrastructure costs when assets are retired or replaced.**

**Background:** RIDOT implemented a process in fiscal 2017 to identify transportation infrastructure assets which was a significant enhancement. The new process uses the RIDOT Financial Management System (FMS) to identify each project and ensures that total project costs (e.g., design and construction costs) are included in the capitalized amount. Since the source of the information used to identify capitalized infrastructure is FMS and the financial statements are based on RIFANS (statewide accounting system), the data used must be reconciled between the two systems.

**Criteria:** Generally accepted accounting principles (GAAP) require recording the State’s investment in infrastructure assets to be reflected on the government-wide financial statements. Such amounts should be capitalized and depreciated consistent with the State’s adopted accounting policies. Amounts are recorded as construction in progress until placed in service at which time depreciation commences.

GAAP also requires that capital assets be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. These standards also require adjustment of the carrying value of capital assets that meet certain impairment criteria.

The cost and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service should be removed from the infrastructure amounts included on the financial statements.

**Condition:** RIDOT did not document its consideration of transportation infrastructure assets that may be impaired and provide such documentation to the Office of Accounts and Control for the purpose of preparing the State’s financial statements.

The cost and related accumulated depreciation associated with infrastructure assets that have been replaced or are no longer in service has not been removed from the infrastructure amounts included on the State’s financial statements.

The infrastructure process does not include accrued project costs (accounts payable) at fiscal year-end since those amounts are not included in RIDOT’s FMS.

We proposed audit adjustments to correct balances at June 30, 2019 – construction in progress was overstated by \$12 million, infrastructure was overstated by \$5.4 million and Road Maintenance was understated by \$17.4 million as follows:

- 3 projects identified as substantially complete prior to fiscal 2019 remained in construction in progress causing construction in progress to be overstated and infrastructure to be understated by \$1.2 million.
- 4 projects transferred from construction in progress to infrastructure in a previous fiscal year were reclassified again in fiscal 2019 totaling \$5.5 million causing construction in progress to be understated by \$5.5 million and infrastructure to be overstated by the same amount.
- 2 projects transferred from construction in progress to infrastructure in a prior year were for an amount greater than the amounts expended causing negative construction in progress balances for those projects totaling \$1.1 million (construction in progress was understated and infrastructure was overstated).

- Accrual entries were not reclassified to road maintenance categories causing construction in progress to be overstated by \$20 million.
- 1 project was reclassified from construction in progress to road maintenance twice causing construction in progress to be understated and road maintenance to be overstated by \$2.4 million.

Projects classified as infrastructure are assigned to 1 of 8 infrastructure codes, the infrastructure codes were established to identify the infrastructure type (road, bridge, etc.) and the useful life of the infrastructure. The useful life of the infrastructure determines the period (ranging from 7 to 75 years) over which the asset will be depreciated.

We identified 2 projects with the incorrect infrastructure code. Although these 2 projects were still in construction in progress and depreciation had not commenced in fiscal 2019, the use of incorrect codes affects the categorization and useful life and depreciation expense. RIDOT policy requires the Project Manager to assign the infrastructure code. This policy was implemented in fiscal 2018 but only applied to projects beginning after the implementation date.

**Cause:** RIDOT’s infrastructure asset identification process can be further enhanced going forward by documenting the process and refining the reconciliation between FMS and RIFANS. A process to remove estimated costs for retired/replaced infrastructure has not been implemented. The consideration and documentation of impaired infrastructure assets has not been formalized.

**Effect:** Infrastructure assets and related depreciation expense may be misstated in the State’s financial statements.

#### RECOMMENDATIONS

- |           |                                                                                                                                                                                                                                                                                                                   |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-029a | Enhance controls over the recording of transportation infrastructure assets by documenting RIDOT’s related policies, procedures and controls. Document the policies, procedures and control over the RIDOT Infrastructure Report to RIFANS reconciliation and simplify the reconciliation to ensure completeness. |
| 2019-029b | Enhance controls over the identification of infrastructure in RIFANS by including the RIDOT project number in the RIFANS project code field.                                                                                                                                                                      |
| 2019-029c | Enhance controls over the assignment of the project infrastructure code, by documenting the project management - scoping team’s code assignment.                                                                                                                                                                  |
| 2019-029d | Enhance controls over the identification of projects determined to be substantially complete. Include the infrastructure code and substantially complete date for projects in the FMS hierarchy.                                                                                                                  |
| 2019-029e | Enhance controls over the accuracy of amounts reclassified from construction in progress to infrastructure including designating the infrastructure code classification.                                                                                                                                          |
| 2019-029f | Document consideration of whether any of the State’s transportation infrastructure has been impaired consistent with GAAP criteria.                                                                                                                                                                               |
| 2019-029g | Implement a process to remove estimated infrastructure assets and related accumulated depreciation when assets have been replaced or taken out of service.                                                                                                                                                        |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-030**

**(material noncompliance – repeat finding – 2018-036)**

COMPONENT UNIT – RHODE ISLAND CONVENTION CENTER AUTHORITY – RESTRICTIVE COVENANTS

**Criteria:** Bond indentures require that the Authority fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC.

The 2018 Series A Bonds require annual deposits to be made by May 15<sup>th</sup> to the Renewal and Replacement Fund related to the parking facility adjacent to the Garrahy Courthouse.

**Condition:** During the year ended June 30, 2019, the Authority was unable to fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC pursuant to the indentures.

The fiscal year 2019 Renewal and Replacement requirement included in the 2018 Series A Bonds was funded in August 2019.

**Context:** The Authority is currently in violation of its debt indentures with respect to the Operating Reserve requirement.

**Effect:** As a result of this fund not being funded, the Authority is in noncompliance with certain bond indentures.

**Cause:** The Authority does not have sufficient cash flow to fund the Operating Reserve.

RECOMMENDATION

2019-030      We recommend that the Authority fund the Operating Reserve and make required deposits to the Renewal and Replacement Fund related to the parking facility adjacent to the Garrahy Courthouse prior to May 15<sup>th</sup> each year.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-031**

**(material weakness – repeat finding – 2018-034)**

COMPONENT UNIT – CENTRAL FALLS SCHOOL DISTRICT – SIGNIFICANT ADJUSTMENTS

**Criteria:** Management is responsible for the maintenance of adequate accounting records, internal controls, and the fair presentation of the financial statements in accordance with generally accepted accounting principles.

**Condition:** Material adjustments to year-end balances and current year activity were necessary for the financial statements to be fairly presented in accordance with generally accepted accounting principles.

**Cause:** There are a number of causes for this condition, many being the result of attempts to correct circumstances. However, the principle causes are a lack of a coordinated, comprehensive plan to implement and train employees with new financial software, concurrent with the retirement of several key long-term employees.

**Effect:** Information recorded in and reports produced from the accounting system contained numerous material errors related to the inclusion or exclusion of information resulting from data entry and software execution errors, resulting in material adjustments accepted by management to the District's financial statements.

RECOMMENDATION

2019-031 A comprehensive plan to coordinate all District financial accounting recording and reporting activities is in the process of being developed and implemented. This plan should include the development of a comprehensive policies and procedures manual; adequate staffing including training of all staff as to both the processes and the software involved; appropriate controls related to authorization and review of recorded transactions; timely recording of transactions, reconciliations and reviews of reconciliations so as to detect and correct errors in a timely manner, and a comprehensive review of the District’s organizational structure to ensure adequate levels of supervision and clear reporting paths for all staff involved.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-032 (significant deficiency – repeat finding – 2018-035)**

COMPONENT UNIT – CENTRAL FALLS SCHOOL DISTRICT – CAPITAL ASSETS

**Criteria:** Capital assets are maintained by the District and reported in the government-wide statement of net position. Although these capital assets and the related depreciation do not impact the fund statements of the District, they do have an impact on the overall governmental net position. Additionally, the District is required to maintain capital asset records for all assets that are purchased with federal grant funds.

**Condition:** The District does not have procedures for maintaining the capital asset records on a perpetual basis or for taking a physical inventory of these assets. In addition, the District does not have a system in place for identifying capital assets acquired with federal grant funds.

**Cause:** The District currently maintains the capital asset records utilizing an excel database which is updated on an annual basis. This database contains a complete listing of capital assets and related depreciation expense which is maintained for financial reporting purposes only. The listing currently does not include any information regarding the location of the asset or the source of the funds used to acquire the asset.

**Effect:** Failure to maintain the capital asset records on a perpetual basis increases the risk of potential misstatement of the capital assets at year end. In addition, failure to conduct a periodic inventory of capital assets, including controllable assets (assets not meeting the capitalization threshold but included in inventory due to their sensitive, portable, and/or theft prone nature) increases the risk of misuse and safeguarding of District assets.

RECOMMENDATION

2019-032 We recommend that the District implement an integrated software package that will enable capital assets to be recorded when the asset is acquired rather than being captured at year end. We further recommend that the capital asset inventory be updated to include the location of the asset and a code to identify all assets that are acquired with federal funds. Management should utilize this capital asset inventory listing, as well as the controllable asset listing, to conduct periodic inventories of the assets.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-033**

*(material weakness – new finding)*

COMPONENT UNIT – RHODE ISLAND HEALTH AND EDUCATIONAL BUILDING CORPORATION – STATE APPROPRIATION TO SCHOOL BUILDING AUTHORITY CAPITAL FUND (SBACF)

**Condition:** Revenue recognized in the SBACF for the year ended June 30, 2019 was understated by \$1.224 million. A proposed adjustment to the financial statements and underlying accounting records was provided to management for recording this year-end accrual, and management has agreed to record the entry to correct the matter.

**Criteria:** Information and Communications is a recognized key component of a sound system of internal control. As the SBACF is managed by the Rhode Island Department of Education (RIDE), with the support of the Corporation for assigned administrative duties, effective and consistent communication between RIDE and the Corporation is imperative to help ensure that all activity of the SBACF, including activity and funding between the parties, is properly reflected in the accounting records and ultimately in its financial statements.

**Cause:** Ineffective communication between RIDE and the Corporation regarding the transfer of fiscal 2018-19 appropriated funds occurring subsequent to year-end resulted in the revenue being omitted from SBACF and Corporation’s accounting records.

**Effect:** This omission caused the recorded revenue from state appropriations to be understated by \$1.224 million for the year ended June 30, 2019.

RECOMMENDATION

2019-033      We recommend that personnel at RIDE and the Corporation ensure that timely and effective communication of all financial matters required to be reflected in the SBACF financial statements occur on an ongoing basis, with periodic reconciliations of inter-entity activity being performed on at least a quarterly basis, and a formal agreement on state appropriation revenue being prepared at each year-end date. Such procedures will mitigate the risk that errors relating to funding transfers and inter-entity activity will occur without being corrected in a timely manner.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*



**Finding 2019-034**

**(significant deficiency – new finding)**

**EMPLOYEES’ RETIREMENT SYSTEM – POOLED INVESTMENT TRUST – PLAN ACCOUNTING AND DISTRIBUTION OF INVESTMENT INCOME AND EXPENSE**

Each of the Employees’ Retirement System’s defined benefit plans are participants in a Pooled Investment Trust. The pooled investment trust was created for ease in administering the pooled assets and related investment activity of the System’s seven defined benefit pension plans. The custodian for the pooled investment trust (Bank of New York Mellon) has custody and accounts for the investment activity of the pooled trust on a collective basis. Each month the custodian prepares plan accounting reports which delineate each plan’s proportionate share of the pooled investment trust and related income and expense.

In essence, the Pooled Investment Trust acts like a mutual fund with seven participants – each plan is assigned units – units are “purchased” or redeemed as amounts are contributed or withdrawn reflecting on the unique cash needs of each plan. The cash flow profile of each of the participant plans in the pooled investment trust is unique and consequently some plans are withdrawing or selling units while others are purchasing new units. Because the custodian is preparing plan accounting reports on a monthly basis and distributing income and expense on that basis, cash was typically only contributed or withdrawn from the pooled investment trust once per month to avoid any distortion in the proportionate distribution of investment income and expense.

More recently, new contributions to the pooled investment trust were being made more frequently during the month rather than just at the defined once-per-month original interval. The custodian continues to prepare monthly plan accounting reports which distribute each plan’s proportionate share of income and expense based on each plan’s units on the last day of the month. This current process does not sufficiently reflect the changing number of units owned by each plan during the month.

While the effect of the imprecision in allocating income and expense is likely immaterial, the System should modify its processes to ensure a more precise allocation of assets, investment income, and investment expense among the participant plans.

In response to identification of this issue during the audit, the System has worked with the custodian to explore options for enhancing precision in the plan accounting. One option is to limit all movements of cash to and from the plans and the pooled investment trust to just one day per month. The other is for the custodian to compute an average daily unit balance for each of the plans and use that average to distribute aggregate pooled trust investment income and expense for the month to each of the plans. We believe either option would sufficiently address the issue; however, the average daily balance proposal would allow for more flexibility of the timing of cash movements yet still result in an accurate proportionate distribution of investment income and expense.

**RECOMMENDATION**

2019-034      Implement planned revisions to the plan accounting process employed by the custodian to enhance the precision over the distribution of investment income and expense to the participating plans.

**Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-035**

**(significant deficiency – repeat finding – 2018-031)**

**EMPLOYEES’ RETIREMENT SYSTEM – ACCOUNTING FOR INVESTMENT EXPENSES**

The System has implemented a “transparency policy” for investment related expenses within the pension investment portfolio. In essence, investment expenses are reported on a gross rather than net basis. When investment expense detail isn’t readily reported by investment managers, additional analysis is performed to extract investment income and expenses on a basis more consistent with gross reporting.

While this investment expense transparency objective is clear and laudable, controls need to be enhanced to improve the accuracy and reliability of investment expenses reported on the System’s financial statements. Certain of these processes were first developed on an “ad-hoc” basis for informal reporting before investment expenses were recorded on a gross basis on the System’s financial statements.

The System’s accounting for investment activity is mostly derived from custodian reporting. Investment management fees are disbursed by the custodian and recorded within the custodial accounting system. In addition, the custodian has implemented enhanced reporting for private equity, infrastructure and real estate partnerships to record related investment income and expenses in the appropriate categories within their custodial reporting system. Hedge Fund activity is further analyzed externally by System investment staff and direction letters are later provided to the custodian to “adjust” investment income and expense within the custodial accounting system. System investment staff also analyze other investment categories to identify investment expenses that were originally recorded on a net basis. As a result, investment income and expenses reported on the System’s annual financial statements are derived through a composite of standardized custodian controls, custom processes designed specifically for private equity type investment, and analytical processes employed independent of the custodian. Analytical processes that are independent of the custodian include those for hedge funds and other investment types as well as the identification and accrual of private equity and hedge fund investment activity effective for quarters ended June 30 and prior but not available until months later.

The material investment expense amounts reported on the System’s financial statements relate to private equity and hedge funds including the accrual of activity through June 30.

The System needs to formalize its processes for deriving amounts to be included in the financial statements and also implement enhanced review and monitoring controls to ensure the consistency and reliability of these amounts.

For fiscal 2019, System processes to derive the investment expense amounts for financial reporting purposes yielded different amounts. Subsequent reconciliation identified direction letters which had not been either provided or recorded by the custodian. Reversal of prior year accruals had also not been accurately reflected in the initial accumulation of investment expenses. Queries of custodial activity recorded after fiscal year end but relating to June 30 or prior have not been standardized. Analysis and monitoring of custodian recorded activity during the fiscal year is insufficient to ensure consistency and reliability of such amounts. For example, hedge fund investment expense reclassifications for the quarter ended September 30, 2018 (via direction letter) were not recorded by the custodian; however, that hadn’t been identified by System investment staff.

Procedures need to be formalized to document the process for accumulating investment expenses for each asset category. When processes are independent of the custodian’s control processes, additional supervisory review and monitoring controls should be employed to strengthen controls over these material balances. These investment accounting processes should be better coordinated with and overseen by the System’s accounting and finance staff.

RECOMMENDATIONS

- 2019-035a Formalize the investment income and expense processes that are external to the investment custodian and result in amounts recorded on the financial statements. Enhance monitoring and review of these processes.
- 2019-035b Integrate certain investment accounting functions that are now external to oversight of the System’s Chief Financial Officer with the System’s other accounting functions.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-036**

**(significant deficiency – repeat finding – 2018-032)**

ASSESS THE RESOURCES AND SYSTEMS NECESSARY TO EFFECTIVELY ADMINISTER THE OPEB SYSTEM

**The resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled should be assessed. A unified database or computer application is needed to maintain membership data for each of the State’s OPEB plans. This would improve controls over the administration of the benefit programs and the process to accumulate data necessary for periodic actuarial valuations of the OPEB plans for both funding and accounting purposes.**

**Background:** The Rhode Island State Employees’ and Electing Teachers OPEB System (the System), acts as a common investment and administrative agent for post-employment health care benefits provided by six plans covering state employees and certain employees of the Board of Education.

When the State began to advance fund its retiree health benefits, OPEB trusts were established for each of the plans and a formalized governance structure was established by statute; however, no dedicated personnel were specifically tasked with administering the System and no administrative systems were implemented at that time, or subsequently, to capture and control membership data for the various OPEB plans. Instead membership data, the determination of eligibility for benefits and any required retiree copays are administered through a variety of processes which largely lack the controls needed to administer plans of this size and complexity. In prior years, certain plan benefit functions were administered through the member benefit system used by the Employees’ Retirement System of Rhode Island (ERSRI) for pension benefits; however, the ERSRI’s newly implemented member benefit system no longer includes those functionalities.

The System’s functions are managed through various units within State government. The Department of Administration’s Office of Employee Benefits (OEB) currently determines eligibility and manages member benefits for the State Employees, Teachers, Judges, State Police and Legislator plans. The Human Resources Department at the University of Rhode Island, separately determines eligibility, calculates benefits and manages member subsidy receivables for the Board of Education plan. The Office of Accounts and Control handles the accounting and financial reporting aspects of the System and coordinates the actuarial valuations. The Office of the General Treasurer oversees the investment activity of the System.

Census data for each plan is provided annually to the System’s actuary to prepare required actuarial valuations of the plans. Each plan has unique benefit eligibility and healthcare coverage provisions.

**Criteria:** As the System grows in size and matures, the administrative infrastructure supporting the System should be assessed to ensure adequate resources and systems with appropriate controls are in place to manage the System effectively.

Maintaining membership data and determining the eligibility for benefits and required co-pays should be managed through systems and processes with adequate controls to ensure that membership data is reliable, benefits are accurately and consistently determined consistent with plan provisions, and plan census data is maintained to facilitate extraction for actuarial valuations. Duties should be appropriately segregated to ensure that no one individual is responsible for determining eligibility and required copays, enrolling the individual for coverage, collecting and accounting for copay amounts, and maintaining plan census data.

**Condition:** We identified control deficiencies over the various disjointed processes used to administer the OPEB plans as follows:

- Insufficient resources have been allocated and centralized to administer the System effectively. Knowledge of key System benefit provisions, administrative operations and operating procedures are dispersed among too many separate units of State government without effective coordination.
- The accumulation of census data provided to the actuary for plan valuation purposes is derived from multiple sources and requires analysis of other external source data to establish the active and retiree plan members for each plan. Because much of the analysis is done on spreadsheets, controls over data validity, data protection, and completeness are lacking. Controls are inadequate to prevent duplicate or inaccurate census data from being provided to the actuary.
- Inadequate segregation of duties exists between eligibility determinations, benefit calculations, copay receivable billings and collections, healthcare plan enrollment, and maintenance of the plan census information.
- Periodic reconciliations between the plans' records and healthcare providers enrollment data is not documented.
- Procedures for identifying and terminating coverage for deceased members, spouses and dependents are inconsistent and can be improved.

**Cause:** The State and System have not implemented System specific administrative processes and computer applications to effectively support the overall administration of the OPEB System, accumulate plan census data, manage and control the eligibility, copay determination, and plan enrollment functions. Existing processes used to support healthcare plan enrollment for active employees have generally been used to support the OPEB System but lack certain functions and controls that are unique to and requisite for the administration of the OPEB System.

**Effect:** Inadequate controls over key plan administrative functions could impact the reliability of amounts (e.g., member co-pays and member benefits) reported on the System's financial statements as well as the accuracy of census data used by the actuary to determine each plan's annual actuarially determined contribution amount and the net OPEB liability or asset for each plan.

**RECOMMENDATIONS**

- 2019-036a      Assess the resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled.
- 2019-036b      Implement a member benefit computer application to accumulate and manage plan membership data to support the overall administration of the OPEB System with enhanced controls.
- 2019-036c      Evaluate assigned responsibilities for key functions and segregate certain responsibilities for incompatible functions to enhance controls over critical plan administrative functions.
- 2019-036d      Establish consistent procedures to identify deceased plan members and prompt timely termination of coverage.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

<b><u>Table of Findings by Major Program</u></b>		
<b><u>Program Title</u></b>	<b><u>CFDA</u></b>	<b><u>Applicable Findings</u></b>
SNAP Cluster:		
Supplemental Nutrition Assistance Program	10.551	2019-037, 2019-038, 2019-039, 2019-040
State Administrative Matching Grants for the SNAP Program	10.561	
Mortgage Insurance Homes	14.117	None
Section 8 Project-Based Cluster:		
Section 8 Housing Assistance Payments Program	14.195	None
Lower Income Housing Assistance Program Section 8 Moderate Rehabilitation	14.856	
Community Development Block Grants/State’s Program and Non-Entitlement Grants in Hawaii	14.228	2019-041, 2019-042
Housing Vouchers Cluster:		
Section 8 Housing Choice Vouchers	14.871	None
Unemployment Insurance	17.225	2019-043
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	2019-044, 2019-045
Federal Transit – Formula Grants	20.507	
State of Good Repair Grants Program	20.525	
Bus and Bus Facilities Formula Program	20.526	
Veterans State Nursing Home Care	64.015	None
Performance Partnership Grants	66.605	2019-046
Title I Grants to Local Education Agencies	84.010	None
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	None
Immunization Cooperative Agreements	93.268	None
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	2019-037, 2019-038, 2019-047, 2019-048, 2019-049, 2019-050, 2019-051
Low-Income Home Energy Assistance	93.568	2019-052, 2019-053, 2019-054, 2019-055
CCDF Cluster:		
Child Care and Development Block Grant	93.575	2019-037, 2019-038, 2019-048, 2019-051, 2019-056
Child Care Mandatory and Matching Funds of the Child Care Development Fund	93.596	
Children’s Health Insurance Program	93.767	2019-037, 2019-038, 2019-057, 2019-059, 2019-060, 2019-061, 2019-062, 2019-064, 2019-067, 2019-068
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	2019-037, 2019-038, 2019-058, 2019-059, 2019-060, 2019-061, 2019-062, 2019-063, 2019-064, 2019-065, 2019-066, 2019-067, 2019-068
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	
Medical Assistance Program	93.778	

**Finding 2019-037**

*(material weakness – new finding)*

**SNAP CLUSTER – CFDA 10.551 and 10.561**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 2018IS251444 and 2019IS251444

Administered by: Department of Human Services (DHS)

**TANF CLUSTER – CFDA 93.558**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: G1801RITANF and G1901RITANF

Administered by: Department of Human Services (DHS)

**CCDF CLUSTER – CFDA 93.575 and 93.596**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: G1801RICCDF and G1901RICCDF

Administered by: Department of Human Services (DHS)

**CHILDREN’S HEALTH INSURANCE PROGRAM – CFDA 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5021 and 1905RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Special Tests and Provisions - ADP Risk Analysis and System Security Review***

**RIBRIDGES USER ACCESS CONTROLS**

**Controls over the RIBridges eligibility and benefit system are inadequate to ensure that user access is limited to only authorized individuals and such access is consistent with each user’s specific scope of duties. Additionally, automated password change controls were not operational, and therefore, users were not required to change passwords at required intervals.**

**Background:** Approximately 1,600 individuals have access to RIBridges. Users include State employees within various State departments and various vendors/contractors that require access (e.g., Deloitte – system developer and Automated Health Solutions (AHS) – contact/call center operator). RIBridges system access roles define a user’s access to various system functions and system information and define the ability to view, change or authorize transactions. The State’s Division of Information Technology (DoIT) has oversight responsibility for system security but delegates management of user access to State departments and vendors. RIBridges contains extensive personally identifiable information for more than 300,000 individuals. Medical insurance, cash, and childcare benefits are authorized through the system.

**Criteria:** Controls over user access to the RIBridges application should appropriately limit access to only authorized individuals and such access must be consistent with each user’s specific scope of duties. Timely monitoring is required to ensure access is (1) granted with appropriate authorization, (2) terminated or modified promptly when employees leave service or change duties, and (3) reviewed periodically. Additionally, monitoring of user actions that indicate attempted access to sensitive data and changes to access rights or the attempted change to access rights should be logged, reported and followed up on to ensure the security of the application and its data are within applicable laws and regulations.

Controls to ensure security of users and passwords should be functioning appropriately and password expiration/reset should occur at least every 90 days (60 days for those with higher level access) to ensure that the application and its sensitive recipient data are not compromised (*RI DOA Enterprise Policy: ETSS - Enterprise Passwords – 2019*).

**Condition:** Access to the RIBridges application is not sufficiently controlled. In some instances, access is not terminated timely for users no longer requiring access and overall monitoring of user access should be improved.

Oversight of access to RIBridges is managed through a decentralized process. While granting, modifying and terminating access is supposed to be administered through the Department of Human Services (DHS) hotline, we found that access for AHS employees was granted directly by AHS employees without involvement of the DHS hotline. We found that in a random sample of 25 RIBridges users employed by AHS, 18 were no longer active and consequently, their RIBridges access should have been terminated.

In addition, we reviewed system access for other vendors/contractors (e.g., Deloitte, Northrup Grumman, and Conduent) as part of our sample and found numerous exceptions where access had not been terminated in a timely manner. Access for State employees appeared to be better controlled; however, exceptions of untimely removal of system access were noted.

RIBridges users are segregated by organizational group (State department or agency, vendor/contractor) and responsibility for monitoring access is designated to an individual for each subgroup. This process lacks sufficient information flow back to DoIT on the specific monitoring procedures and results for each subgroup.

Automated password reset module was not functioning for the RIBridges application. Manual prompting of password resets was not consistently performed as a compensating control to ensure compliance with State policy for password changes. Additionally, the State has regularly opted to defer prompting password changes during health care plan open enrollment periods to avoid any potential disruption of functionality at peak demand times.

**Cause:** Overall user access monitoring procedures have not been sufficiently designed and made operational over these disparate groups of users including State employees and vendors/consultants. Monitoring does not include review of all user privilege changes, escalation of access rights, or data access attempts, etc. Also, there appears to be no mechanism in place for the State's oversight of Deloitte Security Manager practices and Deloitte user actions.

The access management functionality which controls password administration in the RIBridges application (including password expiration/reset requirements) was not functioning. The State has deferred password resets during high volume customer activity associated with open enrollment periods.

**Effect:** Decentralized management and limited monitoring of user action reporting has led to a lack of scrutiny of user actions and a weakening of application and data security. RIBridges access may continue after employment has terminated and RIBridges access may be inconsistent with an individual's responsibilities and not be detected timely.

**Questioned Costs:** None

**Valid Statistical Sampling:** Yes



## RECOMMENDATIONS

- 2019-037a Grant, modify, and terminate access for all RIBridges users through the same uniform process (DHS hotline).
- 2019-037b Ensure the automatic system prompt for password reset functionality is operational to require password resets at intervals consistent with State and federal policy. Eliminate the practice of deferring password resets during high-volume open enrollment periods.
- 2019-037c Strengthen and formalize the overall monitoring of RIBridges access to ensure access is granted appropriately, terminated timely, and consistent with each individual's scope of duties.
- 2019-037d Evaluate the access control management process and the report elements so that privilege changes and attempted changes are captured and evaluated for appropriateness. In addition, implement a process by which the State can periodically check that the Deloitte Security Administrator and Deloitte employee privilege changes and actions are appropriate.

**Auditee views: *The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-038**

**(material weakness – repeat finding – 2018-038)**

**SNAP CLUSTER – CFDA 10.551 and 10.561**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 2018IS251444 and 2019IS251444

Administered by: Department of Human Services (DHS)

**TANF CLUSTER – CFDA 93.558**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: G1801RITANF and G1901RITANF

Administered by: Department of Human Services (DHS)

**CCDF CLUSTER – CFDA 93.575 and 93.596**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: G1801RICCDF and G1901RICCDF

Administered by: Department of Human Services (DHS)

**CHILDREN’S HEALTH INSURANCE PROGRAM – CFDA 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5021 and 1905RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Special Tests and Provisions - ADP Risk Analysis and System Security Review***

**COMPREHENSIVE DEPARTMENTAL AUTOMATED DATA PROCESSING (ADP) RISK ANALYSIS AND SYSTEM SECURITY PROGRAM**

**EOHHS, DHS and the Division of Information Technology must enhance systems security oversight over systems used to administer multiple federally funded programs to fully comply with federal regulations relating to ADP risk and system security review. The plan must be sufficiently comprehensive and include timely reaction to and consideration of identified security issues and risk factors.**

**Criteria:** Federal regulation 45 CFR section 95.621 requires State agencies to review the ADP system security of installations used in the administration of DHHS programs on a biennial basis or when a significant change to the security or system(s) occur. At a minimum, State agencies must establish and maintain an ADP security plan and implement a program for conducting periodic risk analyses to ensure that appropriate, cost-effective safeguards are incorporated into new and existing systems.

EOHHS and DHS are charged with managing and securing ADP systems, which administer various federal DHHS and State programs (Medicaid, TANF, etc.). These programs had eligibility, benefit determinations, and payments processed mainly by two systems – MMIS and RIBridges. State agencies (EOHHS, DHS, and the Department of Administration’s Division of Information Technology – DoIT) were required to determine appropriate ADP security requirements based upon recognized industry standards for each system, optimally within a comprehensive plan.

**Condition:** While EOHHS, DHS, and DoIT accumulate documentation in support of system security considerations, the departments do not currently formalize an annual plan that meets the compliance requirement of a risk assessment and documented approach to ensure compliance with federal requirements for ADP risk analysis and system security review.

EOHHS largely utilizes independent service organization control (SOC) reports to meet their security and risk monitoring activities for the MMIS. However, the ADP system security plan should be improved by (1) ensuring that the coverage provided by the SOC reports is supplemented with other monitoring procedures as required, and (2) developing a comprehensive plan encompassing all systems that meets the required federal components. Additionally, any deficiencies noted in the SOC reports must be evaluated timely and documented to determine if they affect any of the required controls over federal program administration. The SOC report also relies on several complementary user controls that EOHHS is responsible for ensuring are in place and operating effectively which require more formalized consideration. Examples of areas in need of improvement include the reliability and consistency of data transmitted from RIBridges to the MMIS and improved monitoring of system access by the MMIS system contractor.

Clearly documented roles and responsibilities outlining the coordination among EOHHS, DHS, and DoIT in managing IT security over RIBridges can be enhanced and formalized. For example, we found weaknesses in RIBridges user access controls as described in Finding 2019-037. This is an example of potential risks that should be assessed and mitigated through a robust risk assessment monitoring process.

Such documentation should consider all available information as well as the need to utilize external resources to monitor or evaluate RIBridges' information systems security. Other information that is available for consideration within the ADP risk assessment process includes ongoing IV&V monitoring of RIBridges as well as MARS-E evaluations applicable to Health Insurance Exchanges.

ADP risk and system security considerations for RIBridges require more formalization by the State. The State (EOHHS, DHS, and DoIT) needs to document a more formalized risk assessment and IT system security consideration for RIBridges to more fully comply with federal regulations relating to the ADP risk analysis and system security review. As described in Finding 2019-021, there is an enterprise-wide need to complete risk assessments for all IT systems within the State. The ADP Risk Analysis and System Security Program requirement is consistent with those enterprise-wide objectives.

EOHHS, DHS, and DoIT should act promptly to (1) consider the significance of these issues and impact on the State's internal control procedures for the administration of the affected federal programs, and (2) require corrective action by the appropriate party (including contractors assigned those responsibilities).

**Cause:** Failure to fully comply with federal requirements to establish and maintain an ADP security plan and implement a program for conducting periodic risk analyses to ensure that appropriate, cost-effective safeguards are incorporated into new and existing systems.

**Effect:** Federal non-compliance with requirements relating to ADP risk analysis and system security review and exposure to the information system security and program integrity risks that those regulations are designed to mitigate.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

## RECOMMENDATIONS

- 2019-038a Enhance compliance with federal ADP Risk Analysis and System Security Review requirements by creating a comprehensive, integrated plan for RIBridges and the MMIS. Coordinate the efforts of EOHHS, DHS, DoIT, and contractors in meeting these objectives.
- 2019-038b Ensure that the formalized plan includes a comprehensive risk assessment for both systems, critical controls deemed effective in mitigating those risks, and specific monitoring procedures to ensure the effective operation of those policies and procedures, including reliance on external contract services when required.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

### ***Finding 2019-039 (material noncompliance/material weakness – repeat finding – 2018-041)***

SNAP CLUSTER – CFDA 10.551 and 10.561  
Federal Award Agency – Department of Agriculture (USDA)  
Federal Award Fiscal Years: 2018 and 2019  
Federal Award Numbers: Not Applicable  
Administered by: Department of Human Services (DHS)

***Compliance Requirement: Special Tests and Provisions***

#### AUTOMATED DATA PROCESSING (ADP) SYSTEM FOR SNAP

**RIBridges does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations.**

**Background:** RIBridges is the State’s federally approved computer system used to manage multiple health care and human service programs. It was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces. RIBridges system operation has been problematic since implementation. While system functionality improved during fiscal 2019, efforts to address specific ADP System for SNAP required functionalities continue.

**Criteria:** State agencies are required to automate their SNAP operations and computerize their systems for obtaining, maintaining, utilizing, and transmitting information concerning SNAP (7 CFR sections 272.10 and 277.18). This includes:

1. Processing and storing all case file information necessary for eligibility determination and benefit calculation, identifying specific elements that affect eligibility, and notifying the certification unit of cases requiring notices of case disposition, adverse action and mass change, and expiration;
2. Providing an automatic cutoff of participation for households which have not been recertified at the end of their certification period by reapplying and being determined eligible for a new period (7 CFR sections 272.10(b)(1)(iii) and 273.10(f) and (g)); and
3. Generating data necessary to meet federal issuance and reconciliation reporting requirements.

**Condition:** RIBridges does not currently meet all the functional requirements of an ADP system as outlined in federal SNAP regulations.

The U.S. Department of Agriculture – Food and Nutrition Service (FNS) provided a formal warning to the Department of Human Services (DHS) on April 16, 2018 regarding the RIBridges operating issues that negatively impacted all aspects of DHS’ administration of the SNAP program.

The Department provided a detailed corrective action plan on May 15, 2018 (with periodic updates). In a letter dated July 20, 2018, FNS held the formal warning in abeyance conditional on DHS’ successful completion of a series of required corrective actions including many that address, or result from, specific RIBridges deficiencies. FNS continued to actively monitor DHS’s progress during fiscal 2019 with improvement noted in multiple areas - specifically; timeliness in eligibility processing, backlog elimination, and reporting. DHS, in collaboration with FNS, continued to work on the required reconciliation functionality; however, that was not complete or fully operational during fiscal 2019.

A special master was appointed by the U.S. District Court in connection with litigation filed related to the timeliness of eligibility determinations and benefit delivery for SNAP applicants. Oversight by the special master continued through fiscal 2019; however, subsequent to June 30, 2019, DHS met the required 96% timely (within 30 days) eligibility determination metric for 11 out of 12 consecutive months. Consequently, the lawsuit was dismissed in October 2019 and the Court terminated the services of the special master.

As described in Finding 2019-040, the RIBridges eligibility system is not producing reports to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports. Meeting the federal issuance and reconciliation reporting requirements is one of three required objectives of the ADP System for SNAP compliance requirement.

**Cause:** Certain RIBridges functionalities were improving and/or not fully functional in fiscal 2019 which compromised the effectiveness of the controls over the SNAP eligibility and benefit administration as well as overall federal reporting requirements and the federal issuance and reconciliation reporting requirement. Required corrective actions began in fiscal 2018 and continued through 2019 into fiscal 2020.

**Effect:** Controls over the determination of eligibility and establishment of benefit amounts are weakened; benefits could be paid to ineligible individuals or benefits could be denied to eligible individuals. Additionally, determination of benefit amounts could be incorrect. The required daily settlement and reconciliation of EBT SNAP benefits requirement has not been met.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2019-039      Continue efforts to ensure that RIBridges meets all the functionalities of an ADP system for SNAP as required by federal SNAP regulations. Complete required corrective actions stipulated by the federal Food and Nutrition Service.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-040**

**(material noncompliance/material weakness – repeat finding – 2018-042)**

SNAP CLUSTER – CFDA 10.551 and 10.561

Federal Award Agency: Department of Agriculture (USDA)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: Not Applicable

Administered by: Department of Human Services (DHS)

**Compliance Requirement: Special Tests and Provisions**

ELECTRONIC BENEFIT TRANSFER (EBT) RECONCILIATION

**RIBridges was not producing reports in fiscal 2019 to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports. DHS can improve its review and consideration of service organization control reports for vendors performing elements of the EBT process.**

**Criteria:** States must have systems in place to reconcile all the funds entering into, exiting from, and remaining in the system each day with the State’s benefit account with Treasury and EBT contractor records. This includes a reconciliation of the State’s issuance files of postings to recipient accounts with the EBT contractor. States (generally through the EBT contractor that operates the EBT system) must also have systems in place to reconcile retailer credit activity as reported into the banking system to client transactions maintained by the processor and to the funds drawn down from the EBT benefit account with Treasury. States’ EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the State to the SNAP issuance files and settlement data to ensure that benefits are authorized by the State and funds have been properly drawn down. States may only draw Federal funds for authorized transactions, i.e., electronic point-of-sale purchases supported by entry of a valid personal identification number (PIN) or purchases using manual vouchers with telephone verification supported by a client signature and an EBT contractor authorization number (7 CFR sections 274.3(a)(1) and 274.4(a)).

EBT system processors should maintain audit trails that document the cycle of client transactions from posting to point-of-sale transactions at retailers through settlement of retailer credits. The financial and management data that comes from the EBT processor is reconciled by the State to the SNAP issuance files and settlement data to ensure that benefits are authorized by the State and funds have been properly reflected in the State’s accounting system.

The State should consider the adequacy of controls over the EBT process including components performed by external entities. Service Organization Control (SOC) reports provide assurance over security, processing integrity, confidentiality, availability and privacy. Oversight and review of these reports would ensure that (1) the system is protected against unauthorized access; (2) system processing is complete, accurate, timely, and authorized; (3) information designed as confidential is protected; (4) the system is available for operation and use as contractually agreed; and (5) information is collected, used, retained, disclosed and disposed of in conformity of agreements.

**Condition:** The State did not perform complete daily reconciliations of EBT activity during fiscal 2019. The USDA’s Food and Nutrition Service performed a fiscal 2017 Electronic Benefits Transfer review and issued their report dated March 2, 2018. That report, and other subsequent communications from FNS, highlighted deficiencies in the required reconciliation of EBT activity between the various systems utilized to authorize and disburse benefits. The report’s recommendations were not implemented before June 30, 2019. FNS continues to work with DHS and the vendor to fully implement their recommendations.

DHS obtained SOC reports for the EBT system components operated by external parties. Three SOC reports were available to DHS from EBT system vendors to facilitate monitoring, assessing, and ensuring security and compliance of the EBT system. One of these reports contained a qualified opinion, however no follow-up was performed. The agency should make better use of SOC reports including consideration and documentation of relevant user entity controls to ensure that key controls over the operation of the EBT are functioning as intended.

**Cause:** RIBridges does not provide adequate reporting to allow the required daily reconciliation. DHS staff have not fully assessed the information required from RIBridges to perform the daily reconciliation required by SNAP regulation.

Review of SOC reports for vendors performing critical EBT process elements can be enhanced. We found incomplete consideration of complementary user entity controls of the EBT system which is important to evaluating the adequacy of controls over the entire EBT process.

**Effect:** Controls are weakened over the daily settlement and reconciliation of EBT SNAP benefits due to incomplete RIBridges reporting. Differences between RIBridges and the EBT system could go undetected. Controls over aspects of the EBT system operated by external parties may not be fully operational and not considered timely by DHS.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

#### RECOMMENDATIONS

- |           |                                                                                                                                                                                                                                                                  |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-040a | Complete efforts to ensure that the RIBridges systems development vendor implements all designed system features including those for the SNAP benefit issuance and reconciliation requirements.                                                                  |
| 2019-040b | Enhance review and follow-up, as necessary, on SOC reports provided by vendors to evaluate the effectiveness of controls over external components of the EBT systems. Document consideration of relevant user entity controls identified within the SOC reports. |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-041**

**(material weakness – new finding)**

**COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII – CFDA 14.228**

Federal Award Agency: Department of Housing and Urban Development (HUD)

Federal Award Fiscal Year: Various

Federal Award Number: Various

Administered by: Office of Housing and Community Development (OHCD)

***Compliance Requirement: Reporting***

**FEDERAL REPORTING**

**The Office of Housing and Community Development (OHCD) should improve procedures to ensure federal reports are retained and adequately supported by underlying records.**

**Background:** OHCD is required to annually submit the Performance Evaluation Report (PER) which includes financial information for each program (grant) year, including obligations and amounts paid for various activities awarded under the grant. Additionally, OHCD is required to submit the HUD-60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*, a performance report which includes data collected from subrecipients.

**Criteria:** Each recipient that administers covered public and Indian housing assistance, regardless of the amount expended, and each recipient that administers covered housing and community development assistance in excess of \$200,000 in a program year must submit HUD 60002 information using the automated Section 3 Performance Evaluation and Registry System (SPEARS) 24 CFR sections 135.3(a)(1) and 135.90.

Each recipient that prepares and submits a consolidated plan also must prepare the Performance and Evaluation report annually. This report is due from each State CDBG grantee within 90 days after the close of its program year.

**Condition:** OHCD could not provide a copy of the HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons* submitted during fiscal 2019 or the supporting documentation for the report.

OHCD did not maintain adequate documentation supporting the amounts reported on the PER report. We were unable to reconcile the amounts reported to supporting worksheets.

**Cause:** OHCD has been unable to access HUD's SPEARS system to submit the report to HUD since the reporting functionality was brought on-line. As a result, OHCD compiles and reviews the data from the subrecipients and prepares a draft report, but requires RI Housing and Mortgage Finance Corporation, which has access to the system, to enter the report on its behalf. However, OHCD was unable to provide a copy of the report submitted and the supporting documentation received from the subrecipients for fiscal 2019.

The PER report includes reporting obligations, drawdowns and program income, as well as amounts drawn for specific types of activities cumulatively on an annual basis by program year (grant year). Given the specific requirements for tracking program obligations by grant year, OHCD has designed and implemented worksheets for tracking these amounts. The supporting worksheets, although comprehensive, are not saved in version form in order to document the amounts reported on the PER report for each program year. As a result, the amounts reported on the PER may reflect adjustments or reclassifications that are no longer documented consistently with the supporting worksheet and does not facilitate reconciliation to the state accounting system.



**Effect:** Controls and related procedures are insufficient to ensure that OHCD complies with applicable federal CDBG reporting requirements.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

RECOMMENDATION

2019-041 Enhance procedures for maintaining adequate documentation to ensure that federal reports are properly submitted and accurately reflect underlying information.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-042**

**(significant deficiency – new finding)**

COMMUNITY DEVELOPMENT BLOCK GRANTS/STATE'S PROGRAM AND NON-ENTITLEMENT GRANTS IN HAWAII – CFDA 14.228

Federal Award Agency: Department of Housing and Urban Development (HUD)

Federal Award Fiscal Year: Various

Federal Award Number: Various

Administered by: Office of Housing and Community Development (OHCD)

**Compliance Requirement: Program Income**

PROGRAM INCOME

**Tracking and monitoring of locally-held program income generated by Community Development Block Grants (CDBG) activities should be enhanced by OHCD.**

**Background:** Certain activities funded through CDBG and administered by subrecipients to the State generate program income. As permitted by federal regulations, under certain circumstances, subrecipients may retain the program income to be used for the same type of eligible activity that generated the income, or another type of CDBG-eligible activity when approved by OHCD. Subrecipient communities are required to report their program income totals biannually to OHCD.

**Criteria:** Under the requirements of 24 CFR 570.504, the State can allow subrecipients to retain program income generated by activities funded by the CDBG program so long as the program income, as defined in the federal regulations, is utilized for eligible activities.

**Condition:** OHCD should improve its oversight of program income received and used by subrecipients. Controls should be enhanced to ensure that subrecipients are accurately reporting all program income to OHCD and utilizing program income for eligible activities that meet national objectives.

**Cause:** Currently, OHCD provides standardized forms to be utilized by subrecipients in reporting program income that has been retained. These forms provide for the reporting of program income balances as of a point in time, but do not provide enough data to ensure that program income is properly tracked at the subrecipient level and is being used for eligible activities that meet national objectives. This form could be enhanced to include reporting of all program income generated during the interim period from various CDBG activities, the amount utilized by the subrecipient for eligible activities and how those activities meet program requirements.

While subrecipient monitoring is performed by OHCD that includes a review of locally-held program income when applicable, this monitoring does not sufficiently ensure that OHCD is receiving all the appropriate information necessary to ensure compliance with federal regulations and to ensure reporting of program income is accurate and complete.

**Effect:** Locally-held program income may not be recorded, used and reported in accordance with federal regulations.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

RECOMMENDATION

2019-042      Strengthen procedures for tracking program income generated and retained by CDBG subrecipients sufficient to ensure that amounts are used in accordance with federal regulations.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-043**      *(material noncompliance/material weakness –repeat finding – 2018-047)*

UNEMPLOYMENT INSURANCE – CFDA 17.225

Federal Award Agency: Department of Labor (DOL), Employment and Training Administration

Federal Award Fiscal Year: Not Applicable

Federal Award Number: Not Applicable – Direct Payments with Unrestricted Use Funded through U.S. Treasury Trust Fund

Administered by: Department of Labor and Training (DLT)

**Compliance Requirement:** *Special Tests and Provisions*

UNEMPLOYMENT INSURANCE PROGRAM INTEGRITY – BENEFIT OVERPAYMENTS

**The Department of Labor and Training (DLT) did not make the necessary changes to its system to allow for the imposition of penalties on overpayments due to fraud, and to prohibit relief from charges to an employer’s UC account when the overpayment was the result of the employer failure to respond timely or adequately to a request for information.**

**Criteria:** Federal law provides that (1) States are required to impose a monetary penalty (not less than 15 percent) on claimants whose fraudulent acts resulted in overpayments and deposit the funds in the State’s account in the Unemployment Trust Fund, and (2) States are prohibited from providing relief from charges to an employer’s UC account when overpayments are the result of the employer’s failure to respond timely or adequately to a request for information.

*Pub. L. No. 112-40, enacted on October 21, 2011, and effective October 21, 2013, amended sections 303(a) and 453A of the Social Security Act and sections 3303, 3304, and 3309 of the Federal Employment Tax Act (FUTA) to improve program integrity and reduce overpayments. (See UIPL Nos. 02-12, and 02-12, Change 1).*

In compliance with federal law, the State enacted these requirements into State law effective October 1, 2013, including a 15% penalty on overpayments due to claimant fraud (RIGL 28-42- 62.1(a)(4)) and a prohibition on relieving the employer’s account of charges relating to any benefit overpayments made if the employer was at fault for failure to respond timely or adequately to a request of the department for information relating to the claim (RIGL 28-43-3(2)(viii)).

**Condition:** We tested a random sample of 25 benefit overpayments during fiscal 2019 to determine if the State was properly identifying and handling overpayments, including, as applicable, assessment of the 15% penalty on claimants who commit fraud, and not relieving an employer’s account of charges for overpayments when their untimely or inaccurate responses cause improper payments. We found that:

- 13 overpayments were classified as claimant fraud. However, none of these individuals were assessed the 15% penalty as required by federal and state law, and
- Employer fault was not identified as a cause of any of the 25 overpayments.

**Cause:** DLT management advised us that UI computer system programming changes to effect penalties were not implemented due to the anticipated implementation of a new benefit computer system. Due to implementation delays, DLT is programming the existing benefit system to impose penalties for overpayments due to fraud and anticipates moving the programming changes into production in the first quarter of 2020.

**Effect:** Noncompliance with federal and State laws as well as lost revenue on penalties not assessed.

**Questioned Costs:** None

**Valid Statistical Sampling:** No

#### RECOMMENDATION

2019-043 Adopt procedures to: (1) impose and collect a 15% penalty on benefit overpayments of claimants who commit fraud (RIGL 28-42-62.1(a)(4)) and (2) prohibit providing relief to an employer account when an overpayment is the result of the employer’s failure to respond timely or adequately to a request for information by the State agency (RIGL 28-43-3(2)(viii)).

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

#### **Finding 2019-044**

*(significant deficiency – new finding)*

FEDERAL TRANSIT CLUSTER – CFDA 20.500, 20.507, 20.525 and 20.526

Federal Award Agency: Department of Transportation (DOT), Federal Transit Administration (FTA)

Federal Award Fiscal Years: 2012 and 2013

Federal Award Numbers: RI-12-X001-00 and RI-05-0104-00

Administered by: Department of Transportation (RIDOT)

**Compliance Requirement: Subrecipient Monitoring**

#### SUBRECIPIENT MONITORING

**RIDOT subrecipient monitoring procedures need to be enhanced to ensure that funds are used by subrecipients in compliance with FTA program laws and regulations.**

**Background:** RIDOT had one subrecipient receiving a Federal Transit Cluster subaward during fiscal year 2019.

**Criteria:** All pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the

terms and conditions of the subaward; and that subaward performance goals are achieved (2 CFR 200.331(a) through (h)).

**Condition:** RIDOT did not obtain or review the subrecipient’s most recently issued Single Audit Report. The contract between the subrecipient and RIDOT did not identify the following required information: CFDA title, award name of the grant, requirement for System for Award Management (SAM) registration, including maintaining a current SAM registration during the life of the subaward, and RIDOT did not obtain the DUNS number prior to issuance of the subaward.

**Cause:** RIDOT administers FTA Cluster projects through the Department’s Office of Transit. Pass-through awards are typically made through other Offices and Divisions within RIDOT that have specific procedures in place to meet sub-award administrative requirements including obtaining and reviewing subrecipient audit reports.

**Effect:** Subrecipients may not comply with federal requirements when expending pass-through awards.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

#### RECOMMENDATIONS

- 2019-044a Obtain and review Federal Transit Cluster subrecipient audit reports and issue management decisions, as applicable, for findings related to pass-through awards to the subrecipient.
- 2019-044b Ensure contracts and subaward documentation contain all the required elements at the time of award to ensure compliance with subgrantees.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

#### **Finding 2019-045**

**(significant deficiency – new finding)**

FEDERAL TRANSIT CLUSTER – CFDA 20.500, 20.507, 20.525 and 20.526

Federal Award Agency: Department of Transportation (DOT), Federal Transit Administration (FTA)

Federal Award Fiscal Years: 2010, 2012, 2013, 2017 and 2018

Federal Award Numbers: RI-03-0043-01, RI-12-X001-00, RI-05-0104-00, RI-2016-002-01, RI2016-002-02, RI-2016-009-01 and RI-2018-001-01

Administered by: Department of Transportation (RIDOT)

**Compliance Requirement: Procurement and Suspension and Debarment**

#### PROCUREMENT AND SUSPENSION AND DEBARMENT

**RIDOT contracting procedures need to be enhanced to ensure contracts with vendors and subrecipients comply with State procurement regulations and FTA program laws and regulations.**

**Criteria:** RIDOT must ensure that entities with which the State plans to enter into a covered transaction is not debarred, suspended, or otherwise excluded (2 CFR sections 200.212 and 200.318(h); 2 CFR section 180.300; 48 CFR section 52.209-6).

Buy America - 49 CFR § 661.5(a) states "Except as provided in § 661.7 and § 661.11 of this part, no funds may be obligated by FTA for a grantee project unless all iron, steel, and manufactured products used in the project are produced in the United States."

**Condition:** RIDOT did not obtain a debarment certification or have documentation within the procurement file supporting the Department's check of the System for Award Management (SAM) website for vendors contracted with in excess of \$25,000 related to the grant program for 2 of 6 procurement files selected for testing, both procurements missing documentation were railroad companies. We determined that the vendors were not suspended or debarred. Also, we could not identify the required Buy America provision in the contract documents.

**Cause:** Procedures are not in place to verify if vendor and subrecipient contracts in excess of \$25,000 for the Federal Transit Cluster program are not suspended, debarred, or otherwise excluded from participation.

**Effect:** Contracts to expend Federal Transit Cluster funds could be awarded to suspended or debarred parties without detection.

**Questioned Costs:** None

**Valid Statistical Sampling:** No

#### RECOMMENDATION

2019-045 Enhance controls over FTA procurements by processing through the Office of Contract and Procurement within RIDOT which has established procedures to ensure compliance with procurement and suspension and debarment requirements. Ensure all documentation relative to Buy America and the Suspension and Debarment certifications is maintained.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

#### ***Finding 2019-046***

***(significant deficiency – new finding)***

PERFORMANCE PARTNERSHIP GRANTS – CFDA 66.605

Federal Award Agency: Environmental Protection Agency (EPA)

Federal Award Fiscal Year: 2017-2019

Federal Award Number: BG-99125707

Administered by: Department of Environmental Management (DEM)

***Compliance Requirements: Activities Allowed or Unallowed; Allowable Costs/Cost Principles***

#### TIME AND EFFORT REPORTING

**DEM can enhance controls over time and effort reporting to ensure payroll cost allocations and reimbursements for the Performance Partnership Grants are adequately supported.**

**Background:** Employee time and effort is tracked, generally through timesheets, which are used to allocate costs and seek reimbursement from applicable federal programs.

**Criteria:** 2 CFR section 200.430(i)(1) requires that "Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

- (i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;
- (ii) Be incorporated into the official records of the non-Federal entity;
- (iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS);
- (iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;
- (v) Comply with the established accounting policies and practices of the non-Federal entity (See paragraph (h)(1)(ii) above for treatment of incidental work for IHEs.); and
- (vi) [Reserved]
- (vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity."

**Condition:** Amounts allocated to federal programs for personnel costs were not consistently supported by timesheets. Official copies of employee time sheets are not retained within the Department and the centralized State agency responsible for processing payroll was unable to retrieve certain time sheets in our sample.

DEM employees report their time on a weekly basis and report actual hours worked on various projects through a DEM cost accounting system. After entering their time and attendance information, a copy of the time sheet is printed and then signed by the employee and applicable approving supervisor. That original signed time sheet is forwarded, by policy and practice, to a centralized payroll processing unit external to DEM – copies are not retained within DEM. We selected a sample of 43 biweekly time periods (86 weekly time sheets) from 17 employees who charged time to the PPG awards.

Eight out of 86 time sheets selected for testing could not be provided by the centralized payroll processing unit. We found 4 instances in which the percentage of hours allocated, as calculated from the hours reported, on the timesheet did not agree to percentage allocations in the payroll system, including one instance in which a project not seen on the timesheet was charged in the payroll system. We also noted, 2 instances in which the accounts detailed as being charged in the cost accounting system did not agree to the accounts charged in the payroll system.

**Cause:** Policies and procedures, overall, were insufficient to ensure amounts claimed and reimbursed by Federal awards for personnel costs were adequately documented and supported. Specifically, time sheet storage and retrieval challenges within the State's centralized payroll processing unit impacted the capability to obtain required time and effort reporting documentation.

**Effect:** Personnel costs reimbursed from Federal awards may be unallowable due to inadequate documentation.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

## RECOMMENDATIONS

- 2019-046a Maintain electronic scan copies of original signed timesheets at DEM to support charges against Federal awards.
- 2019-046b Enhance controls to ensure hours reported by employees are properly reflected in the DEM cost accounting system and RIFANS. Periodically reconcile hours reported on timesheets to cost accounting/RIFANS and record adjustments as necessary.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

### ***Finding 2019-047 (material noncompliance/material weakness – repeat finding – 2018-056)***

#### TANF CLUSTER – CFDA 93.558

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: G1802RITANF and G1902RITANF

Administered by: Department of Human Services (DHS)

***Compliance Requirement: Eligibility***

#### TANF ELIGIBILITY – RIBRIDGES

**The State did not comply with TANF eligibility requirements during fiscal 2019 due to control deficiencies and inconsistent case documentation in RIBridges.**

**Background:** RIBridges is the State’s federally approved computer system used to manage multiple health care and human service programs. It was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces. RIBridges system operation has been problematic since implementation and efforts to address eligibility processing challenges are ongoing. Enhanced federal funding for new eligibility systems was approved to provide more efficient, economical, and effective administration of these human service programs.

**Criteria:** Federal regulation 45 CFR 260.20 requires that a family be needy in order to be eligible for TANF Cluster assistance and job preparation services. Federal regulation 45 CFR 205.60(a) requires (the state agency) “to maintain records to support eligibility, including facts to support the client’s need for assistance. The state’s policies and procedures require that documentation used to verify eligibility be maintained in the case file.”

**Condition:** Operational and control deficiencies resulting from the RIBridges system implementation resulted in control deficiencies over compliance with eligibility requirements for the TANF program.

Documentation in RIBridges was insufficient to support eligibility for many of the cases tested. RIBridges lacks sufficient historical case data to evaluate past eligibility determinations, especially for client attested data and external resource panel results which only provide current data reported in the system.

**Sample 1 - Eligible cases (households) within RIBridges during fiscal 2019**

**Population: 48,819 cases, \$21,674,495 in benefits paid**

Sample Size	Number of Exceptions	Exception Type	Error Rate	Known Questioned Costs
60	35*	Exceptions related to nonconformance with established eligibility process and/or control procedures, including documentation deficiencies - no eligibility impact or undetermined eligibility impact	58%	
	4	Exceptions impacted eligibility – individual(s) incorrectly determined eligible	5%	\$6,367

*Questioned costs, when applicable and determined, represent the amount of benefits paid for the periods after the recertifications were due.*

*Exceptions – cases incorrectly determined eligible:*

- Signed recertification documents not scanned to the system (4 instances).

*Exceptions – nonconformance with established eligibility process and/or control procedures (control exception without impact on eligibility):*

- Signed applications not scanned to the system (2 instances);
- Identification documents for all household members not scanned to the system (28 instances). Three cases contained individuals whose social security numbers were not verified by the SSA interface;
- Proof of residency not documented (19 instances); and
- Documentation of the consideration of earned income was incomplete (1 instance).

*\* Represents the number of cases containing errors; a case may have more than one error.*

Designed interfaces to periodically validate client income for continued eligibility were not implemented or operational during fiscal 2019 which compromised the effectiveness of and controls over the eligibility determination process. This is more fully described in Finding 2019-050.

Work eligible parents who receive cash assistance must comply with an employment plan to prepare for and enter employment. As more fully described in Finding 2019-049, DHS can improve the timely update and/or development of new employment plans for clients upon the expiration of an existing plan.

**Cause:** All RIBridges designed eligibility components were not fully functional in fiscal 2019 which compromised the effectiveness of the controls over the TANF eligibility determination process.

**Effect:** Ineffective controls over the eligibility process for TANF. Potential for payment of benefits to ineligible families and/or payment of incorrect benefit amounts.

**Questioned Costs:** \$6,367

**Valid Statistical Sampling:** Yes



## RECOMMENDATIONS

- 2019-047a Continue efforts to ensure that all required eligibility compliance requirements are operational within RIBridges.
- 2019-047b Enhance controls to ensure all required documentation to support eligibility determination, including sufficient historical case data, is retained in the electronic case record and/or supported by scanned documentation.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

### **Finding 2019-048**

***(material weakness – new finding)***

#### TANF CLUSTER – CFDA 93.558

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: G1802RITANF and G1902RITANF

Administered by: Department of Human Services (DHS)

#### CCDF CLUSTER – CFDA 93.575 and 93.596

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: G1801RICCDF and G1901RICCDF

Administered by: Department of Human Services (DHS)

***Compliance Requirement: Reporting***

## FEDERAL REPORTING

**DHS reversed transfers between the TANF and Childcare programs. The reversal crossed federal fiscal years, resulting in report changes and duplication of reported expenditures.**

**Criteria:** ACF-196R, *TANF Financial Report (OMB No. 0970-0446)*– is filed quarterly on the State’s use of federal TANF funds.

**Condition:** During fiscal 2019, DHS made a budgetary decision to reverse all transfers between the TANF and Child Care programs. In June 2019, DHS reversed all transfers dating back to July 2018. In doing so, they reversed \$2.6 million in transfers that had been reported during the previous federal fiscal year. At the time of the reversal, the previous federal year reports for both TANF and Childcare had been filed as final reports. The \$2.6 million was also reported as a FFY 2019 expenditure in TANF, thereby duplicating the expenditure.

**Cause:** Management did not sufficiently consider the federal reporting implications of reversing previously reported transfers between programs.

**Effect:** Certain federal financial reports, as submitted, do not accurately reflect expenditure data recorded in the State’s accounting system.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

RECOMMENDATION

2019-048 Consider reporting effects before reversing previously recorded transfers. Correct reports as needed.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-049**

**(material weakness – repeat finding – 2018-058)**

TANF CLUSTER – CFDA 93.558

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: G1802RITANF and G1902RITANF

Administered by: Department of Human Services (DHS)

**Compliance Requirement: Special Tests and Provisions**

TANF WORK VERIFICATION PLAN

**DHS can improve the timely update and/or development of new employment plans for clients upon the expiration of an existing plan.**

**Background:** All work eligible parents who receive cash assistance must enter and comply with an employment plan to prepare for and enter employment as soon as possible. The first activity for most parents will be a job search. Other employment, education, or training may be possible. Work activities include employment, unpaid work experience or community service, job training and job search/job readiness. Failure to meet or comply with work requirements, as defined in each individual’s employment plan, could result in financial penalty, reduction of cash benefits, or termination of program eligibility.

**Criteria:** The State agency must maintain adequate documentation, verification, and internal control procedures to ensure the accuracy of the data used in calculating work participation rates. In so doing, it must have in place procedures to (a) determine whether its work activities may count for participation rate purposes; (b) determine how to count and verify reported hours of work; (c) identify who is a work-eligible individual; and (d) control internal data transmission and accuracy.

Each State agency must comply with its HHS-approved Work Verification Plan in effect for the period that is audited. HHS may penalize the State by an amount not less than one percent and not more than five percent of the State Family Assistance Grant for violation of this provision (42 USC 601, 602, 607, and 609); 45 CFR sections 261.60 through 261.65).

Non-compliance by the client with employment plan activities can result in case sanction and closure after 3 months of non-compliance.

**Condition:** From our random sample of 60 eligibility determinations:

<b>Sample 1 - Eligible TANF cases (households) within RIBridges during fiscal 2019:</b>				
<b>Population: 48,819 cases, \$21,674,495 in benefits paid 60 cases selected, of which 36 were required to have employment plans in place</b>				
Sample Size	Number of Exceptions	Exception Type	Error Rate	Known Questioned Costs
36	5	Exceptions related to nonconformance with established eligibility process and/or control procedures, including documentation deficiencies - no eligibility impact or undetermined eligibility impact	14%	\$10,087
	1	Exceptions impacted eligibility – individual(s) incorrectly determined eligible	3%	\$3,297
<p><i>Questioned costs, when applicable and determined, represent the amount of benefits paid to ineligible client(s) or the amount of penalties that should have been imposed for the periods where no employment plan was in place or recipient was not cooperating with their employment plan.</i></p>				

*Exceptions – cases incorrectly determined eligible:*

- One client did not complete an employment plan at the time of application and was deemed eligible.

*Exceptions – nonconformance with established eligibility process and/or control procedures (control exception without impact on eligibility):*

- For those 36 cases, 33 clients had employment plans in place. Of the three who did not, one was appropriately sanctioned, one case was closed and one was incorrectly deemed eligible.
- 21 of the 33 clients were in compliance with their employment plan.
- Of the 12 cases found to be noncompliant with the employment plan, five cases should have been sanctioned in that month or the next month but were not.
- In our testing of employment plan compliance, we noted three cases where the vendor indicated the client had complied with the plan, but the hours entered indicated the client had not fully complied. One case noted that hours were not entered by the services vendor until two to three months after service.

**Cause:** The large volume of worker tasks within the RIBridges system challenged DHS employment and career advisors to contact clients timely to develop a new employment plan.

**Effect:** Potential federal sanctions/penalties for failure to meet the required work participation rate, and questioned costs due to required, but unprocessed, reductions in cash benefits or case closures related to client noncompliance with their employment plan.

**Questioned Costs:** \$13,384

**Valid Statistical Sampling:** Yes

RECOMMENDATION

2019-049 Improve the timeliness of updating or establishing new employment plans upon the expiration of an existing plan. Sanction clients not in compliance with their employment plans, and close cases after three months of non-compliance.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

***Finding 2019-050 (material noncompliance/material weakness – repeat finding – 2018-059)***

TANF CLUSTER – CFDA 93.558

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: G1802RITANF and G1902RITANF

Administered by: Department of Human Services (DHS)

***Compliance Requirement: Special Tests and Provisions – IEVS***

INCOME ELIGIBILITY AND VERIFICATION SYSTEM (IEVS)

**The State did not comply with the Income Eligibility and Verification System requirements in fiscal 2019. RIBridges does not currently meet that required functionality.**

**Background:** States are required to participate in the Income Eligibility and Verification System (IEVS) which requires coordinated data exchanges with other federally assisted benefit programs and use of income and benefit information when making eligibility determinations.

**Criteria:** Section 1137 of the Social Security Act as amended and 42 USC 1320b-7; 45 CFR section 205.55. State Wage Information Collection Agency (SWICA), Unemployment Compensation, Social Security Administration, U.S. Citizenship and Immigration Services information is required to be obtained and used to determine eligibility and the amount of TANF benefits.

**Condition:** DHS has not met IEVS data exchange functionalities as part of its TANF eligibility determination process.

**Cause:** The required IEVS data interface functionalities have not been programmed within RIBridges.

**Effect:** Controls over eligibility and the determination of TANF benefit amounts are weakened.

**Questioned Costs:** Unknown

**Valid Statistical Sampling:** Not Applicable

RECOMMENDATION

2019-050 Implement the federally required data interfaces within the RIBridges eligibility system to meet the IEVS TANF program requirement.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-051**

**(significant deficiency– new finding)**

**TANF CLUSTER – CFDA 93.558**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: G1802RITANF and G1902RITANF

Administered by: Department of Human Services (DHS)

**CCDF CLUSTER – CFDA 93.575 and 93.596**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: G1801RICCDF and G1901RICCDF

Administered by: Department of Human Services (DHS)

**Compliance Requirement: Subrecipient Monitoring**

**SUBRECIPIENT MONITORING**

**DHS subrecipient monitoring procedures need to be enhanced to ensure that funds are expended by subrecipients in compliance with applicable program laws and regulations.**

**Criteria:** All pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved (2 CFR 200.331(d) through (f)). In addition, 45 CFR 96.30(a) states that fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant.

A pass-through entity (PTE) is responsible for: *During-the-Award Monitoring* – Monitoring 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved (2 CFR sections 200.331(d) through (f)).

Subaward monitoring must include the following:

1. Reviewing financial and programmatic (performance and special reports) required by the PTE.
2. Following-up and ensuring that the subrecipient takes timely and appropriate action on all deficiencies pertaining to the federal award provided to the subrecipient from the PTE detected through audits, on-site reviews, and other means.
3. Issuing a management decision for audit findings pertaining to the federal award provided to the subrecipient from the PTE as required by 2 CFR section 200.521.

**Condition:** DHS did not perform any on-site fiscal monitoring of any its subrecipients during fiscal 2019.

DHS performs risk assessments on all contracts when they are awarded. DHS deemed the subrecipients to be low risk based on desk reviews of subrecipient Single Audit reports. When no findings were reported, the subrecipient was considered low risk and consequently on-site fiscal monitoring was not performed. Any findings should result in a “high risk” designation and prompt a site visit. DHS deemed all their subrecipients “low-risk” and did not perform any on site fiscal monitoring. When reviewing audit reports, DHS did not consider whether programs were audited as major programs within the applicable single audit.

The TANF program has 21 subrecipients, only 7 of which received over \$100,000, and only six of these had Single Audit reports. None of these included TANF as a major program.

The Child Care Cluster had four subrecipients, two of which had Single Audits performed which included the cluster as a major program. One of the audits cited a finding related to the Cluster. DHS did not perform a site-visit or issue a management decision, as required, for the finding included in the subrecipient audit report.

When programs are not audited as major programs, the audit report provides no assurance regarding the subrecipient’s controls or compliance with specific program requirements. Review and consideration of available subrecipient audit reports is appropriate in developing a risk-based monitoring plan. However, consideration should also include other appropriate evaluation procedures (e.g., the capability and continuity of fiscal management at the subrecipient agency, volume of benefits disbursed).

**Cause:** The State plan for FFY 2018 was modified to only require on-site monitoring if a subrecipient was deemed high risk based on a review of the subrecipient single audit reports. Reliance solely on subrecipients audits without consideration of whether the program was tested as a major program or other appropriate risk factors could lead to an inappropriate low-risk classification for subrecipients.

**Effect:** Monitoring procedures may be insufficient to ensure that subrecipients are complying with applicable program regulations and requirements.

**Questioned Costs:** None

**Valid Statistical Sampling:** No

RECOMMENDATIONS

- |           |                                                                                                                                                                                                                                                                           |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-051a | Modify subrecipient risk assessment procedures to include consideration of whether program was tested as a major program in subrecipient Single Audits and other factors such as the continuity and capability of subrecipient management and volume of program activity. |
| 2019-051b | Issue management decision on findings related to federal programs administered by DHS as required by 2 CFR 200.521.                                                                                                                                                       |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-052**

**(significant deficiency – repeat finding – 2018-063)**

**LOW-INCOME HOME ENERGY ASSISTANCE – CFDA 93.568**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 2018G992201 and 2019G992201

Administered by: Department of Human Services (DHS)

**Compliance Requirement: Subrecipient Monitoring**

**SUBRECIPIENT MONITORING**

**DHS subrecipient monitoring procedures need to be enhanced to ensure that funds are expended by subrecipients in compliance with LIHEAP laws and regulations.**

**Criteria:** All pass-through entities must monitor the activities of the subrecipient as necessary to ensure that the subaward is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the subaward; and that subaward performance goals are achieved (2 CFR 200.331(d) through (f)). In addition, 45 CFR 96.30(a) states that fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of the statute authorizing the block grant. “A pass-through entity is responsible for: *During-the-Award Monitoring* – Monitoring 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, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.”

**Condition:** DHS did not perform any on-site fiscal monitoring of any of its seven subrecipients during fiscal 2019. DHS deemed the subrecipients to be low-risk based on desk reviews of subrecipient Single Audit reports. When no findings were reported, the subrecipient was considered low-risk and consequently on-site fiscal monitoring was not performed.

In reviewing the Single Audit reports of the subrecipients, DHS did not consider whether LIHEAP was audited as a major program. Based on review of fiscal 2018 subrecipient audit reports, LIHEAP was audited as a major program for three of seven subrecipients (43% of subaward amounts). When the LIHEAP program was not audited as a major program, the audit report provides no assurance regarding the subrecipient’s controls or compliance with LIHEAP requirements. Review and consideration of available subrecipient audit reports is appropriate in developing a risk-based monitoring plan. However, consideration should include (1) whether LIHEAP was audited as a major program and (2) other evaluation procedures (e.g., the capability and continuity of fiscal management at the subrecipient agency, volume of benefits disbursed).

**Cause:** The State plan for FFY 2018 was modified to only require on-site monitoring if a subrecipient was deemed high risk based on a review of the subrecipient single audit reports. Reliance solely on subrecipients audits without consideration of whether LIHEAP was tested as a major program or other appropriate risk factors could lead to an inappropriate low-risk classification for subrecipients.

**Effect:** Monitoring procedures may be insufficient to ensure that subrecipients are complying with all LIHEAP regulations and requirements.

**Questioned Costs:** None

**Valid Statistical Sampling:** No

## RECOMMENDATION

2019-052      Modify subrecipient risk assessment procedures to include consideration of whether LIHEAP was tested as a major program in subrecipient single audits and other factors such as the continuity and capability of subrecipient management and volume of program activity.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

### **Finding 2019-053**

**(material weakness – new finding)**

#### **LOW-INCOME HOME ENERGY ASSISTANCE – CFDA 93.568**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 2018G992201 and 2019G992201

Administered by: Department of Human Services (DHS)

***Compliance Requirements: Earmarking; Period of Performance; Reporting***

#### **EARMARKING, PERIOD OF PERFORMANCE, AND REPORTING**

**DHS must enhance controls regarding the allocation of expenditures to multiple available grant awards/periods to ensure compliance with earmarking, period of performance and reporting compliance requirements for LIHEAP.**

**Criteria: *Earmarking*** – The LIHEAP block grants are subject to limitations on grant award spending. No more than 10% of a State’s LIHEAP funds for a federal fiscal year may be used for planning and administrative costs (42 USC 8624(b)(9)(A);45 CFR section 96.88(a)). No more than 15% 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 (42 USC 8624(k)). No more than 5% of the LIHEAP funds may be used to provide services that encourage and enable households to reduce their home energy needs and, thereby, the need for energy assistance.

***Period of Performance*** – At least 90% of the LIHEAP block grant funds payable to the grantee must be obligated in the Federal fiscal year in which they are awarded. Up to 10% of the funds payable may be held available (or "carried over") for obligation no later than the end of the following federal fiscal year. Funds not obligated by the end of the following fiscal year must be returned to ACF. There are no limits on the time period for expenditure of funds (42 USC 8626).

#### **Reporting** –

- ***Annual Report on Households Assisted by LIHEAP (OMB No. 0970-0060)*** - as part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each component and any type of LIHEAP assistance (heating, cooling, crisis, and weatherization); and (2) the number of households served that contained young children, elderly, or persons with disabilities, or any vulnerable household for each component.
- ***LIHEAP Performance Data Form (OMB No 0970-0449)*** - State grantees must submit this report by January 31 regarding the prior federal fiscal year. The first section of the report is the Grantee Survey that covers sources and allocation of funding. The rest of the report is regarding performance metrics, mostly related to home energy burden targeting and reduction, as well as the continuity of home energy service.



- *LIHEAP Carryover and Reallotment Report (OMB No. 0970-0106)* - Grantees must submit this report no later than August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year and must also be reported (42 USC 8626).

**Condition:** LIHEAP personnel collapsed the RIFANS line sequences established to specifically identify each grant award and the related earmarking sub-allocations (e.g., weatherization). This weakened controls to ensure compliance with the earmarking, reporting, and period of performance requirements. Previously, each grant award was assigned a line sequence whereby all expenditures using that award as a funding source were uniformly coded. Currently, activity in the State accounting system (RIFANS) cannot be tracked by specific grant award and earmarking subsets (e.g., weatherization).

**Cause:** The line sequences established to track LIHEAP expenditures and activity by grant award/period and earmarking subset were collapsed into a single line sequence, resulting in an inability to consistently and accurately track the grant award funding the expenditures and support compliance with earmarking, period of availability and reporting compliance requirements.

**Effect:** Controls to ensure compliance with earmarking, period of availability and reporting requirements for LIHEAP were diminished due to the elimination of unique RIFANS accounts for each grant award and earmarking subset.

**Questioned Costs:** None

**Valid Statistical Sampling:** No

RECOMMENDATION

2019-053      Restore use of unique RIFANS accounts (line sequences) to identify/track each unique LIHEAP grant award, thereby demonstrating compliance with earmarking, period of performance and reporting requirements.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-054**

**(significant deficiency – repeat finding – 2018-062)**

**LOW-INCOME HOME ENERGY ASSISTANCE – CFDA 93.568**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 2018G992201 and 2019G992201

Administered by: Department of Human Services (DHS)

**Compliance Requirement: Reporting**

**REPORTING**

**Available documentation was insufficient to adequately support the data cited within Annual Report on Households and the LIHEAP Performance Data Form.**

**Criteria:** Annual Report on Households Assisted by LIHEAP (OMB No. 0970-0060) - as part of the application for block grant funds each year, a report is required for the preceding fiscal year of (1) the number and income levels of the households assisted for each component and any type of LIHEAP assistance (heating, cooling, crisis, and weatherization); and (2) the number of households served that contained young children, elderly, or persons with disabilities, or any vulnerable household for each component.

LIHEAP Performance Data Form (OMB No. 0970-0449) - State grantees must submit this report by January 31 regarding the prior federal fiscal year. The first section of the report is the Grantee Survey that covers sources and allocation of funding. The rest of the report is regarding performance metrics, mostly related to home energy burden targeting and reduction, as well as the continuity of home energy service.

**Condition:** DHS was unable to provide all documentation necessary to support the Annual Report on Households Assisted by LIHEAP and the LIHEAP Performance Data Form. Information on the report either did not agree to documentation or was inadequately supported. Certain information needed to complete the reports is derived from the computer system (Hancock) used by the subrecipient agencies in administering the program. Subrecipients are responsible for the input of information into the system.

Additionally, LIHEAP experienced significant personnel turnover within the year under audit, which is partially responsible for the lack of knowledge and corresponding oversight in the reporting process.

**Cause:** The reporting deficiencies are, in part, attributable to staff turnover and insufficient supervisory review of the report preparation.

**Effect:** The reports required to be filed with the federal government may be inaccurate.

**Questioned Costs:** None

**Valid Statistical Sampling:** Yes

**RECOMMENDATIONS**

2019-054a Ensure the data in the Hancock LIHEAP system is complete and accurate.

2019-054b Ensure the federal reports are supported by the reporting from the Hancock LIHEAP system.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-055**

**(significant deficiency – new finding)**

**LOW-INCOME HOME ENERGY ASSISTANCE – CFDA 93.568**

Federal Award Agency: Department of Health and Human Services (HHS), Administration for Children and Families

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 2018G992201 and 2019G992201

Administered by: Department of Human Services (DHS)

**Compliance Requirements: Activities Allowed or Unallowed; Eligibility**

**CONTROLS OVER LIHEAP FUNCTIONS PROVIDED BY EXTERNAL PARTIES**

**DHS should ensure controls are adequately designed and operational within the computer application utilized by the State to administer LIHEAP at local community action agencies.**

**Background:** DHS has acquired a computer application (Hancock) specifically designed to administer LIHEAP. The application is maintained by a vendor and is utilized both at the State level and within each of the seven community action agencies which determine program eligibility and related benefit amounts.

**Criteria:** Management has responsibility to ensure the adequacy of the design and operation of key controls over the operation of the program to ensure compliance with LIHEAP regulations. A Service Organization Control (SOC) report provided by the vendor is one means, in part, of meeting management's responsibility. Such a report could be included as a contract requirement with the application vendor. Alternatively, monitoring and assessment procedures should be performed by DHS with assistance from the State's Division of Information Technology (DoIT).

Passwords should be changed by the user at the initial account login, after a password reset and at least once every ninety (90) days, thereafter. Passwords for privileged accounts should be changed at least once every sixty (60) days or after a system administrator unlocks the account. (*RI DOA Enterprise Policy: ETSS - Enterprise Passwords – 2019*)

**Condition:** DHS has not performed assessments of the accuracy and reliability of the software in determining eligibility and related benefits or considered information technology risks for the application. The software is integral to the operation of the program and to maintain compliance with federal program requirements.

The software vendor does not provide a SOC report which would facilitate the Department's consideration of the operating effectiveness of the application and an assessment of certain information technology controls and risks. Absent a SOC report supplied by the vendor, DHS should document its consideration of the reliability of the application and whether key information technology risks have been adequately addressed.

Additionally, Hancock LIHEAP system users are not required to change their passwords after 90 days (privileged users after 60 days) in accordance with the State's Enterprise Password Policy.

**Cause:** DHS has not performed sufficient monitoring of operating effectiveness and information technology risk assessment for the Hancock LIHEAP application. The application vendor does not currently have a SOC examination performed for its LIHEAP application.

There are no automated controls in place to ensure that the users of the agency's Hancock system are prompted to change passwords in compliance with the State's Enterprise-wide guidelines.

**Effect:** DHS lacks sufficient information to ensure the operating effectiveness and data reliability of the computer application which is key to the administration of LIHEAP.

Inattention to maintaining user access controls could result in unauthorized access to the system and potential fraud and noncompliance with program requirements.

**Questioned Costs:** None

**Valid Statistical Sampling:** No

#### RECOMMENDATIONS

- 2019-055a      Require the vendor supporting the LIHEAP computer application to have a SOC examination performed to provide assurance on the operating effectiveness and data integrity of the application. Alternatively, monitoring and assessment procedures could be performed by DHS and the State’s Division of Information Technology.
- 2019-055b      Adhere to the State's Enterprise-wide guidelines and require individuals with access to LIHEAP's Hancock system to change their passwords every 90 days. Employees with privileged access to the system should change their password every 60 days.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

#### **Finding 2019-056** (material noncompliance/material weakness – repeat finding – 2018-064)

CCDF CLUSTER – CFDA 93.575 and 93.596  
Federal Award Agency: Department of Health and Human Services (HHS)  
Federal Award Fiscal Years: 2018 and 2019  
Federal Award Numbers: G1801RICCDF and G1901RICCDF  
Administered by: Department of Human Services (DHS)  
**Compliance Requirement: Eligibility**

#### CONTROLS OVER ELIGIBILITY, INCOME VALIDATION, AND DETERMINATION OF PARENT COST-SHARING AMOUNTS

**RIBridges controls over eligibility determinations, income validation and calculation of required parent cost-sharing amounts require strengthening for the CCDF Cluster programs.**

**Background:** RIBridges is the State’s federally approved computer system used to manage multiple health care and human service programs. It was designed to allow for integrated eligibility across programs, enhanced client accessibility, and provide for periodic validation of client attested data through multiple electronic interfaces. RIBridges system operation has been problematic since implementation and efforts to address eligibility processing challenges are ongoing. RIBridges determines eligibility for a childcare subsidy and the amount of parental co-pay based on family income. Payments to licensed childcare providers are made through RIBridges.

**Criteria:** Lead agencies must have in place procedures for documenting and verifying eligibility in accordance with federal requirements, as well as the specific eligibility requirements selected by each State in its approved plan. A lead agency is the designated State, territorial or tribal entity to which the CCDF grant is awarded and that is accountable for administering the CCDF program.

Lead agencies shall establish a sliding fee scale, based on family size, income, and other appropriate factors, that provides for cost sharing by families that receive CCDF childcare services (45 CFR section 98.42). Lead agencies may exempt families below the poverty line from making copayments and shall establish a payment rate schedule for childcare providers caring for subsidized children (45 CFR section 98.43).

**Condition:** RIBridges lacked effective income validation controls to reliably and accurately determine program eligibility, calculate parent co-shares, if required, and determine payments to childcare providers. Required redeterminations of eligibility were not consistently performed during fiscal 2019.

<b>Sample 1 - Eligible cases (households) within RIBridges during fiscal 2019:</b>				
<b>Population: 63,016 payments made to childcare providers, \$16,897,952 in benefits paid.</b>				
Sample Size (non-statistical)	Number of Exceptions	Exception Type	Error Rate	Known Questioned Costs
38	12	Exceptions related to nonconformance with established eligibility process and/or control procedures, including documentation deficiencies - no eligibility impact or undetermined eligibility impact	31.6%	N/A
	7	Exceptions impacted eligibility – individual(s) incorrectly determined eligible or case not terminated when recertification was due.	18.4%	\$29,798
	6	Exceptions not impacting eligibility, but resulting in incorrect payments to childcare providers	15.8%	\$4,533
<p><i>Questioned costs, when applicable and determined, represent the amounts paid to providers for ineligible cases or cases that should have been terminated, and/or amounts paid to providers that would have been paid by parents if co-shares had been properly calculated.</i></p>				

Instances involving incorrect eligibility determination include one case where the child was ineligible per RIBridges, but payments were made to the provider because the parent had enrolled the child with a “pending” certificate. Eligibility was subsequently denied, but the child was not unenrolled. The remaining incorrect eligibility determinations include five instances where a recertification was not completed timely, but benefits continued.

Documentation deficiencies consisted of seven instances where the case lacked residency verification and/or income information. In three cases the case notes mentioned a recertification, but it was not scanned into the case. Two additional cases contained both errors.

**Cause:** All RIBridges designed eligibility components were not fully functional in fiscal 2019 which compromised the effectiveness of the controls over the CCDF eligibility determination process.

RIBridges did not calculate cost-sharing amounts consistently and correctly for parents and providers.

**Effect:** Parent co-shares were incorrectly determined for some cases which also affected provider payments. Providers were paid for some ineligible children. Controls over the administration of the program were weakened.

**Questioned Costs:** Known questioned costs in our sample totaled \$34,331 based on a bi-weekly payment cycle.

**Valid Statistical Sampling:** No

RECOMMENDATIONS

- 2019-056a Ensure RIBridges consistently and correctly calculates cost-sharing amounts for parents and providers.
- 2019-056b Complete a plan to ensure all designed system controls over CCDF eligibility, parent co-shares, and provider payments are fully operational.
- 2019-056c Perform recertifications at least every twelve months.

***Auditee views:*** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-057 (material noncompliance/material weakness –repeat finding – 2018-065)**

CHILDREN’S HEALTH INSURANCE PROGRAM – CFDA 93.767

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5021 and 1905RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirement: Eligibility**

CONTROLS OVER ELIGIBILITY DETERMINATIONS WITHIN THE CHILDREN’S HEALTH INSURANCE PROGRAM (CHIP) – MATERIAL NONCOMPLIANCE

**The State did not comply with CHIP eligibility requirements during fiscal 2019 due to control deficiencies and inconsistent case documentation in RIBridges.**

**Background:** RIBridges, the State’s computer system used to manage multiple federally funded human service programs, determines eligibility for CHIP. RIBridges functionality continued to improve in fiscal 2019 after multiple challenges at implementation.

**Criteria:** Eligibility requirements for CHIP are detailed in the State Plan. Recipient eligibility requirements generally include children under age 19 with household income less than 261% of the federal poverty limit (FPL). Coverage of pregnant women and unborn children of non-citizens is also available under CHIP for individuals with household income less than 253% of FPL. Enhanced funding under CHIP is available only for children without existing health coverage. Children with existing health coverage would be eligible for Medical Assistance.

42 CFR 435.916 requires the periodic renewal of recipient CHIP eligibility. The 12-month period mandated for MAGI-eligible (modified adjusted gross income) recipients pertains to the majority of Medicaid and CHIP recipients in Rhode Island.

42 CFR 435.940 through 435.960 details income and eligibility verification requirements for CHIP and Medicaid, requires State-administered public assistance programs to establish procedures for obtaining, using and verifying information relevant to determinations as to eligibility and the amount of assistance.

Section 1902(a)(4) of the Act allows the Secretary to prescribe methods of administration found necessary for the proper and efficient operation of a State’s Medicaid plan.

**Condition:** RIBridges system operation, while improved in fiscal 2019, continued to experience challenges relating to determination and documentation of CHIP eligibility. While most CHIP eligibility was identified through RIBridges, EOHHS identified additional CHIP claiming through querying the MMIS for individuals meeting CHIP characteristics but not coded as CHIP eligible by RIBridges. Utilizing two separate claiming mechanisms weakens controls over CHIP eligibility.

Further, the State could not reconcile CHIP expenditures claimed to the capitation and claims populations provided by the fiscal agent for the MMIS. The State was initially unable to document \$1.35 million in CHIP claiming for fiscal 2019. Subsequent to the performance of audit field work (in May 2020) EOHHS identified the variance as relating to Rite Share premium subsidy payments for certain CHIP cases. These amounts and cases were not included in the population provided by EOHHS for our testing.

Operational and control deficiencies during fiscal 2019 resulted in material noncompliance with eligibility requirements for CHIP, specifically:

- RIBridges is not effectively (1) terminating CHIP eligibility once the child turns 19, (2) considering the availability of existing health coverage at the time of application, (3) reassessing eligibility for the mother postpartum, and (4) transitioning qualified noncitizen children to Medicaid upon meeting the 5-year residency requirement. These are required eligibility criteria for CHIP per the State’s Plan.
  - We found 1,573 individuals or approximately 3.0% of the CHIP population were coded as CHIP eligible children but were older than age 19 at the month of capitation during fiscal 2019. The State claimed \$940,748 in capitation to CHIP after these children turned 19 (known questioned costs - \$844,792 – federal share). CHIP eligibility for these individuals should be closed and redetermined for Medicaid eligibility.
  - RIBridges is not currently evaluating existing health coverage in conjunction with determining CHIP eligibility, a practice inconsistent with the CHIP State Plan. The State’s most effective data source for identifying third-party insurance (automated TPL data match with private insurers) is utilized in the MMIS but is not interfacing with RIBridges at this time.
  - For pregnant women determined eligible for CHIP, RIBridges was not redetermining eligibility after the post-partum coverage period had ended. This system deficiency persisted into fiscal 2019 where we noted 110 individuals coded with CHIP pregnancy aid categories where the CHIP period of eligibility exceeded 12 months (under normal circumstances, maximum period would be 11-12 months). In these cases, eligibility should be redetermined for Medicaid after the post-partum period. Because the actual date of birth for the child was not known and the mother may be eligible under Medicaid, we did not determine questioned costs for these individuals who were no longer CHIP eligible based on the pregnancy criterion.
  - Implementation guidance from the Centers for Medicare and Medicaid Services (CMS) relating to the Children’s Health Insurance Program Reauthorization Act of 2009 (CHIPRA) indicated that qualified non-citizen children may be claimed at the CHIP enhanced rate until meeting the 5-year residency requirement required under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. Once the 5-year residency requirement is met, any child eligible for Medical Assistance should be claimed under Medicaid and no longer be claimed at the CHIP enhanced rate. RIBridges is not currently programmed to prompt this eligibility transition from CHIP to Medicaid.

- Results of RIBridges eligibility determination testing for CHIP noted the following error rates indicative of noncompliance with CHIP recipient eligibility requirements:

<b>Sample 1 – CHIP eligible individuals within the MMIS (claims processing system) - fiscal 2019:</b>				
<b>Population – 1,672,806 claims records, \$79.1 million (federal share) in claims/capitation expenditures</b>				
<b>Sample Size</b>	<b>Number of Exceptions</b>	<b>Exception type</b>	<b>Error Rate</b>	<b>Known Questioned Costs*</b>
47	11	Exceptions impacted eligibility – individual(s) incorrectly determined eligible	23.40%	\$15,268
	8	Exceptions related to nonconformance with established eligibility process and/or control procedures, including documentation deficiencies - no eligibility impact or undetermined eligibility impact	17.02%	n/a
*Questioned costs, when applicable and determined, represent the federal share of claims and capitation for fiscal 2019 deemed ineligible for the CHIP individual selected as the sampling unit.				

**Exceptions - individual(s) incorrectly determined CHIP eligible:**

- CHIP eligibility was terminated in RIBridges but not terminated in the MMIS claims payment system (4 cases).
- Income reported was for self-employment without any verification (1 case).
- Individual had existing third party health insurance coverage (3 cases).
- Verification of case income by electronic interfaces and related procedures was not consistently performed or documented (2 cases).
- Individual did not age-out of CHIP at age 19 (1 case).

**Exceptions – nonconformance with established eligibility process and/or control procedures (control exception without impact on CHIP eligibility):**

- Aid category assigned to case by RIBridges was inconsistent with aid category in MMIS (no compliance impact) (1 case).
- Documentation of financial eligibility calculation was not displayed in the system due to RIBridges technical issue (3 cases).
- Redetermination of eligibility was not performed timely (1 case).
- Unemployment income for case was not properly end dated (did not impact CHIP eligibility) (2 cases).
- Documentation of noncitizen parent complying with the 5-year bar requirement was lacking (no impact on eligibility of CHIP individual in household) (1 case).

We have identified known questioned costs from sampling and other audit procedures. These known questioned costs and projection of error rates to the total population of CHIP claims resulted in likely questioned costs indicative of material noncompliance with eligibility requirements for CHIP.

**Cause:** Noncompliance with CHIP eligibility requirements is caused by CHIP specific programming deficiencies within RIBridges. These include lack of functionality to (1) effectively terminate CHIP eligibility once the child turns 19, (2) consider the availability of existing health coverage at the time of application, (3) reassess eligibility for the mother postpartum, and (4) transition children from CHIP to Medicaid eligibility after qualified noncitizens comply with 5-year residency requirement under PRWORA.



Eligibility determinations were insufficiently documented within RIBridges during fiscal 2019 - there were continued inconsistencies of reported eligibility data between RIBridges and the MMIS systems. Designed eligibility components within RIBridges, while improved, were not fully effective in fiscal 2019 which negatively impacted the State's ability to materially comply with CHIP program eligibility requirements.

**Effect:** Material noncompliance with federal requirements relating to recipient eligibility and ineffective controls over the determination of CHIP eligibility.

**Questioned Costs:** \$860,060

**Valid Statistical Sampling:** Yes

RECOMMENDATIONS

- |           |                                                                                                                                                   |
|-----------|---------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-057a | Address and correct the RIBridges system deficiencies which result in material noncompliance with federal regulations regarding CHIP eligibility. |
| 2019-057b | Perform timely reconciliations between total CHIP claimed amounts and detailed supporting documentation.                                          |
| 2019-057c | Identify ineligible CHIP costs and return to the federal grantor.                                                                                 |

***Auditee views:*** *The auditee partially disagrees with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-058**

***(material noncompliance/material weakness –repeat finding – 2018-066)***

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Eligibility***

CONTROLS OVER MEDICAID ELIGIBILITY DETERMINATIONS - MATERIAL  
NONCOMPLIANCE

**The State did not materially comply with Medicaid eligibility requirements due to significant weaknesses in case documentation and deficient operation of controls over program eligibility during fiscal 2019.**

**Background:** RIBridges, the State's computer system used to manage multiple federally funded human service programs, determines eligibility for Medicaid. RIBridges functionality continued to improve in fiscal 2019 after multiple challenges at implementation.

**Criteria:** Medicaid eligibility requirements are detailed in the State Plan (Section 1115 Global Waiver).

42 CFR 435.940 through 435.960 details income and eligibility verification requirements for Medicaid, requires State-administered public assistance programs to establish procedures for obtaining, using and verifying information relevant to determinations as to eligibility and the amount of assistance. Section 1902(a)(4) of the Act allows the Secretary to prescribe methods of administration found necessary for the proper and efficient operation of a State's Medicaid plan.

42 CFR 435.916 requires the periodic renewal of recipient Medicaid eligibility. The 12-month period mandated for MAGI-eligible recipients pertains to the majority of Medicaid and CHIP recipients in Rhode Island.

**Condition:** Operational and control deficiencies resulting from the RIBridges system implementation resulted in material noncompliance with eligibility requirements for the Medicaid program, specifically:

- Results of RIBridges eligibility determination testing for Medicaid noted the following exceptions as summarized in the table below:

<b>Sample 1 - Individuals with Medicaid eligibility within the MMIS (claims processing system) during fiscal 2019:</b>				
<b>Population – 370,075 eligible individuals, \$1.4 billion (federal share) in claims/capitation expenditures</b>				
<b>Sample Size</b>	<b>Number of Exceptions</b>	<b>Exception type</b>	<b>Error Rate</b>	<b>Known Questioned Costs</b>
60	9	Exceptions impacted eligibility – individual(s) incorrectly determined eligible	15.0%	\$10,172
	2	Exceptions impacted eligibility – individual(s) incorrectly determined ineligible	3.3%	n/a
	8	Exceptions related to nonconformance with established eligibility process and/or control procedures, including documentation deficiencies - no eligibility impact or undetermined eligibility impact	13.3%	n/a
Questioned costs, when applicable and determined, represent the federal share of claims and capitation for fiscal 2019 deemed ineligible for the case selected as the sampling unit.				

**Exceptions - individual(s) incorrectly determined eligible:**

- Eligibility was terminated in RIBridges but not terminated in MMIS claims payment system (2 cases).
- Income reported was for self-employment without any verification (1 case).
- Verification of critical applicant data by electronic interfaces (income and immigration status) and related procedures was not consistently performed or documented in certain cases (4 cases).
- Determination of proper household size was questioned based on case documentation in certain exceptions (1 case).
- Incorrect aid category resulting in a financial impact (1 case).

**Exceptions - individual(s) incorrectly determined ineligible:**

- Eligibility improperly terminated without documentation of cause (1 case).
- Household/family size incorrectly determined (1 case).

**Exceptions – nonconformance with established eligibility process and/or control procedures (control exception without impact on eligibility):**

- Aid category assigned to case was incorrect (no financial impact) (4 cases).
- Case not updated for documentation submitted by client (1 case).
- Control deficiency noted regarding update of client tax filing status upon redetermination (1 case).
- Task not worked timely by eligibility technician (1 case).

In addition to the random sample of cases tested for eligibility described above, we assessed the operation and effectiveness of specific eligibility controls within RIBridges.

- RIBridges system and operating deficiencies impacted the timely termination of Medicaid eligibility upon death which resulted in capitation payments being made for ineligible individuals. This issue persisted into fiscal 2019 before being corrected through system modifications and related business processes. The issue impacted fiscal 2019, however, capitation paid on behalf of deceased individuals was being recouped from the managed care organizations in advance of managed care final contract settlements for fiscal 2018 and 2019 periods impacted.
- The RIBridges system was not redetermining eligibility for Medicaid eligible individuals categorized as Medicaid Expansion (adults up to age 64, < 138% FPL) upon reaching 65 years of age. This systemic issue persisted into fiscal 2019. We noted 372 individuals older than age 65 coded as Medicaid Expansion in the MMIS eligibility file at June 30, 2019. Estimated questioned costs based on an average monthly capitation amount of \$674.78 for Medicaid Expansion individuals ages 50-64 totaled \$1,075,086.
- Deficiencies relating to policies and controls relating to allowable deductions within the modified adjusted gross income (MAGI) household amounts have still not been addressed.

We also matched the Medicaid eligibility file for fiscal 2019 with quarterly SWICA (state wage interface collection agency) source data and identified 14 individuals with Medicaid eligibility during fiscal 2019 with income likely to be significantly in excess of maximum permitted income levels. For these purposes, we identified individuals with SWICA reported earnings of at least \$20,000 for each of 5 consecutive reporting quarters (quarters ended March 31, 2018 through March 31, 2019). This was an independent test to assess how RIBridges reacted to and prompted worker actions in response to updated wage information that would potentially discontinue eligibility. We noted the following:

- In six out of 14 instances – the refreshed SWICA wage data populated the case record but no action in response to the new information was apparent in RIBridges.
- In three out of 14 instances – the refreshed SWICA wage data was offset by reported income deductions – currently there are no defined limits on deductions to income.
- In four out of 14 instances – the refreshed SWICA wage data did not appear to be reflected timely or accurately within the case record to prompt eligibility technician tasks specific to the newly reported wage information.
- In one out of 14 instances – RIBridges determined the individual ineligible due to excess income, however, MMIS eligibility did not terminate.

We did not quantify questioned costs for this component of testing since only one eligibility attribute was considered within RIBridges without overall consideration of all eligibility components within the case.

Known questioned costs are identified for Medicaid eligibility test samples in the preceding paragraphs. Projection of these known questioned costs and error rate to the underlying claim and capitation populations results in likely questioned costs indicative of material noncompliance with Medicaid eligibility requirements.

**Cause:** Eligibility determinations were insufficiently documented by RIBridges during fiscal 2019. Certain RIBridges designed system functionalities (such as data interfaces and periodic eligibility determinations) and related processes, while improved, were not consistently functioning and/or sufficiently documented in fiscal 2019 which compromised the effectiveness of the controls over the Medicaid eligibility determination process. These issues negatively impacted the State’s ability to materially comply with Medicaid program eligibility requirements.

**Effect:** Material noncompliance with federal requirements relating to recipient eligibility and ineffective controls over the determination of eligibility for Medicaid.

**Questioned Costs:** \$1,085,258

**Valid Statistical Sampling:** Yes

RECOMMENDATIONS

- |           |                                                                                                                                                                                                                                                                |
|-----------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-058a | Address and correct the RIBridges system deficiencies which result in material noncompliance with federal regulations regarding Medicaid eligibility.                                                                                                          |
| 2019-058b | Formalize and implement a plan to ensure all designed system controls (PEV and redetermination) over eligibility are fully operational and well documented in the system.                                                                                      |
| 2019-058c | Improve RIBridges’ documentation of critical eligibility components to ensure that it can adequately document federal compliance with recipient eligibility requirements (including better case history supporting eligibility determinations made over time). |
| 2019-058d | Develop and implement a policy regarding allowable limits on deductions to reported income for MAGI based eligibility determinations.                                                                                                                          |
| 2019-058e | Identify ineligible Medicaid program costs and return to the federal grantor.                                                                                                                                                                                  |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-059**

**(significant deficiency –repeat finding – 2018-067)**

**CHILDREN’S HEALTH INSURANCE PROGRAM – CFDA 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5021 and 1905RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirement: Eligibility**

**MEDICAID ELIGIBILITY QUALITY CONTROL (MEQC) PROGRAM**

**The effectiveness of the MEQC program as an overall control over Medicaid eligibility determinations is diminished by continued RIBridges functional limitations and limited staffing allocated to the activity.**

**Background:** The MEQC program is a federally required process intended as a key control to ensure compliance with the Medicaid State Plan and federal regulations for Medicaid eligibility. It is intended to complement the Payment Error Rate Measurement (PERM) program and focuses on State’s determination of beneficiary eligibility or ineligibility for services covered under Medicaid. States are measured through the PERM every three years and are not required to conduct an MEQC pilot during its PERM year.

**Criteria:** 42 CFR 431.800 establishes State Plan requirements for a MEQC program that must be designed to reduce erroneous expenditures by monitoring eligibility determinations and claims processing operations. 42 CFR 431.810 requires the State to conduct reviews for MEQC pilots in accordance with federal regulations and other instructions established by the Centers for Medicare and Medicaid Services (CMS). States have been required to develop MEQC pilot planning proposals, report their findings, and implement corrective action plans in accordance with federal regulations and CMS requirements.

CMS guidance now mandates a minimum of 400 active cases and 400 negative cases (inclusive of Medicaid and CHIP) be reviewed annually. The State filed its MEQC pilot plan with CMS in December 2019.

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 State Medicaid agency must collect and verify all information necessary to determine the eligibility status of each individual included in the test samples. 42 CFR 431.812 requires that the agency perform both active and negative case reviews in accordance with terms defined in the regulations. Active cases include individuals that participate in the Medicaid program. Negative cases include individuals that were denied, suspended, or terminated from the Medicaid program. EOHHS, the State Medicaid agency, has delegated the operation of the MEQC program to the Department of Human Services (DHS).

**Condition:** The MEQC unit completed the fifth and final MEQC pilot project in March 2018. Corrective actions have been submitted with the results of the pilot findings to CMS. Required corrective actions have been updated through the fifth MEQC pilot (approximately 100 items listed as necessary code fixes, system edits, or additional functionality). While some of the issues have been addressed in RIBridges, the amount of pending corrective actions was not known upon our inquiry.

The MEQC unit is challenged in obtaining the information necessary to validate eligibility determinations because of ongoing RIBridges functional deficiencies. The inability to access information from the system in a timely and efficient manner delays completion of CMS mandated reporting within the required time frames.

Further, EOHHS will need to increase trained MEQC staff resources to fully comply with the new MEQC plan requiring 800 case reviews annually. During fiscal 2019 and subsequently, MEQC staff have been part of the State’s support for CMS required PERM testing.

**Cause:** RIBridges functional deficiencies prohibit the MEQC unit from accessing the information needed to verify the eligibility determinations made by the system in a timely manner. The system does not currently provide an adequate audit trail and poses significant obstacles to evaluating eligibility retrospectively. RIBridges functional enhancements were recently implemented to provide historical eligibility data. More system functionality is in design and will need to continue to allow for federally mandated compliance reviews to be performed accurately and efficiently.

**Effect:** Controls over the eligibility determination process for Medicaid and CHIP are diminished.

**Questioned Costs:** Unknown

**Valid Statistical Sampling:** Not Applicable

RECOMMENDATIONS

- |           |                                                                                                                                                                                                             |
|-----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-059a | Enhance RIBridges functionalities and documentation to facilitate timely and effective MEQC testing (and similar eligibility testing performed in conjunction with the Single Audit and PERM requirements). |
| 2019-059b | Ensure timely correction of RIBridges system deficiencies highlighted through the MEQC process to ensure compliance with federal eligibility requirements for Medicaid and CHIP.                            |
| 2019-059c | Dedicate additional trained MEQC personnel to ensure compliance with case review requirements under the newly submitted MEQC program planning document.                                                     |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-060 (other noncompliance/significant deficiency –repeat finding – 2018-068)**

CHILDREN’S HEALTH INSURANCE PROGRAM – CFDA 93.767  
Federal Award Agency: Department of Health and Human Services (HHS)  
Federal Award Fiscal Years: 2018 and 2019  
Federal Award Numbers: 1805RI5021 and 1905RI5021  
Administered by: Executive Office of Health and Human Services (EOHHS)

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778  
Federal Award Agency: Department of Health and Human Services (HHS)  
Federal Award Fiscal Years: 2018 and 2019  
Federal Award Numbers: 1805RI5MAP and 1905RI5MAP  
Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirement: Eligibility**

NONCOMPLIANCE WITH TIMELY ELIGIBILITY DETERMINATION REQUIREMENTS

**The State is not complying with timely determination of Medicaid eligibility requirements particularly for applicants requiring long-term care services and supports. Processing Medicaid applications for long-term care services in RIBridges continues to be problematic resulting in delays in determining eligibility and necessitating continued advances to long-term care service providers.**

**Criteria:** 42 CFR 435.912 established maximum time standards for determining eligibility for Medicaid at 90 days for applicants applying for coverage based on disability and 45 days for all other applicants.

**Condition:** While continuing to improve in fiscal 2019, EOHHS continues to experience challenges in processing Medicaid applications within federally required time frames. At June 30, 2019, there were 1,430 applications for medical coverage older than 90 days pending action by the State. 67 of the 1,430 applications related to MAGI Medicaid cases and 1,363 applications related to non-MAGI Medicaid with long-term services and supports applicants being the majority. Another 586 applications were indicated as being undetermined medical which includes applicants potentially eligible for Medicaid, CHIP, or qualified health insurance plans on the State’s Health Insurance Exchange.

**Cause:** Implementation of RIBridges created significant application processing backlogs. Significant personnel resources have been applied to address these backlogs and system functionality, user training, and application processing workflows have been improved. However, application backlogs remained during fiscal 2019 with more current system statistics showing continued improvement during fiscal 2020.

**Effect:** Noncompliance with federal requirements relating to the timely determination of Medicaid eligibility.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

RECOMMENDATION

2019-060 Implement RIBridges functionality improvements to ensure compliance with federal regulations governing the timely determination of Medicaid eligibility.

**Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

**Finding 2019-061**

**(material weakness – repeat finding – 2018-070)**

**CHILDREN’S HEALTH INSURANCE PROGRAM – CFDA 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5021 and 1905RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirement: Eligibility**

**INCONSISTENCY OF ELIGIBILITY DATA BETWEEN RIBRIDGES AND MMIS**

**Data discrepancies exist between the systems used to determine Medicaid and CHIP eligibility (RIBridges) and the claims/capitation payment system (MMIS). According to EOHHS internal statistics as of June 30, 2019, the MMIS reported 12,720 recipients active in MMIS but not active in RIBridges. In addition, 189 individuals were eligible in RIBridges but not eligible in the MMIS. This impacts controls to ensure payments are only made on behalf of eligible individuals and has resulted in duplicate capitation payments being made to managed care organizations. Additionally, in instances where eligibility is not successfully communicated to the MMIS, provider claims and capitation will not be paid for eligible individuals.**

**Background:** Eligibility for all Medicaid and CHIP cases is determined through RIBridges and communicated daily to the MMIS for payment of claims or capitation for eligible individuals. Eligibility data in both systems should be the same.

**Criteria:** Claims and capitation payments should only be made on behalf of individuals deemed Medicaid and CHIP eligible as evidenced by the RIBridges eligibility system.

**Condition:** Deficiencies associated with the new RIBridges system have resulted in eligibility data within the MMIS system being incorrect, outdated, and duplicated, significantly impacting the reliability of claims and capitation being paid only for individuals determined eligible for Medicaid in accordance with federal regulations. Eligibility record case discrepancies exceeded 10,000 during the fiscal year based on tracking by EOHHS and their contractors. We identified 1,729 potential duplicate records (Medicaid ID numbers) in the MMIS (based on analysis of a file of approximately 370,000 unique Medicaid ID numbers with some period of eligibility during fiscal 2019). Duplicate capitation payments did occur; however, EOHHS has not quantified all instances including whether the duplicate payment was subsequently recouped from the managed care organization.

Progress in resolving data and case differences between the two systems continued during fiscal 2019. The State works on daily exception reports that are generated when data from RIBridges is unable to update properly in the MMIS. The State has indicated that fixes to MMIS eligibility records can often get undone by subsequent communication between the systems and return to the exception report. Our independent testing noted a significant number of instances where the assigned aid category in RIBridges did not agree with the aid category in the MMIS which can also impact compliance especially if the aid category impacts whether the case is CHIP or Medicaid Eligible or regular Medicaid eligible versus Medicaid expansion. Continued reconciliations are required to synchronize these systems to ensure that claims and capitation are paid for only eligible individuals.



**Cause:** Deficiencies associated with the RIBridges system have resulted in eligibility data within the MMIS system being incorrect, outdated, and duplicated, significantly impacting the reliability of claims and capitation being paid only for individuals determined eligible for Medicaid in accordance with federal regulations.

**Effect:** Claims and capitation paid on behalf of individuals ineligible for Medicaid or duplicated in certain instances for eligible individuals where multiple cases have been established in the MMIS and/or RIBridges.

**Questioned Costs:** Unknown

**Valid Statistical Sampling:** Not Applicable

#### RECOMMENDATIONS

- 2019-061a Identify and resolve the underlying causes of eligibility data discrepancies between the MMIS and RIBridges systems.
- 2019-061b Determine the necessary corrective action and resources needed to eliminate the current backlog of system exceptions and future mismatches between the two systems.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

#### **Finding 2019-062**

**(material weakness –repeat finding – 2018-071)**

#### CHILDREN’S HEALTH INSURANCE PROGRAM – CFDA 93.767

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5021 and 1905RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

#### MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Activities Allowed or Unallowed; Allowable Costs/Cost Principles***

#### CONTROLS OVER MANAGED CARE CAPITATION PAYMENTS AND CONTRACT SETTLEMENTS

**EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCOs). Capitation payments to MCOs represent approximately 60% of Medicaid benefit expenditures. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. More stringent audit and financial monitoring procedures should be employed.**

**Background:** Medicaid expenditures for individuals enrolled in managed care during fiscal 2019 approximated \$1.5 billion (mostly capitation payments to participating MCOs). This comprised managed care coverage for 263,849 Medicaid eligible individuals - approximately 91% of total Medicaid enrollees at June 30, 2019. These capitation payments related to the following managed care programs within the State’s Medicaid program:

Program Name	Enrollment (June 2019)	Expenditures (in millions)
Rite Care (Core, CSHCN, Foster Care)	164,166	\$590
Rhody Health Partners (certain adults with disabilities)	14,541	\$241
Integrated Care Initiatives (Medicare/ Medicaid Dual Eligibles)	14,593	\$203
Medicaid Expansion (low-income adults under 138% FPL)	70,549	\$491
<b>Total</b>	<b>263,849</b>	<b>\$1,525</b>

Each of these programs has different population eligibility characteristics, capitation rate structures, and covered in-plan services. These programs, however, operate under similar contract structures for purposes of financial settlement with Medicaid.

Recognizing the significance of managed care services within the Medicaid program and the need to strengthen fiscal integrity and accountability controls over these services, the Center for Medicare & Medicaid services recently overhauled managed care regulations for the first time in more than a decade. The revised regulations are designed to strengthen fiscal transparency and integrity of managed care services provided in the Medicaid and CHIP programs.

Since managed care services provided within the RI Medicaid and CHIP programs involve complex rate setting and contract settlement provisions, the reliability and completeness of the mandated data provided by managed care organizations to the State is vital to fiscal integrity and accountability controls.

**Criteria:** 42 CFR 438.6, titled *Contract Requirements*, section (g) requires States to perform inspection and audit of financial records. Risk contracts must provide that the State agency and the Department may inspect and audit any financial records of the entity or its subcontractors.

42 CFR 438.602(e), titled *periodic audits*, requires that the State must periodically, but no less frequently than once every 3 years, conduct, or contract for the conduct of, an independent audit of the accuracy, truthfulness, and completeness of the encounter and financial data submitted by, or on behalf of, each MCO.

42 CFR 438.604, titled *Data that must be certified*, section (a) requires that when State payments to an MCO or PIHP are based on data submitted by the MCO, the State must require certification of the data as provided in §438.606. The data that must be certified include, but are not limited to, enrollment information, encounter data, and other information required by the State and contained in contracts, proposals, and related documents.

42 CFR 438.242, titled *Health Information Systems*, section (a) requires that States must ensure, through its contracts, that each MCO maintains a health information system that collects, analyzes, integrates, and reports data and can achieve the objectives of this subpart. The system must provide information on areas including, but not limited to, utilization, grievances and appeals, and disenrollments for other than loss of Medicaid eligibility. (b) Basic elements of a health information system. The State must require, at a minimum, that each MCO comply with the following: (1) Collect data on enrollee and provider characteristics as specified by the State, and on services furnished to enrollees through an encounter data system or other methods as may be specified by the State. (2) Ensure that data received from providers is accurate and complete by: (i) Verifying the accuracy and timeliness of reported data; (ii) Screening the data for completeness, logic, and consistency; and (iii) Collecting service information in standardized formats to the extent feasible and appropriate. (3) Make all collected data available to the State and upon request to CMS, as required in this subpart.

**Condition:** Due to the materiality of Medicaid and CHIP expenditures relating to managed care, we have identified the following three areas where the State can improve control and oversight over managed care expenditures:

- 1.) **Enhance controls over determination of MCO program eligibility and assignment of proper capitation rates** – the assignment of individuals to managed care coverage under the Integrated Care Initiative program involves monthly queries (performed by contractors) to identify individuals eligible for the program as well as changes in the status of current enrollees. Although Integrated Care Initiative monthly capitation is paid through the MMIS, identification of eligible individuals and the determination of capitation payment levels are not coded into the MMIS as they are for Rite Care. Controls should be enhanced to ensure that program assignment and related monthly capitation amounts are properly performed by the State. Managed care program assignment determined through the State’s eligibility system at the time that eligibility for Medicaid is determined would improve control over the manual processes currently employed. In addition, problems experienced by RIBridges have resulted in significant challenges within managed care to ensure that recipients of long-term care services and supports get properly coded and disbursed at the correct capitation levels.
- 2.) **Improve oversight of MCO contract settlements** – each managed care program contract defines the dates of service included in the contract period and a defined settlement period (usually one year after the contract end date) to allow for submission of all provider claims. The State relies extensively on its managed care consultant to evaluate and finalize amounts owed to or due from the State’s participating managed care organizations for each separate program and contract period (usually a year or less).

Final MCO contract settlements involve a comparison of the medical component of the capitation payment received with the underlying medical expenses relating to the contract period. Controls do not currently exist to validate all aspects of the final settlement calculation. The medical component of the capitation payment received is difficult to validate due to timing differences between when the payment is reported by the State and MCOs. The State relies extensively on its consultant to manually reconcile and validate capitation reported by the MCOs with amounts reported by the MMIS. Medical expenses are equally difficult to validate because although the State receives detailed encounter data from the MCO for services rendered, this data is not always complete or does not always provide a complete accounting of medical expenses incurred by the MCO. The final settlement reconciliation also includes several “general ledger” adjustments which are included in each contract or covered group’s (e.g., Rite Care, etc.) medical expenses. These general ledger adjustments vary by contract/covered group and require evaluation.

The State needs to formally identify and address the programmatic and technical challenges that prevent complete and efficient settlement of managed care contracts. The current processes are manually intensive and lack sufficient validation of a significant amount of contract activity. Since the MCO contract settlement process is performed solely by a contractor, EOHHS staff need to provide more oversight. Formalizing these processes should specifically ensure compliance with new State monitoring requirements such as 42 CFR 438.602(e) requiring audits of encounter and financial data every 3 years.

- 3.) **Resolve outstanding capitation issues prior to final contract settlements** – due to various issues resulting from the implementation of RIBridges, capitation due to or from MCOs for certain individuals has remained outstanding. These instances mostly relate to issues in establishing eligibility for newborns, delays in processing applications for individuals in need of long-term care services and supports, stopping capitation for deceased individuals and incorrect capitation rates caused by inconsistent levels of care within the systems.

We observed inconsistencies in how outstanding capitation issues were handled in the MCO contract settlements. In some instances, receivables/payables were recognized for capitation due to the MCOs or due back to the State as part of the reconciliation. In other instances, contract settlements were calculated on actual cash capitation paid without recognition of the outstanding capitation issues. EOHHS should enforce a consistent contract settlement calculation protocol for all MCOs.

These instances require an extensive amount of manual tracking and reconciliation (currently performed by contracted resources) to ensure that MCOs are reimbursed at the proper rates for periods of eligibility and most have remained unresolved for several years including managed care contract periods that have already been settled by EOHHS.

See related financial statement findings 2019-002 and 2019-003.

**Cause:** Inadequate controls over the fiscal monitoring and contract settlement for its managed care organizations (MCOs). The State does not receive complete and accurate encounter data to fully support contract settlement (based on established risk corridors) to ensure adequate control over managed care expenditures. RIBridges implementation issues have substantially complicated financial reconciliation efforts required between Medicaid and its managed care organizations. In addition, EOHHS relies too heavily on its managed care contractor for oversight of managed care expenditures without sufficient monitoring procedures to ensure sufficient control over this material class of expenditures.

**Effect:** Inaccurate reimbursements to MCOs for contract services provided to Medicaid enrollees.

**Questioned Costs:** Unknown

**Valid Statistical Sampling:** Not Applicable

#### RECOMMENDATIONS

- |           |                                                                                                                                                                                                                                                              |
|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-062a | Develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period.                                                                                                         |
| 2019-062b | Improve the adjudication of MCO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods. Disallow any costs from the contract settlement process that cannot be fully adjudicated. |
| 2019-062c | Require an independent audit of selected controls employed by the MCOs as well as the overall medical and administrative costs measured under the contracts.                                                                                                 |
| 2019-062d | Enforce a consistent contract settlement calculation protocol for all MCOs.                                                                                                                                                                                  |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-063**

**(significant deficiency –repeat finding – 2018-073)**

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirement: Special Tests and Provisions**

SURVEILLANCE UTILIZATION REVIEW ACTIVITIES

**EOHHS needs to reassess all activities considered surveillance utilization review services (SURS) performed within the Medicaid program to comply with federal regulations and amend the State Plan to accurately reflect the State’s current practices. With the majority of medical services now being performed by managed care organizations (MCO), formalized procedures should include consideration of new regulations regarding Medicaid managed care activities.**

**Criteria:** 42 CFR section 456 requires State Medicaid agencies to implement a statewide surveillance and utilization control program that (a) safeguards against unnecessary or inappropriate use of Medicaid services and against excess payments; (b) assesses the quality of those services; (c) provides for the control of the utilization of all services provided under the plan in accordance with subpart B of this part; and (d) provides for the control of the utilization of inpatient services in accordance with certain specific requirements outlined in the section of the federal regulations.

New managed care regulations under 42 CFR section 438.608 requires States to implement the following related program integrity activities in relation to contracts with managed care organizations:

- Provision for prompt reporting of all overpayments identified or recovered, specifying the overpayments due to potential fraud, to the State.
- Provision for a method to verify, by sampling or other methods, whether services that have been represented to have been delivered by network providers were received by enrollees and the application of such verification processes on a regular basis.
- Provision for the prompt referral of any potential fraud, waste, or abuse that the MCO identifies to the State Medicaid Program Integrity Unit or any potential fraud directly to the State Medicaid Fraud Control Unit.

**Condition:** The State currently conducts a variety of procedures relating to SURS and related program integrity activities. The State Plan was recently revised effective for FFY2020 to update how the State plans to comply with federal utilization review regulations. The State, however, still lacks comprehensive documentation of the specific State procedures designed to ensure compliance with the respective compliance areas outlined in the State Plan. Program changes such as the significant shifting of Medicaid claiming to managed care organizations, require that States reevaluate their processes to ensure that SURS controls are in place over all significant Medicaid claiming components. The combination of the revised State Plan and the new regulations regarding Medicaid managed care activities highlight the need for well documented procedures.

The State’s current SURS practices include a more comprehensive mix of procedures (manual and systemic), both before and after claim payment, that need to be formally documented by the State as evidence of compliance with federal regulations. Once formalized, the State should consider whether sufficient resources are currently dedicated to achieve compliance with federal regulations relating to utilization control.

**Cause:** EOHHS has not documented how various activities collectively meet the federal requirements relating to SURS (as outlined in the recently revised State Plan).

**Effect:** Potential federal noncompliance with federal regulations relating to SURS. Failure to identify significant claiming areas where surveillance utilization control review services are not operating effectively.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

RECOMMENDATION

2019-063 Reassess and formally document the State’s comprehensive activities designed to materially comply with federal requirements relating to SURS.

***Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.***

**Finding 2019-064**

***(material noncompliance/material weakness – new finding)***

**CHILDREN’S HEALTH INSURANCE PROGRAM – CFDA 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5021 and 1905RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Special Tests and Provisions – Provider Eligibility***

**MEDICAID MANAGED CARE ORGANIZATIONS – PROVIDER ELIGIBILITY**

**The State is not currently in compliance with federal regulations for the screening, enrollment, and revalidation of providers used in managed care organization (MCO) networks. Although many of these providers are also enrolled as Medical Assistance Providers, the new regulations mandate that States screen, enroll, and periodically revalidate all managed care network providers.**

**Criteria:** 42 CFR Section 438.602, titled *Managed Care, Additional Program Integrity Safeguards, State Responsibilities* requires the State to comply with the following sections relating to provider eligibility:

(b) Screening and enrollment and revalidation of providers.

(1) The State must screen and enroll, and periodically revalidate, all network providers of MCOs, PIHPs, and PAHPs, in accordance with the requirements of part 455, subparts B and E of this chapter. This requirement extends to PCCMs and PCCM entities to the extent the primary care case manager is not otherwise enrolled with the State to provide services to FFS beneficiaries. This provision does not require the network provider to render services to FFS beneficiaries.

(2) MCOs, PIHPs, and PAHPs may execute network provider agreements pending the outcome of the process in paragraph (b)(1) of this section for up to 120 days, but must terminate a network provider immediately upon notification from the State that the network provider cannot be enrolled, or the expiration of one 120 day period without enrollment of the provider, and notify affected enrollees.

(c) Ownership and control information. The State must review the ownership and control disclosures submitted by the MCO, PIHP, PAHP, PCCM or PCCM entity, and any subcontractors as required in §438.608(c).

(d) Federal database checks. Consistent with the requirements at §455.436 of this chapter, the State must confirm the identity and determine the exclusion status of the MCO, PIHP, PAHP, PCCM or PCCM entity, any subcontractor, as well as any person with an ownership or control interest, or who is an agent or managing employee of the MCO, PIHP, PAHP, PCCM or PCCM entity through routine checks of Federal databases. This includes the Social Security Administration's Death Master File, the National Plan and Provider Enumeration System (NPPES), the List of Excluded Individuals/Entities (LEIE), the System for Award Management (SAM), and any other databases as the State or Secretary may prescribe. These databases must be consulted upon contracting and no less frequently than monthly thereafter. If the State finds a party that is excluded, it must promptly notify the MCO, PIHP, PAHP, PCCM, or PCCM entity and take action consistent with §438.610(c).

**Condition:** The Medicaid and CHIP Managed Care Final Rule implemented new screening, enrollment, and revalidation requirements for providers of managed care organizations operating within these federal programs. These requirements became effective for fiscal 2019, however, EOHHS has not yet complied with these new regulations.

**Cause:** EOHHS did not comply with the above federal regulations relating to the screening, enrollment, and revalidation of providers used in managed care organization networks.

**Effect:** Potential federal noncompliance with federal regulations relating to eligibility of providers in managed care networks.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

RECOMMENDATION

2019-064      Implement procedures to comply with federal regulations for the screening, enrollment and revalidation of providers used in managed care organization networks.

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-065**

**(material weakness – new finding)**

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirement: Allowable Costs/Cost Principles**

**MEDICAID ADMINISTRATION COSTS – DEPARTMENT OF BEHAVIORAL HEALTHCARE,  
DEVELOPMENTAL DISABILITIES AND HOSPITALS**

**Department of Behavioral Healthcare, Developmental Disabilities and Hospitals administration costs were allocated to the Medicaid program through a departmental cost allocation plan that was not federally approved.**

**Criteria:** Uniform Guidance (Section 200.416) requires that cost allocation plans be federally approved.

**Condition:** The Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) utilized a new methodology to allocate administrative costs to federal programs (most notably, Medical Assistance) that was not federally approved. Consequently, BHDDH's administrative costs reimbursed through the Medicaid program were not allocated pursuant to a federally approved cost allocation plan. BHDDH subsequently engaged a consultant to develop a departmental cost allocation plan which can be submitted for federal approval.

**Cause:** BHDDH did not seek federal approval of the alternate procedures employed to allocate administrative costs to the Medicaid Program and EOHHS, as the State Medicaid agency, did not sufficiently monitor the Medicaid claiming activities of BHDDH to ensure that costs were only allocated through federally approved cost allocation plans/methods.

**Effect:** Medicaid administration costs may be unallowable for federal reimbursement.

**Questioned Costs:** Unknown

**Valid Statistical Sampling:** Not Applicable

**RECOMMENDATION**

2019-065      Seek reimbursement for Medicaid administration costs only pursuant to federally approved cost allocation plans/methodologies.

**Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.**



**Finding 2019-066**

**(material weakness – new finding)**

MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

**Compliance Requirement: Activities Allowed or Unallowed; Eligibility**

**DEPARTMENT OF BEHAVIORAL HEALTHCARE, DEVELOPMENTAL DISABILITIES, AND HOSPITALS (BHDDH) – STATE HOSPITAL CLAIMING TO MEDICAL ASSISTANCE**

**Improvements in policies and procedures related to Medicaid claiming for patients at Eleanor Slater Hospital are needed to ensure compliance with federal requirements.**

**Background:** BHDDH is responsible for the operation of the Eleanor Slater Hospital. The hospital provides long-term acute and post-acute hospital level of care to patients with complex medical and psychiatric needs. The majority of patients served by Eleanor Slater Hospital are eligible for Medicaid.

**Criteria:** The Medicaid Institutions for Mental Disease (IMD) exclusion per Section 1905(a)(B) of the Social Security Act prohibits the use of federal Medicaid funds for care provided to most patients in mental health residential treatment facilities larger than 16 beds. This law defines institutions for mental disease as any hospital, nursing facility, or other institution of more than 16 beds that is primarily engaged in providing diagnosis, treatment, or care of persons with mental diseases, including medical attention, nursing care, and related services. The guidelines used to evaluate if the overall character of a facility is that of an IMD are based on whether the facility is (a) licensed or accredited as a psychiatric facility; (b) under the jurisdiction of the State’s mental health authority; (c) specializes in providing psychiatric/psychological care and treatment, which may be ascertained if indicated by a review of patients’ records, if an unusually large proportion of the staff has specialized psychiatric/psychological training, or if a facility is established and/or maintained primarily for the care and treatment of individuals with mental disease; or (d) has more than 50 percent of all its patients admitted based on a current need for institutionalization as a result of mental diseases.

Section 1905(a)(30)(B) of the Social Security Act specifically states that payment for care or services for any individual who has not attained 65 years of age and who is a patient in an institution for mental disease is not allowable for reimbursement under Medical Assistance.

Section 1905(a) of the Social Security Act and 42 CFR section 435.1009 states that federal financial participation (FFP) is not available for services provided to individuals who are inmates of public institutions.

**Condition:** The State became aware of potential noncompliance with federal regulations during fiscal 2020 that may impact the eligibility of specific services provided by BHDDH for reimbursement by Medicaid. The State hired a consultant to assist in assessing compliance, interpreting applicable federal regulations and advising on remediation efforts, if needed. This review remained on-going during our audit and no specific conclusions have been formed to date. The review has focused primarily on:

- Compliance with the IMD exclusion for periods when the majority of patients at the hospital may have been treated for primary diagnoses related to mental disease; and
- Compliance with limitations on Medicaid billing for services provided to hospital patients who may be considered forensic patients due to commitment by court order pursuant to criminal proceedings.

We obtained hospital census data for fiscal 2019 which identified the BHDDH's primary diagnosis category for each patient as either medical or psychiatric. That fiscal 2019 data supports reasonable compliance with the IMD exclusion ratio highlighted above. A full assessment of compliance would require delineation of the federally required frequency of IMD ratio measurement (e.g., daily or a point in time) as well as consideration of a patient's overall medical and/or psychiatric status. We believe applicable federal regulations are silent as to the required frequency of measurement and we do not possess the necessary medical expertise to assess whether a patient's primary diagnosis category is medical, psychiatric or a combination of both. Billings for forensic patients would require a similar consideration of patient legal status, primary diagnosis and related treatment to fully evaluate compliance.

These eligibility and provider eligibility requirements, which are uniquely applicable to services provided by BHDDH, have not been sufficiently described in the Medicaid State Plan and, consequently, insufficient guidance has been offered to adequately measure or monitor BHDDH's compliance by EOHHS. Specifically, EOHHS lacked a policy defining the measurement frequency for IMD compliance and related monitoring procedures.

**Cause:** EOHHS, as the State Medicaid agency, has not established sufficient policies regarding measuring and monitoring BHDDH's compliance with the IMD exclusion and specific criteria for care provided to forensic patients to be eligible for Medicaid reimbursement.

**Effect:** Certain costs related to medical services provided by BHDDH may be ineligible for Medicaid reimbursement.

**Questioned Costs:** Unknown

**Valid Statistical Sampling:** Not Applicable

#### RECOMMENDATIONS

- |           |                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-066a | Conclude the external review of BHDDH billing practices with respect to compliance with the IMD exclusion and services provided to forensic patients.                                                                                                                                                                                                                                    |
| 2019-066b | Adopt a policy, for inclusion in the Medicaid State Plan, regarding the frequency of measurement of the IMD exclusion ratio and related policies for determining the primary diagnosis of patients at the Eleanor Slater Hospital. Include applicable monitoring procedures to be employed by EOHHS, as the State Medicaid agency, to ensure the allowability of Medicaid reimbursement. |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Finding 2019-067**

*(material weakness – new finding)*

**CHILDREN’S HEALTH INSURANCE PROGRAM – CFDA 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5021 and 1905RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

**MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Allowable Costs/Cost Principles***

**MEDICAID CLAIMING FOR CHILDREN IN THE STATE’S CARE**

**The Department of Children Youth and Families (DCYF) did not utilize updated residential time study results when allocating payments for residential placements to the Medical Assistance Program.**

**Background:** Certain treatment and assessment functions performed in conjunction with residential placements for children in the State’s custody are eligible for reimbursement under Medical Assistance.

**Criteria:** Benefit and administrative claiming to Medical Assistance by DCYF is subject to the specific terms and conditions of a memorandum of understanding with EOHHS, the State Medicaid Agency. This agreement requires DCYF to conduct a two-week time study annually for all residential services providers contracted by DCYF. The annual residential time study is to be used to update the allocation of residential contract functions to available funding sources such as Medical Assistance.

**Condition:** DCYF’s residential time study contractor performed the required time study to update the allocation percentages of the fiscal 2019 contract rates. DCYF, however, did not update the allocation percentages within the department’s RICHIST system to reflect the updated study instead allowing the previous time study results to remain in effect.

**Cause:** Noncompliance with Medicaid interagency agreement to update contract allocation rates based on an annual residential services time study.

**Effect:** Potential questioned costs associated with noncompliance with annual residential time study requirement for allocating contract costs to Medical Assistance.

**Questioned Costs:** Unknown

**Valid Statistical Sampling:** Not Applicable

## RECOMMENDATIONS

- 2019-067a Enhance monitoring over interagency agreement requirements significant to overall Medicaid program compliance. Specifically, EOHHS must monitor compliance with DCYF’s determination of the Medicaid reimbursable portion of residential services contracts.
- 2019-067b Update and utilize allocation percentages of residential services contracts based on annual time study results. DCYF should improve contractor training of time study completion by contractor employees to ensure that consistent and reliable results are achieved through the time study survey.

**Auditee views: The auditee concurs with this finding – see Corrective Action Plan in Section E.**

### **Finding 2019-068**

**(significant deficiency – new finding)**

#### **CHILDREN’S HEALTH INSURANCE PROGRAM – CFDA 93.767**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5021 and 1905RI5021

Administered by: Executive Office of Health and Human Services (EOHHS)

#### **MEDICAID CLUSTER – CFDA 93.775, 93.777 and 93.778**

Federal Award Agency: Department of Health and Human Services (HHS)

Federal Award Fiscal Years: 2018 and 2019

Federal Award Numbers: 1805RI5MAP and 1905RI5MAP

Administered by: Executive Office of Health and Human Services (EOHHS)

***Compliance Requirement: Reporting***

## FEDERAL REPORTING

**Controls should be improved over the quarterly reporting of expenditures for the Medicaid and CHIP programs.**

**Criteria:** Federal regulations require that expenditures for federal programs be accurately reported on Form CMS-64. The State’s RIFANS accounting system is the official record of federal program expenditures and therefore should be the basis for federal reports. Forms CMS-64 and CMS-21 are required for the quarterly filing of benefit and administrative expenditures for the Medicaid and CHIP programs. Additionally, the CMS-425 Report is required quarterly to reflect the cumulative disbursement of program expenditures to authorized grant awards (by federal fiscal year) for the respective programs.

**Condition:** Reviews of federal reports for fiscal 2019 noted the following reporting deficiencies:

- The untimely adjustment of expenditures between the Medicaid and CHIP programs resulted in significant timing differences and control weaknesses relating to federal reporting in both programs.
- Significant differences were noted between expenditures reported on the CMS-64 and CMS-21 reports and quarterly disbursements reported on the CMS-425 report. Delays in recognizing expenditures and related credits between Medicaid and CHIP increase the amount of prior period adjustments required on federal reports.

**Cause:** Untimely adjustments of expenditures between the Medicaid and CHIP programs are weakening controls over federal reporting for both programs. Adjustments of expenditures that relate to prior periods continue to significantly complicate reconciliation between federal reports and the State Accounting System.

**Effect:** Increased risk of inaccurate federal reporting.

**Questioned Costs:** None

**Valid Statistical Sampling:** Not Applicable

RECOMMENDATIONS

- |           |                                                                                                                                                                 |
|-----------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2019-068a | Eliminate untimely adjustment of expenditures between Medicaid and CHIP by increasing direct allocation of expenditures to the proper program when distributed. |
| 2019-068b | Correct federal reports for prior period adjustments not yet reflected on the CMS-64 and CMS-425 Reports for Medicaid and CHIP programs.                        |

**Auditee views:** *The auditee concurs with this finding – see Corrective Action Plan in Section E.*

**Corrective Action Plans**  
(prepared by the State's management)





# State of Rhode Island and Providence Plantations

## **Finding 2019-001 – Corrective Action Plan**

Division of Information Technology leadership agrees with the need to implement a commercial off the shelf (COTS) enterprise resource planning (ERP) system in a comprehensive and strategic manner. The Enterprise Applications Strategic Plan is the foundation for Rhode Island's multi-year effort to transform its enterprise technology and business processes to better meet the needs of the State, its residents, and its partners. The State wants to improve efficiencies, integrate multiple systems, automate manual processes, increase the quality and timeliness of data to decision makers and replace and modernize its current enterprise technologies. The objectives of modernizing obsolete enterprise applications will:

- Address audit findings
- Reduce risk
- Enable business improvements, provide expanded functionality, and information for managing
- Address manual processes that are more prone to errors

Anticipated Completion Date: The following dates are directional pending funding approval for the Enterprise Applications Strategic Plan program. Moreover, a systems integrator / software vendor will need to confirm these dates after the Request for Proposal (RFP) is released, a SI/software vendor is then selected, and a comprehensive project plan is created:

- HR/Payroll Go-Live on 12/31/2022
- Grants Management Release 1 Go-Live on 12/31/2022
- Finance Go-Live on 6/30/2024
- Grants Management Release 2 Go-Live on 6/30/2024

Contact Person: Chirag Patel, Chief of Agency IT teams and Enterprise Applications  
Department of Administration, Division of Information Technology  
Phone: 401.574.9291

## **Finding 2019-002 – Corrective Action Plan**

2019-002a – EOHHS acknowledges the complexity of our financial activities and that there are payments based on manual calculations. The finding most notably focused on our managed care organizations (MCO) risk share settlements. Monthly, the health plans submit to EOHHS cumulative risk/gain share statements for the open contract periods up until the contract run-out period occurs. These financial statements are reviewed by EOHHS and reconciled with the MCOs' Finance team monthly and annually. Generally, there are three fiscal years' worth of contracts open at any time (current state fiscal year (SFY), prior SFY awaiting the allowed run-out, and SFY currently being reconciled). EOHHS currently has five or six products per contract and two to three health plans per product, the number of discrete liabilities being routinely monitored is significant. Further, each product may have multiple risk shares programs. The risk share contract run-out period occurs 12 months after the contract end date. Final risk/gain share settlements are based on claims paid experience only. No allowance is provided for incurred but not reported (IBNR) claims. At the end of the 12-month claims run-out period, the contracts require a final risk/gain share contract settlement agreement with the MCO. Notwithstanding previous reviews and/or interim payments, the risk share reports received from the health plans at the end of the run-out period undergo a thorough systematic review and analysis of claims and financial reporting to determine the final settlement amounts.



## State of Rhode Island and Providence Plantations

EOHHS has documented the control processes and delineated the responsibilities carried out by contractors to ensure that the risk for error is minimized. EOHHS' consultants compare the total member months, the medical premiums paid to the MCOs, and the actual medical expenses, as reported in the risk/gain share statements, to the derived member months, medical premiums, and medical expenses provided from EOHHS' MMIS system. If required, EOHHS may request the health plan to submit a claims file that supports the claims dollar payments that appear on its risk/gain share statements. The difference, after any reconciliation, must be within one percent. Once the health plan's final risk/gain share contract settlement statement is deemed to be accurate by the contractors and EOHHS Finance staff, the risk/gain share final contract settlement is presented to EOHHS senior management for final review and approval prior to final monetary settlement with the MCOs. EOHHS' Deputy Medicaid Program Director, Finance and Deputy Medicaid Program Director, Managed Care and Oversight sign-off on all financial transactions with the MCOs.

2019-002b – Approximately 90 percent of all members eligible for Rhode Island Medicaid are enrolled in a managed care plan responsible for the delivery and payment of all eligible medical services. In total, over \$1.6 billion in capitation is paid to the managed care plans. Given the magnitude of these expenditures, EOHHS has sought to improve its financial oversight of these Health Plans.

EOHHS finance staff and its contractors continually review all the financial controls governing the claims processing and financial accounting system of the State's major managed care plan partners—United Healthcare Community Plan of New England, Neighborhood Health Plan of Rhode Island (NHPRI), and Tufts Health Public Plan. The Health Plans' controls include the following: annual audited financial statements, including opinions, from external auditors; annual actuarial opinions from external auditors; NAIC and DBR statutory filings, including risk-based capital reports; model audit rule compliance; monthly and annual financial result reviews with senior management, including general ledger account reconciliations; comprehensive financial account analyses; various internal and external systems controls including claims processing, accounts payable, and general ledger systems. UnitedHealthcare and Tufts Health Public Plan conduct System and Organization Controls (SOC)-type audits; UnitedHealthcare is compliant with the Sarbanes-Oxley Act; NHPRI is now fully compliant with the Department of Business Regulations Model Audit Rule. Also, NHPRI retains an outside firm to finalize the company's overall risk assessment, including implementation, and has staff dedicated to ensure on-going MAR compliance.

To further ensure the integrity of the Health Plans' controls and financial reporting, EOHHS' contracts with the health plans require that the external auditors, in their annual report of independent auditors, specifically address their review and testing of the health plans' risk/gain share financial statements and the health plans' various receivables and/or payables to/from EOHHS, as of December 31 of each year. EOHHS also requires that all financial statements provided to EOHHS be accompanied by an attestation document, signed by an officer or senior administrator of the MCO, attesting to the accuracy and completeness of the financial statements. The reports are utilized to estimate EOHHS' outstanding liabilities to the Health Plans for purposes of caseload estimating conference and year-end accruals. The above controls and reporting requirements adhered to by the Health Plans give EOHHS confidence in the financial reporting by the Health Plans.

Anticipated Completion Date: Ongoing

Contact Person: Katie Alijewicz, Deputy Medicaid Program Director, Finance  
Executive Office of Health and Human Services  
Phone: 401.462.0136





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### **Finding 2019-003 – Corrective Action Plan**

2019-003a – EOHHS continues to review all manual and system payments and identify those that occur with enough frequency predictability to be processed through the regular MMIS cycles or the State's procurement financial system, RIFANS. When issues with processing eligibility through RIBridges are finally resolved, we expect both the current frequency and dollar volume of the FACNs to diminish considerably.

Anticipated Completion Date: December 31, 2020

2019-003b – The fiscal agent has developed and submits for EOHHS's review a monthly report recapping all Fiscal Agent Control Notes (FACNs) processed that month, including financial FACNs. EOHHS Finance also maintains a monthly log of all FACNs it approves, capturing all pertinent data, and reconciles this log with the fiscal agent's monthly report. Any discrepancy is promptly researched and resolved.

Anticipated Completion Date: Ongoing

Contact Person: Corsino Delgado, Associate Director, Financial Management  
Executive Office of Health and Human Services  
Phone: 401.462.2517

### **Finding 2019-004 – Corrective Action Plan**

We will request funds in the next budget request to retain a firm with COSO implementation expertise to assist us in developing and implementing a methodology to document major business process flows and identify the internal controls in each of these major processes. It is expected that this project will span several fiscal years. We agree that this initiative should be done in connection with the implementation of the fully integrated ERP system as that project will bring with it the opportunity to embed numerous internal controls in the software applications themselves. Further, existing training materials will be updated, and training will be conducted again.

Anticipated Completion Date: June 30, 2021 (for initial funding decision and training components)

Contact Person: Peter Keenan, State Controller  
Department of Administration, Office of Accounts and Control  
Phone: 401.222.6408

### **Finding 2019-005 – Corrective Action Plan**

2019-005a – We agree with this finding. The training presented in 2019 is in the process of being updated and enhanced to provide more comprehensive guidance. Training will be scheduled in the final quarter of FY 2020 for the CFOs. A SOC Document of Reliance on SOC Report (checklist) has been created to be completed by each of the CFOs and returned to the Office of Accounts and Control along with their SOC Report. The CFO is responsible for the review of the SOC and the checklist provides Accounts and Controls the tool to monitor that the entire SOC has been reviewed by the CFO.



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2019-005b – We agree with this finding. Included in the enhanced training for the CFOs, they will be provided information to assist in their review of the complementary user entity (state) controls to ensure that the controls are in place and operating effectively. The Document of Reliance on SOC Report (checklist) provides a section “User Entity Controls” to assist the CFO reviewer guidance in providing that assurance. The checklist provides the assurance to the Office of Accounts and Control that the CFOs are reviewing the SOC reports.

2019-005c – We agree with this finding. Included in the enhanced training for the CFOs, they will be provided information to assist in their review of the exceptions and modifications noted in the SOC Reports are being evaluated timely and proper documentation is provided regarding the impact on the State’s control process. The section of the Document of Reliance on SOC Report (checklist) entitled “Exceptions” assist the CFO reviewer with the guidance to ensure they review any exceptions or modifications and how these changes/modifications will impact their organization and if any mitigations are properly addressed. The completed checklist provides the Office of Accounts and Control the assurance the CFOs are reviewing the SOC report.

Anticipated Completion Date: June 2020

Contact Person: Gail LaPoint, Administrator, Financial Management  
Department of Administration, Office of Accounts and Control  
Phone: 401.222.5098

### ***Finding 2019-006 – Corrective Action Plan***

Accounts and Control agrees with the finding and will take a number of steps to increase the accuracy of the physical inventory reporting. First, Accounts and Control has worked with DoIT to improve the inventory report provided to agencies and the report now includes all descriptive fields from the fixed asset database. Had this data been available for FY2019 physical inventories, DEM would have seen the correct address for the building misidentified/noted above. Second, although the Office of Accounts and Control is in contact with agencies throughout their inventory process, an Accounts and Control staff member will meet with the appropriate level agency member to review findings and answer any questions before the final report is submitted and approved. The initial results of the inventory will determine what position in the agency hierarchy Accounts and Control would want to attend the meeting. Finally, write-off thresholds will be established based on asset category. If an asset meets the established threshold, additional documentation would be required to illustrate the disposition of the asset.

Anticipated Completion Date: June 30, 2020

Contact Person: Sandra Morgan, Supervising Accountant, Fixed Asset Unit  
Department of Administration, Office of Accounts and Control  
Phone: 401.222.6403



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### ***Finding 2019-007 – Corrective Action Plan***

We want to emphasize that this was an isolated occurrence and there is no evidence this is a recurring pattern of agency behavior.

We will explore adding a requirement for the new integrated ERP system to ensure that, where applicable, non-general revenue sources of funding are used before general revenue. As an interim step, guidance will be distributed to clarify this requirement.

Anticipated Completion Date: September 30, 2020

Contact Person: Steven Blazer, Supervisor of Fiscal Services  
Department of Administration, Office of Accounts and Control  
Phone: 401.222.2267

### ***Finding 2019-008 – Corrective Action Plan***

Management agrees with this finding. Prior to the preparation of the FY 2019 CAFR the Office of Accounts and Control performed a comprehensive review of the process used to calculate and determine the components of fund balance which resulted in the process being completely redesigned. Due to certain limitations within the accounting system it was determined that an “offline” process would be the best alternative. Immediately after preparation of the FY 2019 CAFR was complete the Office of Accounts and Control reviewed the results of the newly implemented process to identify weaknesses as well as any areas that could be improved. These results specifically addressed the audit recommendations as follows:

2019-008a – The RIFANS accounting system will continue to be used to support the calculation of fund balance components in an “offline” capacity. Closing procedures will be modified as deemed needed.

2019-008b – As discussed above the Office of Accounts and Control has reviewed and assessed the established reconciliation process and made changes as considered necessary.

In addition, an analytical procedure has been developed to detect certain fund balance component reconciliation issues that have occurred in the past which will allow us to identify, evaluate and implement corrective action in a timely manner.

Anticipated Completion Date: Completed as of February 14, 2020

Contact Person: Margaret Carlson, Associate Controller – Finance  
Department of Administration, Office of Accounts and Control  
Phone: 401.222.5771



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### ***Finding 2019-009 – Corrective Action Plan***

Management believes the accounting treatment of the 4,700 computers was in line with the State's fixed asset policy as well, as federal guidelines relating to the use of working capital and therefore would not be treated as a capital asset. However, Accounts and Control will document a policy establishing expense reimbursement to the DoIT internal service fund from agencies when goods or services are received unless the item meets the fixed asset thresholds.

Anticipated Completion Date: June 30, 2020

Contact Person: Ben Quattrucci, Financial Reporting Manager  
Department of Administration, Office of Accounts and Control  
Phone: 401.222.6406

### ***Finding 2019-010 – Corrective Action Plan***

2019-010a – Management agrees with this recommendation. The Office of Accounts and Control will work with DoIT to enhance procedures for monitoring “super user” activities. In addition, when completing the strategic plan for designing and implementing a fully-integrated ERP system, consideration will be given to systematic changes that will address this issue.

2019-010b – Management agrees with this recommendation. The Office of Accounts and Control will work with DoIT to ensure that super users do not have the ability to modify their own access and authorization.

2019-010c – Management agrees with this recommendation. The Office of Accounts and Control will review procedures currently in place for the review of audit trail reporting functions to ensure that those procedures are consistent throughout the office. Regarding the agency hierarchies and system workflows, due to system limitations real-time updates are not possible. Currently updates are scheduled for three times a year. The Office of Accounts and Control will review procedures related to these periodic updates to ensure they are being done accurately and efficiently.

Anticipated Completion Date: December 2020

Contact Person: Margaret Carlson, Associate Controller – Finance  
Department of Administration, Office of Accounts and Control  
Phone: 401.222.5771



## State of Rhode Island and Providence Plantations

### ***Finding 2019-011 – Corrective Action Plan***

The requirements being developed for the new integrated ERP system will include one for a receivable module which will be used to account for all non-tax related receivables. This will significantly improve controls over these receivables.

As an interim step we will include balances referred to the CCU in RIFANS and the State's financial statements at year end at net realizable value which, incidentally, has been very immaterial.

Finally, we will work with DOR-CCU staff to explore the feasibility of eliminating the separate bank account now used for CCU collections. If that is feasible and controls will be enhanced, the account will be closed.

Anticipated Completion Date: December 31, 2020

Contact Person: Ben Quattrucci, Financial Reporting Manager  
Department of Administration, Office of Accounts and Control  
Phone: 401.222.6406

### ***Finding 2019-012 – Corrective Action Plan***

The Office of Management and Budget (OMB) is open to improving the presentation of budget information in the annual appropriations act and/or budget documents to facilitate budget to actual comparisons and reporting. It should be noted that the Appropriations Act is not intended to be an accounting document and thus may not be the place to identify certain information but adding new information that may be useful to all parties that use this document. Alternatively, more detailed information on transportation and Lottery activities could be provided in published budget supporting documents. The OMB will meet with the Auditor General and the State Controller to seek sample presentation formats for the budget information seen as requiring additional detail that can be a basis for discussion with the Legislative fiscal offices and for consideration in the next annual Appropriations Act.

Anticipated Completion Date: October 2020

Contact Persons: Thomas A. Mullaney, State Budget Officer  
Department of Administration, Office of Management and Budget  
Phone: 401.222.6300  
  
Daniel Orgel, Chief Budget and Policy Analyst  
Department of Administration, Office of Management and Budget  
Phone: 401.222.6300

### ***Finding 2019-013 – Corrective Action Plan***

We agree. The ERP strategic plan that was recently finalized includes both a Grants Management Module and a Time & Attendance Module. These modules, along with the other components of the ERP, will address the control weaknesses discussed above.

Anticipated Completion Date: December 31, 2022

Contact Person: Peter Keenan, State Controller  
Department of Administration, Office of Accounts and Control  
Phone: 401.222.6408



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### ***Finding 2019-014 – Corrective Action Plan***

The Office of the General Treasurer agrees that our office should assume this duty. We worked to identify all funds on deposit with fiscal agents in FY2019 and began basic quarterly monitoring to ensure compliance with debt covenants. We are in the process of designing a more robust oversight and monitoring program to implement in FY2020.

Anticipated Completion Date: June 30, 2020

Contact Person: Jeffery Thurston, Cash Manager  
Office of the General Treasurer  
Phone: 401.462.7642

### ***Finding 2019-015 – Corrective Action Plan***

The Office of the General Treasurer agrees that our office should assume responsibility for the general ledger reconciliation of these funds, and will work with the relevant agencies to transition those responsibilities to our reconciliation group. In addition, we will work with the Office of Accounts and Control to put a process in place to ensure that in the future all new accounts opened by state agencies are reconciled by our office.

Anticipated Completion Date: April 30, 2020

Contact Person: Brian S. Conklin, Chief Fiscal Officer  
Office of the General Treasurer  
Phone: 401.462.7687

### ***Finding 2019-016 – Corrective Action Plan***

The Office of the General Treasurer agrees with this finding and is in the process of updating the list of signatories for all accounts identified during the audit. Going forward, the Cash Manager will maintain a list of signatories across all accounts and ensure that the signatories are kept up to date.

Anticipated Completion Date: April 30, 2020

Contact Person: Jeffery Thurston, Cash Manager  
Office of the General Treasurer  
Phone: 401.462.7642

### ***Finding 2019-017 – Corrective Action Plan***

The Office of the General Treasurer maintains faithful performance bonds in compliance with RIGL § 42-10-3, but notes that the law is vague as to which employees of the Office should be bonded.

As of June 30, 2019, the Office of the General Treasurer had one employee with the title of “deputy treasurer”, Kelly Rogers, and she was bonded at that time. In addition, the Office maintains bonds for other key personnel who do not hold a deputy treasurer title. The office has maintained bonds for General Treasurer Seth Magaziner, Chief Investment Officer Alec Stais, and Chief Operating Officer Andy Manca from their time of hire through the present. Bonds were also obtained for Chief of Staff Kate Brock and Cash Manager Jeff Thurston effective January 2020.



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Due to the vagueness in RIGL § 42-10-3 about which employees of the Office should be bonded, a new office-level policy on faithful performance bonds will be introduced effective immediately to ensure consistent interpretation of the law going forward. The policy of the Office of the General Treasurer will be to obtain bonds upon hire for the positions of Chief Investment Officer, Chief Operating Officer, Chief of Staff, Cash Manager, and any staff with a “Deputy Treasurer” title. The General Treasurer will also continue to be bonded.

Anticipated Completion Date: Complete

Contact Person: Andy Manca, Chief Operating Officer  
Office of the General Treasurer  
Phone: 401.462.7664

### ***Finding 2019-018 – Corrective Action Plan***

Corrective action has already been taken. Department management have implemented a new procedure that requires a review and sign off on FYE receivables prior to submission to Accounts and Control.

Anticipated Completion Date: December 31, 2019

Contact Person: Denise Paquet, Assistant Director of Business Affairs  
Department of Labor and Training  
Phone: 401.462.8178

### ***Finding 2019-019 – Corrective Action Plan***

2019-019a – DoIT made great strides in 2019; successfully executing a Disaster Recovery (DR) test in March 2019 of Agency IT Manager (AIM) defined critical applications. Documentation of this exercise and related recovery procedures are now stored in a Secure SharePoint Online location which is accessible by authorized users from anywhere with an internet connection. To mature this process, DoIT will be seeking Agency business leadership guidance on the identification and prioritization of their specific application stack. This will result in an enterprise-wide understanding of the critical business processes and technology that must then be prioritized for order of recovery by the Director, Department of Administration. DoIT is also seeking to re-solution current DR capabilities in order to support full DR and restoration of all applications.

Anticipated Completion Date: This effort will require a phased approach for execution:  
Phase 1, Agency Engagement for application and BCP process identification: November 1, 2020  
Phase 2, Director, DOA prioritization of enterprise applications: December 1, 2020  
Phase 3, Enterprise Disaster Recovery Plan published: April 30, 2021  
Phase 4, Disaster Recovery Solution Selected and Implemented: June 30, 2021



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2019-019b – DoIT performs an annual Disaster Recovery (DR) test, and will again be performing a DR test in April 2020. A template for high level application testing across all agencies will be created and maintained to support a standardized, repeatable process for annually scheduled DR testing. Agency business leadership collaboration is required to define business critical processes, the applications that support those processes, and the Agency plan for business continuity requiring technology support from DoIT. This collaboration will be treated as a project by DoIT, applying our stringent project governance and tracking for success; integration of the work from finding 2019-019a will be leveraged to achieve success.

Anticipated Completion Date: November 1, 2021

Contact Person: Cesar Mendoza, Chief of IT Infrastructure & Operations  
Department of Administration, Division of Information Technology  
Phone: 401.562.2335

### ***Finding 2019-020 – Corrective Action Plan***

In 2019, DoIT deployed the ITSM Service Delivery Tool, Service Now. The Change Management Process Module has been used to formalize and train staff on a Change Management Process, with establishment of a Change Advisory Board. All submitted changes with operational impact are reviewed and approved during the weekly CAB meeting. The application teams are involved in the CAB's; with enterprise level software and application changes being integrated into the CAB process. DoIT will continue to mature this process by inventorying vendor and Agency change management processes

Anticipated Completion Date: Phase 1, ITSM Implementation: Complete  
Phase 2, Change Control Process Implementation: Complete  
Phase 3, Inventory and Document Vendor & Agency Change Processes:  
November 1, 2020  
Phase 4, Implement Governance for Vendor & Agency CAB Integration:  
December 1, 2020

Contact Person: Cesar Mendoza, Chief of IT Infrastructure & Operations  
Department of Administration, Division of Information Technology  
Phone: 401.562.2335

### ***Finding 2019-021 – Corrective Action Plan***

2019-021a – The enterprise IT policies, procedures, and guidelines are in a continuous cycle of publish, review, and update. These policies are built upon the (National Institute of Standards and Technology) NIST 800-53 family of controls and are tailored to the IT systems operated and maintained within the enterprise domain.

Anticipated Completion Date: May 2020

2019-021b – With the adoption of the NIST Risk Management Framework (RMF), DoIT is building a system(s) risk assessment program for all enterprise operated platforms. This assessment process will be executed in a cyclical fashion; utilizing inputs from audits (internal, and external) and State hosted vulnerability and risk measuring technology and processes. External assessments will be scheduled and conducted on State critical systems.

Anticipated Completion Date: May 2021





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2019-21c – The categorization of systems through the implementation of the RMF will provide the ability to prioritize mitigation of identified security risks. A running risk register is maintained at the enterprise level, and will be created for all assessed systems; with plans of actions and milestones (POAM's) and corrective action plan's (CAP's) developed for each system after the initial, and each recurring system assessment.

Anticipated Completion Date: September 2021

Contact Person: Brian Tardiff, Chief Information Security Officer  
Department of Administration, Division of Information Technology  
Phone: 401.259.1514

### **Finding 2019-022 – Corrective Action Plan**

Management respectfully disagrees with this finding.

The Division of Taxation's pending suspense queues have been reduced using system processes and weekly business processes. There are no estimates used for financial reporting purposes that are based on items in suspense. The financial reporting estimates are derived from 5-year averages and other percentages which are re-evaluated every year using actual data regarding billing and collections. The Division of Taxation will continue to work with Accounts and Controls to review its data to confirm estimation methodology.

Anticipated Completion Date: Ongoing

Contact Person: Neena S. Savage, Tax Administrator  
Department of Revenue, Division of Taxation  
Phone: 401.574.8922

#### *Auditor's Response:*

*We recognize the progress the Division has made in reducing the volume of returns held in suspense but believe items in suspense at fiscal close must be evaluated to assess the likely financial reporting impact - specifically to what extent those items may result in material taxes receivable or refund liabilities. We also acknowledge there will always be a volume of returns which are pending resolution at any point in time. Our recommendations are directed at applying appropriate analytical measures to assess and estimate likely financial reporting outcomes upon resolution.*

### **Finding 2019-023 – Corrective Action Plan**

The Division of Taxation acknowledges its improvements in monitoring STAARS System Access and that it has established business process protocols of checks and balances to limit the scope of user access and remove system access as necessary. Given improvements to date, the Division of Taxation disagrees with the Auditor General's assessment that the finding constitutes a significant deficiency.

Anticipated Completion Date: Completed December 2020; however, will continue to be further refined with automated checks and alerts as possible.

Contact Person: Neena S. Savage, Tax Administrator  
Department of Revenue, Division of Taxation  
Phone: 401.574.8922



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### ***Finding 2019-024 – Corrective Action Plan***

The Division of Taxation agrees with this recommendation and has selected a vendor to install an integrated cashier solution with STAARS. The plan is for this system to go live during the 2021 fiscal year.

Anticipated Completion Date: June 30, 2021

Contact Persons: Neena S. Savage, Tax Administrator  
Department of Revenue, Division of Taxation  
Phone: 401.574.8922

Rahul Sarathy, Chief of Examination  
Department of Revenue, Division of Taxation  
Phone: 401.574.8922

Kristin Cipriano, Chief Revenue Agent, Accounting  
Department of Revenue, Division of Taxation  
Phone: 401.574.8922

### ***Finding 2019-025 – Corrective Action Plan***

The DMV agrees that a periodic reconciliation of the funds transferred to the DOT is needed and will work to reconcile the funds transferred on a semi-annual and annual basis. We will work to reconcile for the period(s) of July 1 thru December 31 and July 1 thru June 30. We will work with Accounts and Control and Treasury to allow us extra time to close the month of December in order to post the transactions thru December 31 into December. We expect this will ensure that the data from RIMS coincides with the data from RIFANS.

The DMV will work to implement the use of the Overages and Shortages account to record all manual adjustment for errors such as checks written incorrectly. We will work on developing a procedure for using the using the Overages/Shortages account in the daily balancing and journaling of deposits. We anticipate starting this procedure on July 1, 2020, the start of FY 2021. After developing this procedure, we will need to train the Branch Supervisors on the correct way to use the Overages/Shortages account.

Anticipated Completion Date: We expect to start utilizing the Overages/Shortages account on July 1, 2020. We expect to complete the first reconciliation in January 2021.

Contact Persons: Paul Dombrowski, Administrator, Finance Management  
Department of Revenue, Division of Motor Vehicles  
Phone: 401.462.4638

Brad Booth, Legal Council  
Department of Revenue, Division of Motor Vehicles  
Phone: 401.462.4638



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### ***Finding 2019-026 – Corrective Action Plan***

2019-026a – The DMV has an established plan in place to utilize when validation of RIMS functionality is required. Attached is the Production Smoke Test Guidelines which have been in use since RIMS go-live in July 2017.

2019-026b – This responsibility will be retained by the RIMS project manager. The current role is filled, and the Project Manager works regularly with DOIT management regarding security oversight.

2019-026c – The DMV will work with DOIT to establish best practices.

Anticipated Completion Date: July 1, 2020

Contact Person: Maureen McDaniel, Chief of Program Development  
Department of Revenue, Division of Motor Vehicles  
Phone: 401.462.4638

### ***Finding 2019-027 – Corrective Action Plan***

The DMV has finalized and distributed the Continuity of Operations Plan (COOP) to senior staff responsible for executing the plan. This plan will be reviewed and maintained annually. A copy is on file at DMV and DOR Director's Office.

Anticipated Completion Date: Completed

Contact Person: Walter Craddock, Administrator  
Department of Revenue, Division of Motor Vehicles  
Phone: 401.462.4638

### ***Finding 2019-028 – Corrective Action Plan***

#### 2019-028a

*Short Term* – During FY 2019, RIDOT did work to improve the fund balance procedure. During this process fund activity was reconciled by RIFANS line items for all Federal accounts to ensure accuracy and consistency. Any inconsistencies found are adjusted at that time. However, due to turnover in the section improvements were not made to the extent RIDOT was hoping. During late FY 2019 into FY 2020, a working group has been working to develop policies and procedures to improve the fund balance reconciliation and ensure the process is compliant with GASB 54 standards. The short-term goal will include implementing the adopted policies and procedures to all Federal fund balance accounts.

*Long Term* – Once the adopted policies and procedures have been implemented for all Federal fund balance accounts, RIDOT will expand the reconciliation to include all State fund balance accounts. This expansion of the process will ensure all fund balance accounts regardless of funding source are being reconciled monthly.

Anticipated Completion Dates: Short Term: September 30, 2020  
Long Term: December 31, 2020





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### **Finding 2019-029 – Corrective Action Plan**

2019-029a – RIDOT has begun creating policies, procedures and controls related to the Infrastructure process. The policies and procedure will include all processes related to infrastructure including RIDOT Infrastructure Report to RIFANS reconciliation.

Anticipated Completion Date: June 30, 2020

2019-029b – The RIFANS project code field does not allow for information to be electronically interfaced into the field. With that system limitation in RIFANS, RIDOT does not have the resources to manually enter the project numbers individually into RIFANS. RIDOT will look at alternative ways of accomplishing the recommendation.

Anticipated Completion Date: TBD

2019-029c – In FY 18, Finance along with Project Management developed a process to enhance the controls over the assignment of project infrastructure codes. The infrastructure code is now identified during the scoping phase of the project by the project managers and scoping team. It has been added as a field on the Project Definition and Scoping Document. The Project Funding Request template was also modified to include the infrastructure code so that it is part of the request for funding. Finance then receives the approved funding authorization with the infrastructure code and inputs the code into the Financial Management System.

Anticipated Completion Date: Implemented

2019-029d – During FY 2019, RIDOT has revised the procedures to implement a process where the project completion dates entered into FMS are compared to the substantial completion forms on a quarterly basis for accuracy by the Administrator of Financial Administration. In addition, a tracking sheet will be maintained by fiscal year to list all projects which the Finals section indicate are substantially complete. This tracking sheet will be used to ensure the substantial completion forms are received from construction. RIDOT Finance has also worked with Construction to ensure all substantial completion forms are sent to Finance in a timely manner.

Anticipated Completion Date: June 30, 2020

2019-029e – RIDOT will improve controls to ensure the accuracy of amounts reclassified from CIP to Infrastructure. The improved controls will be reflected in the procedures.

Anticipated Completion Date: June 30, 2020

2019-029f – RIDOT will review the criteria for impairment of assets and from there develop a policy and a procedure for determining if any of the State's transportation infrastructure assets have been impaired. Finance will coordinate with the necessary sections to develop and implement this policy.

Anticipated Completion Date: June 30, 2020

2019-029g – RIDOT will work develop a policy and a procedure for removing infrastructure assets that have been replaced or taken out of service. RIDOT will work with Accounts and Control to ensure the appropriate amounts are removed.

Anticipated Completion Date: December 31, 2020



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Contact Person: Loren Doyle, Acting Chief Operating Officer/Chief Financial Officer  
Department of Transportation  
Phone: 401.563.4524

### ***Finding 2019-030 – Corrective Action Plan***

The Authority will fund the Operating Reserve provided there is sufficient cash flow. The Authority will make required deposits to the Renewal and Replacement Fund related to the parking facility adjacent to the Garrahy Courthouse prior to May 15th each year.

Given that the Authority continues to make timely and complete debt service payments, it would make little sense for the trustee to declare a default for reserve fund noncompliance. In fact, this has been the practical practice over several years as the Authority has failed to maintain adequate reserves due to insufficient State appropriations. If a default was declared, the Authority would have 90 days to cure and would seek a legislative appropriation to remedy the default. Of course, annual appropriations in excess of debt service requirements would assist in building reserves and reaching the requirements.

Anticipated Completion Date: Undetermined

Contact Person: James McCarvill, Executive Director  
Rhode Island Convention Center Authority  
Phone: 401.351.4295

### ***Finding 2019-031 – Corrective Action Plan***

The District agrees with the finding. The District also agrees with the recommendation, please see below for action taken.

Management will correct the material weakness by ensuring adequate staffing including training on the processes and software involved, appropriate controls related to authorization and review of recorded transactions, and timely recording of transactions and reconciliations.

Anticipated Completion Date: April 30, 2020

Contact Person: Keree J. Simmons, Director of Finance  
Central Falls School District  
Phone: 401.721.2893 ext. 2006



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### ***Finding 2019-032 – Corrective Action Plan***

The District agrees with the finding. The District also agrees with the recommendation, please see below for action taken.

Management will correct the noted significant deficiencies by hiring a third party to complete an inventory of all capital assets. Management will then incorporate this information into the financial software system.

Anticipated Completion Date: March 31, 2020

Contact Person: Keree J. Simmons, Director of Finance  
Central Falls School District  
Phone: 401.721.2893 ext. 2006

### ***Finding 2019-033 – Corrective Action Plan***

Due to year-end commitments, the Corporation's bank statements are not reviewed in as timely a manner as in other months. As a result, the Corporation's auditors found a \$1.2 million transfer on the State's payment system that had not yet been discovered by the Corporation. The bank statement showing the transfer was in fact reviewed by the Corporation within a week of the auditor's discovery. The Corporation will put procedures in place to ensure that transfers from the State are communicated to the Corporation in a timelier manner.

Anticipated Completion Date: June 30, 2020

Contact Person: Scott O'Malley, Chief Financial Officer  
Rhode Island Health and Educational Building Corporation  
Phone: 401.831.3770

### ***Finding 2019-034 – Corrective Action Plan***

Approximately two years ago, in order to maximize returns to the System, we began to transfer significant deposits to the long-term portfolio. These deposits occurred upon payroll dates, approximately one/two per month, while withdrawals still occurred on the last business day each month. Once the concern regarding multiple movements was raised, the System immediately limited the movement of cash to and from the plans and the pooled investment trust to just one day per month. We believe any effects from intra-month cash flows during that time period were minimal.

To enhance precision in the plan accounting going forward, the System's Investment and Accounting teams will work with the Custodian to implement using an average daily unit balance computation for the plans as a basis for allocating monthly income and expense. It is anticipated that this process will be fully operational during the third quarter of fiscal 2020.

Anticipated Completion Date: June 30, 2020

Contact Person: Alec Stais, Chief Investment Officer  
Office of the General Treasurer, Employees' Retirement System  
Phone: 401.222.2397



## State of Rhode Island and Providence Plantations

### ***Finding 2019-035 – Corrective Action Plan***

The Employees' Retirement System of Rhode Island (ERSRI) and The Office of the General Treasurer remain committed to the highest level of transparency in disclosing investment expenses. The process was transformed in Fiscal 2018 to enhance details on all expenses highlighted by the inclusion of indirect expenses. This level of disclosure puts ERSRI at the forefront of public pension transparency.

Over the last year we have worked closely with our consultant and custodian to further refine the process. Our consultant now monitors all the Plan's private asset expenses to ensure what we are charged adheres to the partnership agreements. Our custodian has worked closely with staff to ensure that all partnership data is captured accurately and on a timely basis. We have completed one year under this process and the interaction and reporting are improved relative to prior years.

For Fiscal 2020, we look to further enhance the process as follows:

To improve proper posting of all investment expenses, enhance coordination between the Investment and Accounting teams by performing a monthly reconciliation to ERSRI's financial statements with ERSRI's Chief Financial Officer.

To ensure proper posting of quarterly expenses for absolute return funds, implement an electronic confirmation process with the custodian and perform a timely reconciliation of these expenses on a monthly basis.

It should be noted that nothing that transpired in FY 2019 had any impact on the System's net position.

Anticipated Completion Date: June 30, 2020

Contact Person: Alec Stais, Chief Investment Officer  
Office of the General Treasurer, Employees' Retirement System  
Phone: 401.222.2397

### ***Finding 2019-036 – Corrective Action Plan***

The OPEB Board agrees with the recommendations presented by the Auditor General. The Board will explore hiring at least one dedicated staff member to be responsible for key functions of the OPEB system. The Board believes implementing a stand-alone computer application to accumulate and manage plan membership data will be too expensive for the system to finance within its authorized administrative funding. To address this recommendation, the Board will engage with the Employee Retirement System to see if there is an opportunity to partner on the development of a computer application to achieve the desired outcome.

Anticipated Completion Date: September 1, 2020

Contact Persons: Peter Keenan, State Controller  
Department of Administration, Office of Accounts and Control  
Phone: 401.222.6408  
Thomas A. Mullaney, State Budget Officer  
Department of Administration, Office of Management and Budget  
Phone: 401.222.6300





## State of Rhode Island and Providence Plantations

### **Finding 2019-037 – Corrective Action Plan**

2019-037a – Access control procedures for the RIBridges production applications for all users has been documented in the RIBridges Access Control Procedures document and was developed in alignment with the State ETSS Access Control Policy 10-10. Access will be administered by the DHS IT Systems and Support Team (aka Hotline). The RIBridges users include staff from State Agencies (DHS, EOHHS, HSRI, DCYF, etc.), Deloitte, AHS, Contractors and Auditors. The document will be reviewed and approved by the agency and vendor Security Managers for RIBridges. Security Administrators with the role to grant, modify and terminate access will be limited to the DHS IT Systems and Support Team.

Anticipated Completion Date: Updated RIBridges Access Control Procedures - Q2, CY 2020

2019-037b – Automatic password reset has been implemented successfully and performance will be monitored for 30 days prior to acceptance and closure.

Anticipated Completion Date: Auto Password expiry for prod app users implemented – Q2, CY 2020

2019-037c – The processes to monitor users and their privilege status is performed monthly by agency and vendor/contractor Security Managers as defined in the RIBridges Access Control Procedures document. The RIBridges Access Control Procedures and the parameters in the monthly User List report will be reviewed and approved by the agency and vendor Security Managers responsible for monitoring user access privilege in RIBridges. The CMS required Annual Attestation will include a statistical sampling to test the Access Control (AC) procedures implementation.

Anticipated Completion Date: Updated RIBridges Access Control Procedures - Q2, CY 2020

2019-037d – A monthly report will be distributed to Security Managers with a listing all RIBridges users that have been added, removed or had a change in privilege during the reporting time period with the Security Administrator who made the change identified. The administration of all user access to the RIBridges production portals will be the responsibility of the DHS Systems and Support Team (Hotline), no other agency or vendor will have a Security Administrator role in the future. The RIBridges user provisioning and access solution uses a security profile/role-based approach which allows Security Administrators to limit availability to application functionality, data elements, and their values to only those users who have a business need to access them. Users are not able to navigate to non-allowed web pages to attempt changes, view data or perform functions that are not profiled for their role.

Anticipated Completion Date: Privilege Change Report – Q3, CY 2020  
Updated RIBridges Access Control Procedures - Q2, CY 2020

Contact Person: Deb Merrill, Information Processing Officer  
Department of Administration, Division of Information Technology  
Phone: 401.574.9216



## State of Rhode Island and Providence Plantations

### ***Finding 2019-038 – Corrective Action Plan***

2019-038a – With the adoption and integration of the NIST Risk Management Framework (RMF) at the enterprise level, DoIT is building a system(s) risk assessment program for all Agencies (to include EOHHS and DHS), and enterprise hosted ecosystems (RIBridges, MMIS). This NIST based assessment process will be executed in a cyclical fashion; utilizing inputs from audits (internal, and external) and State hosted vulnerability and risk measuring technologies and processes. External assessments will be scheduled and conducted on State critical systems.

2019-038b – The categorization of systems through the implementation of the NIST Risk Management Framework (RMF) will provide the ability to prioritize mitigation of identified security risks. A running risk register is maintained at the enterprise level, and will be created for all assessed systems; with plans of actions and milestones (POAM's) and corrective action plan's (CAP's) developed for each system after the initial, and each recurring system audit and assessment. Assessments will be conducted upon Agency compliance with Enterprise policies and the effectiveness of the security controls implemented.

Anticipated Completion Date: Q4, CY 2020

Contact Person: Deb Merrill, Information Processing Officer  
Department of Administration, Division of Information Technology  
Phone: 401.574.9216

### ***Finding 2019-039 – Corrective Action Plan***

Efforts are ongoing to ensure that RIBridges meets all the functionalities of an automated data processing system for SNAP as required by federal regulations. DHS continues to address any system-related issues during weekly theme meetings with Deloitte. Additionally, the Department continues to work closely with Food and Nutrition Services (FNS), accepting the guidance and implementing the improvement plans accordingly. The Department participates in an ongoing quality improvement program which includes monthly field supervisory case reviews. The results of these reviews are compiled and analyzed to determine if a system issue exists that requires correction. If an issue is discovered, a corrective action plan is formulated and a JIRA ticket is created to address it. SNAP cases continue to be reviewed for key performance indicators (KPIs) to understand our system progress and correct any deficiencies. The Corrective Action Officer continues to review the Quality Control errors each month to determine if there are system issues that need to be addressed. Any system related issues are brought to the attention of Deloitte via a JIRA ticket and during the theme meeting process.

Cases continue to be terminated when households do not return the recertification packet or complete the recertification process.

As stated in the above finding, the ACLU dropped its lawsuit against the State relating to timely processing of benefits due to DHS achieving the benchmark of 11/12 months of 96% timeliness. The SNAP timeliness rate continues to be stable, hovering within the 96% - 98% range.

Anticipated Completion Date: December 2020

Contact Person: Bethany Caputo, SNAP Administrator  
Department of Human Services  
Phone: 401.415.8432



## State of Rhode Island and Providence Plantations

### ***Finding 2019-040 – Corrective Action Plan***

FNS and DHS have participated in ongoing technical assistance meetings to bring the agency into compliance with the Electronic Benefits Transfer (EBT) reconciliation requirements. DHS, Deloitte and FIS have worked together to develop an improved process to verify that every transaction is received and processed. Additional processes have been implemented to ensure that the system vendor performs its own reconciliation process to make related updates to the eligibility system when corrections occur within the FIS system. A report utilized by the EBT coordinator has been enhanced to include all of the information necessary for a more robust reconciliation process. DHS has drafted a written, comprehensive EBT reconciliation plan that meets the requirements of FNS (pending FNS approval). The EBT Coordinator, in conjunction with Financial Management and Deloitte, completes a daily reconciliation of the EBT process.

Last year's corrective action states that the DoIT Chief Information Security Officer would review the SOC reports, but in June 2019, the state Controller developed a new policy which makes state agency CFO's responsible for reviewing SOC reports, and accordingly, DHS reviewed its vendor SOC reports and documented this review, and will continue to do so in future years.

Anticipated Completion Date: December 2020

Contact Person: Bethany Caputo, SNAP Administrator  
Department of Human Services  
Phone: 401.415.8432

### ***Finding 2019-041 – Corrective Action Plan***

The finding principally relates to the submitted of HUD-60002, Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons, a performance report which includes data collected from subrecipients. Such reporting is entered using the Section 3 Performance Evaluation and Registry System (SPEARS). As indicated in the report, the system has limited the ability of the State OHCD to directly enter required reporting information for some of its programs. Anticipated modifications to the requirements and changes in staff had interrupted the process resulting in inconsistent reporting during the audit period.

This past year, the State Office of Housing and Community Development was granted access to the Section 3 Performance Evaluation and Registry System (SPEARS) for the submission of annual summary reports pursuant to Section 3. Section 3 documentation has been compiled and was successfully submitted relative to the CDBG, Disaster Recovery programs. While the system still does not currently allow OHCD staff to submit information related to the CDBG, steps are being taken to enable access, allowing submittal of all necessary reports. The OHCD staff formalize responsibilities and procedures relative to the collection and filing of necessary documentation.

To assist the audit process in the future, OHCD will save its internal program balance sheets at the time the Performance Evaluation Report (PER) is submitted so that financial reconciliation with office tracking spreadsheets which are modified over time can be more easily accomplished.

The State is revising internal controls to assure that adequate documentation and processes are in place to assure federal reports, including SPEARS and PER, are properly submitted and accurately reflect underlying documentation.



## State of Rhode Island and Providence Plantations

Anticipated Completion Date: June 30, 2020

Contact Person: Michael Tondra, Chief  
Office of Housing and Community Development  
Phone: 401.222.6490

### ***Finding 2019-042 – Corrective Action Plan***

Units of general local government are permitted to retain program income from CDBG activities, provided they are used for the same (CDBG) eligible activities from which they were generated. Subrecipient communities are required to report their program income totals to OHCD which tracks responses on a spreadsheet maintained by fiscal staff. While OHCD provides standardized forms for tracking program income, the Office of Housing and Community Development acknowledges the form can be enhanced to collect more detailed information on income and expenditures. The State will revise forms, using recommended models, and refine monitoring procedures to assure local compliance with federal requirements.

Anticipated Completion Date: June 30, 2020

Contact Person: Michael Tondra, Chief  
Office of Housing and Community Development  
Phone: 401.222.6490

### ***Finding 2019-043 – Corrective Action Plan***

Programming work has been interrupted as a result of the COVID-19 pandemic and new requirements imposed by the Federal CARES Act, et. al. Programming is expected to resume on this project in late summer or early fall. The revised anticipated completion date is now December 31, 2020.

Anticipated Completion Date: December 31, 2020

Contact Person: Kathy Catanzaro, Administrator  
Department of Labor and Training  
Phone: 401.462.8405

### ***Finding 2019-044 – Corrective Action Plan***

2019-044a – RIDOT Finance will incorporate MBTA and AMTRAK into the single audit process for subrecipients. RIDOT Finance and Transit Office to review to determine appropriate findings related to pass-through awards.

Anticipated Completion Date: September 30, 2020



## State of Rhode Island and Providence Plantations

2019-044b – RIDOT is developing a Memorandum of Understanding (MOU) to govern the administration of funds awarded by RIDOT to a subrecipient of FTA funds. Among other FTA requirements, the MOU will specify that each new award will identify the CFDA title and award name of the grant. Additionally, the MOU will stipulate that the subrecipient will provide a DUNS number prior to award and maintain a current SAM registration during the life of the grant.

Anticipated Completion Date: September 30, 2020

Contact Person: Loren Doyle, Acting Chief Operating Officer/Chief Financial Officer  
Department of Transportation  
Phone: 401.563.4524

### ***Finding 2019-045 – Corrective Action Plan***

The Office of Transit will coordinate procurement of contracts, including railroad force account contracts, through RIDOT's Office of Contract and Procurement. In doing so RIDOT will ensure all documentation relative to Buy America and the Suspension and Debarment certifications is maintained.

Anticipated Completion Date: June 30, 2020

Contact Person: Loren Doyle, Acting Chief Operating Officer/Chief Financial Officer  
Department of Transportation  
Phone: 401.563.4524

### ***Finding 2019-046 – Corrective Action Plan***

2019-046a – DEM will maintain copies of electronic scanned timesheets to support all payroll activities within the department. The Office of Management Services will develop an electronic filing system of timesheets that makes these reports readily accessible for internal review and as grant supporting documentation.

Anticipated Completion Date: June 2020

2019-046b – DEM will periodically reconcile the DEM cost accounting system and RIFANS and record adjustments as necessary. Accounting staff have been assigned to review cost accounting expenses against costs posted in RIFANS and record adjustments as necessary. This assignment will also include periodic review of timesheets as part of an internal audit function.

Anticipated Completion Date: April 30, 2020

Contact Person: Emily Cahoon, Administrator, Financial Management  
Department of Environmental Management, Office of Management Services  
Phone: 401.222.6825 ext. 4901



## State of Rhode Island and Providence Plantations

### ***Finding 2019-047 – Corrective Action Plan***

The State and the Systems Integrator have a plan in place to ensure that full functionality for the TANF program is delivered. Enhancements have been made to the system to correct documentation, including scanning and document availability. Sanction records were corrected. Document verification and use of available resources like SSA matching and the Work Number are available for the field staff to use. Additional training for the field staff is being conducted to ensure that both documentation and resources are utilized for TANF.

Anticipated Completion Date: December 2020

Contact Person: Kimberly Rauch, RIW Administrator  
Department of Human Services  
Phone: 401.462.0138

### ***Finding 2019-048 – Corrective Action Plan***

Federal financial reports have been revised to reflect the reversal of transferred TANF funds. Report instructions have been revised to include steps to revise previously reported transfers. Management will ensure transfers between federal programs occur timely and reports are accurate.

Anticipated Completion Date: December 2019

Contact Person: Eileen Asselin, Assistant Director, Financial Management  
Department of Human Services  
Phone: 401.462.6884

### ***Finding 2019-049 – Corrective Action Plan***

The State and Systems Integrator continue to make system & staffing improvements to ensure TANF regulations are followed. A new report, DQ-003, was implemented in July 2018, this was provided to the field to track, call, and place all clients in plans before the end of the current plan. Additionally, new RI Works / TANF training for staff has been implemented, training is for both Eligibility Technicians and Employment & Career Advisors (ECAs).

Supervisors are reviewing cases due to supervisor only approvals. The system requires that supervisors review all "other" hardship cases. Additionally, supervisors have to assign task/cases for workers out of the Worker In Box (WIB). Each supervisor reviews these cases thoroughly to ensure accuracy.

Anticipated Completion Date: September 2019

Contact Person: Kimberly Rauch, RIW Administrator  
Department of Human Services  
Phone: 401.462.0138



## State of Rhode Island and Providence Plantations

### **Finding 2019-050 – Corrective Action Plan**

The State and Systems Integrator teams are working to operationalize income verification for RI Works / TANF and anticipate its implementation during FFY 2021. The immigration status information maintained by the INS interfaces was previously in production. The SSA interface was implemented during FFY 2018. Additionally, TANF staff and eligibility staff have had access to “The Work Number” throughout the year for the purpose of additional wage verification. Additional training for the field staff is being conducted to ensure that both documentation and resources are utilized for TANF.

Anticipated Completion Date: June 2021

Contact Person: Kimberly Rauch, RIW Administrator  
Department of Human Services  
Phone: 401.462.0138

### **Finding 2019-051 – Corrective Action Plan**

2019-051a – Financial management will modify subrecipient risk assessment procedures to include consideration of whether the program was tested as a major program in subrecipient single audit reports. We will also revise our procedures to consider continuity and capability of subrecipient systems and staff.

2019-051b – In the future, DHS will issue management decisions on any subrecipient single audit findings related to federal programs.

Anticipated Completion Date: June 2021

Contact Person: Janice Cataldo, Chief Financial Officer  
Department of Human Services  
Phone: 401.462.3246

### **Finding 2019-052 – Corrective Action Plan**

The Department of Human Services (DHS) had suspended on-site monitoring visits in SFY2019 due to staffing vacancies and turnover. DHS will resume annual on-site program and fiscal monitoring visits for all Community Action Agencies. Additionally, DHS will explore merging monitoring tasks from several federal grant programs to reduce the number of visits and the duplication of work.

Anticipated Completion Date: TBD: Dependent on the feasibility of On-Site Visits during COVID-19 restrictions

Contact Persons: Dierdre Weedon, Chief, Program Development - LIHEAP  
Department of Human Services  
Phone: 401.462.6424  
Brad Auger, Principal Human Services Business Office  
Department of Human Services  
Phone: 401.462.6868



## State of Rhode Island and Providence Plantations

### ***Finding 2019-053 – Corrective Action Plan***

The Department of Human Services (DHS) has already distinguished federal award years in the contracts' Agreement Approval Forms (Bucksheets) and identified earmarkings and award years with the use of naming conventions for invoices. DHS will implement use of sub-accounts or cost centers within the LIHEAP Line Account to facilitate tracking of award years and earmarkings within the RIFANS system.

Anticipated Completion Date: September 30, 2020

Contact Persons: Dierdre Weedon, Chief, Program Development - LIHEAP  
Department of Human Services  
Phone: 401.462.6424  
Brad Auger, Principal Human Services Business Office  
Department of Human Services  
Phone: 401.462.6868

### ***Finding 2019-054 – Corrective Action Plan***

For the federal Household Report, the Department of Human Services (DHS) will record Hancock system reports at the time of submission of the federal reports as documentation of the submitted data, and compose a narrative documenting the process.

For the Performance Report, DHS will document the process of data collection and analysis from the Hancock system and other sources. DHS will employ the services of APPRISE, a technical assistance partner with the federal LIHEAP Office, to verify the accuracy and adequacy of the data and analysis.

Anticipated Completion Date: Household Report: December 15, 2020  
Performance Report: January 15, 2021

Contact Persons: Dierdre Weedon, Chief, Program Development - LIHEAP  
Department of Human Services  
Phone: 401.462.6424  
Brad Auger, Principal Human Services Business Office  
Department of Human Services  
Phone: 401.462.6868





## State of Rhode Island and Providence Plantations

### ***Finding 2019-055 – Corrective Action Plan***

The Department of Human Services (DHS) will require the vendor, Hancock Software, to have at least a Type 1 Service Organization Control examination performed and to submit a Service Organization Control Report to the department.

Anticipated Completion Date: SOC Report: March 15, 2021  
Password Requirement: January 15, 2021

Contact Persons: Dierdre Weedon, Chief, Program Development - LIHEAP  
Department of Human Services  
Phone: 401.462.6424  
Brad Auger, Principal Human Services Business Office  
Department of Human Services  
Phone: 401.462.6868

### ***Finding 2019-056 – Corrective Action Plan***

2019-056a – Current system logic is being enhanced to trigger family share functionality when a provider rate change is reported. This trigger will adjust the family copay contribution required as noticed in the BDN and reflective of the provider's rate change. In addition, this trigger will generate a 198 and 198C Enrollment Notice reflecting new copay contribution required.

2019-056b – In June 2019, the Department launched functionality in RIBridges that links a child's eligibility to their enrollment. This allows the system to automatically generate a notice to providers when there is a change in a child's CCAP eligibility, requiring them to disenroll the child within 10 business days. After 10 days, if the provider does not disenroll the child, the system does so automatically. Pre-payroll validations have been put into place to ensure better quality control on the overall payroll output.

2019-056c – Reauthorization was implemented in RIBridges in October 2018. In May 2019, DHS pushed out overdue recertification dates in response to pausing negative action. All overdue recertifications will be recertified or terminated by June 2020. Effective May 2019, DHS began running partial negative action, closing recertifications not returned timely and shielding from closure recertifications received timely needing to be worked. A system fix is scheduled for next year that will close all recertifications not returned timely nor worked timely in accordance with policy.

Anticipated Completion Date: June 2021

Contact Person: Eileen Asselin, Assistant Director, Financial Management  
Department of Human Services  
Phone: 401.462.6884



## State of Rhode Island and Providence Plantations

### **Finding 2019-057 – Corrective Action Plan**

Financial reconciliations between Medicaid and CHIP will now be done on a quarterly basis rather than annually. It is also anticipated that the frequency and the magnitude of such manual adjustments will diminish with continued RIBridges functionality improvements that better and more quickly determine and assign eligibility for CHIP. EOHHS will work with applicable federal partners to make appropriate corrections to previously submitted federal reports.

Regarding eligibility, while EOHHS acknowledges that the maintenance of CHIP eligibility between two systems weakens controls over the overall CHIP eligibility, we disagree that CHIP eligibility is an area of material noncompliance.

Of the sample of 47 cases, 11 exceptions were noted. Four exceptions are related to termination notice issues that were broader than just the CHIP program. These four terminations which occurred in RIBridges but could not be terminated in the MMIS have since been addressed and are better represented in Audit Finding: 2019-058.

Additional functionality was added to the State's eligibility system in April 2019, which modified the calculation for the post-partum eligibility period and properly adjusted household size. This system correction, we understand, may not have been part of the single audit sample data set.

Three of the 11 case exceptions were related to the eligibility system's inability to identify other health insurance coverage at the time of application. The program agrees that this has resulted in inaccurate eligibility determinations. While the recipients would have otherwise been eligible for a different category of eligibility, they would not have been eligible for CHIP coverage. EOHHS continues to explore additional options for improved TPL (Third Party Liability) solutions in RIBridges.

Another three of the 11 case exceptions were attributed to issues with verification via electronic data sources. RIBridges verifies self-attested income against the SWICA database. If there is less than a 10% discrepancy between the self-attested income and SWICA, and the individual would remain eligible for Medicaid, then the system will not send out a request for verification. The system will use the self-attested income in eligibility calculations. This same exception occurs in 2019-058.

Lastly, one of the 11 exceptions noted was for an individual who did not age-out of CHIP at age 19. RIBridges will automatically age out individuals during the month of their 19<sup>th</sup> birthday except if the application is in a pending status. In this instance, the application was pending at the time the age-out process was run. The case required worker intervention, which occurred sometime later.

Anticipated Completion Date: September 30, 2020 (federal reporting)

Contact Person: Brian Tichenor, Medicaid RIBridges Implementation Manager  
Executive Office of Health and Human Services  
Phone: 401.462.0168



## State of Rhode Island and Providence Plantations

### **Finding 2019-058 – Corrective Action Plan**

Of the 60 cases samples for Medicaid eligibility, there were nine exceptions.

Four of the nine exceptions were attributed to verifications through electronic data sources (immigration and income). In one case, the external sources marked the individual as a non-citizen yet records of a birth certificate and Social Security card were on file. This recipient was not applying for coverage but was correctly included in the household composition. Discrepancy in the Federal Data Service Hub against documentation sources was not completed because the recipient was not requesting coverage. Two of these four electronic data source cases were noted as exceptions due to required worker intervention – the documentation was received correctly from the electronic data sources, but the task created for the worker did not occur timely or at all. The final case of these four exceptions was, in fact, a system issue with the SWICA interface not prompting a termination. This issue has since been fixed.

Another two of the overall nine exceptions were related to recipients' terminations in RIBridges that did not properly terminate eligibility in the MMIS. These termination discrepancies can be attributed to notice language, termination logic and procedures to fully evaluate all terminations ex-parte. All of these items have since been addressed in RIBridges. Some of these changes were implemented late in CY2019 and may not have been available for this audit. As a result of the notice and termination processing improvements, EOHHS had seen a drop in its eligibility discrepancies (active/eligible in MMIS, ineligible in RIBridges) from roughly 12,500 individuals to 2,000 individuals (>1%) in early CY2020. <sup>1</sup> This issue is repeated in finding 2019-061.

One case exception of the nine total was related to self-employment income. RIBridges verifies self-attested income against the SWICA database. If there is less than a 10% discrepancy between the self-attested income and SWICA, and the individual would remain eligible for Medicaid, then the system will not send out a request for verification. The system will use the self-attested income in eligibility calculations.

The final case exception was related to an invalid aid category assignment that resulted in a financial impact. The cause of this case was a relationship issue that was not addressed by a worker. A child on the case had been marked as niece/nephew when the birth certificate in the case showed the child was a son/daughter of the adults on the case. The system assigned the appropriate aid categories based on the relationship data that was updated by the worker. There were no system issues identified for this case exception.

With regard to the Auditors' recommendations 2019-058b and 2019-058c, in December 2019, new audit functionality was added to RIBridges that expanded access to historical records in various locations for workers to see. Audit and MEQC staff were involved in the development of these requirements, and the state spend over 5,000 hours with Deloitte designing and implementing this solution. It provides the ability for Auditors and MEQC staff to:

- View historical/voided records within Data Collection screens (Read-Only)
- View all historical eligibility records, including Mass Update trigger rationale (View History)
- View additional information within eligibility screens, including verifications and reasonable explanation
- View historically received external data



## State of Rhode Island and Providence Plantations

Finally, with regard to Auditors' recommendation 2019-058d, in September 2020, EOHHS will implement a change to the RIBridges eligibility system that will account for legislative changes to the Tax Cuts and Jobs Act, the Bipartisan Budget Act of 2018, and the HEALTHY KIDS Act, that affect the modified adjusted gross income (MAGI)-based methodologies used for determining Medicaid and CHIP eligibility. These requirements are based on the State Health Officer letter #19-003 dated August 22, 2019. Specific changes to countable income include: alimony received, discharged student loan debt, parent mentor compensation, and lottery winnings. Changes to deductions used for MAGI-eligibility determination include alimony paid, and tuition and fees.

<sup>1</sup> The COVID-19 public health emergency (PHE) has halted all terminations within the RI eligibility system. This includes all eligibility redeterminations. Post PHE, EOHHS will need to evaluate the system and worker impacts of these backlogged cases. This will be fully document in the EOHHS COVID-19 Recovery Plan.

Anticipated Completion Date: Partly pending resolution to the Public Health Emergency.

Contact Person: Brian Tichenor, Medicaid RIBridges Implementation Manager  
Executive Office of Health and Human Services  
Phone: 401.462.0168

### ***Finding 2019-059 – Corrective Action Plan***

The enhancements to RIBridges functionalities and documentation are ongoing. Our CY2020 MEQC pilot was designed for evaluation of the audit trail enhancements deployed in December 2019. The re-review approach will capture the system's ability to retain data. Decreasing reliance upon data extracts will be considered as a means of improving timeliness of eligibility reviews. Screen prints are being enhanced to capture all relevant data. MEQC staff were engaged in the development of these audit requirements.

The MEQC team is developing a formal QC training curriculum for Medicaid/CHIP QC reviewers. As of May 2020, two new MEQC staff has been onboarded bringing the total to five.

Anticipated Completion Date: December 31, 2020

Contact Person: Dana Denman, MEQC Supervisor  
Department of Human Services  
Phone: 401.415.8406

### ***Finding 2019-060 – Corrective Action Plan***

In 2019, the Department of Human Services made several important improvements to address the timeliness issues. First, the LTSS-eligibility unit was reorganized from a geographic regional approach to task-oriented units for intake, home and community-based care, financial level two (more complex cases), case maintenance (recerts and case changes) and backlog. In early 2020, enough improvement had been made on the backlog cases that we merged the backlog and financial level two units. The intake unit combined experienced medical eligibility technicians from across DHS to focus on completing data collection and evaluating every LTSS application for other forms of Medicaid and MPP within 30 days. This unit is also authorizing 75% of all cases after the level of care is completed by OMR, thereby reducing the number of hand-offs in these cases and expediting eligibility for less complex cases.



## State of Rhode Island and Providence Plantations

In addition to operational changes, a number of system enhancements were made Bridges enhancements to improve timeliness. These included adding new document types so that OMR is notified as soon as the correct medical documents are scanned in by DHS; separating program change and financial case change tasks from RFB tasks; improving the efficiency of the level of care screen, and redesigning the worker Inbox so that each step of the LTSS process can be assigned and monitored.

Finally, In March 2020, the system was updated to include a “complete application date,” which auto populates on LTSS applications when all the documents required by state regulations are returned. Based on this enhancement, the state will now be able to identify aging cases based on their completion date, rather than their initial application date, as the state and federal regulations require. As a result, the state is currently calculating the LTSS backlog as 664.

Anticipated Completion Date: Pending resolution to the Public Health Emergency.

Contact Person: Sarah Harrigan, Long Term Services and Supports Administrator  
Department of Human Services  
Phone: 401.415.8418

### ***Finding 2019-061 – Corrective Action Plan***

Over the course of FY2019, EOHHS worked with its eligibility system vendor to tighten controls over the Medicaid termination processes including improvements to notice language, termination logic and procedures to fully evaluate all terminations ex parte. Some of these changes were implemented late in CY2019 and may not have been available for this audit. As a result of these improvements, EOHHS had seen a drop in its eligibility discrepancies (active/eligible in MMIS, ineligible in RIBridges and vice versa) from roughly 12,500 individuals to 2,000 individuals in early CY2020.<sup>1</sup> This represents an 84% reduction in these errors over time and the 2,000 individuals are equal to less than 1% of the total Medicaid population. With the notable exception of the recovery required from the public health emergency, the state considers this issue largely addressed through continued operational processes. This issue is repeated in finding 2019-058.

<sup>1</sup> The COVID-19 public health emergency (PHE) has halted all terminations within the RI eligibility system. This includes all eligibility redeterminations. Post PHE, EOHHS will need to evaluate the system and worker impacts of these backlogged cases. This will be fully document in the EOHHS COVID-19 Recovery Plan.

Anticipated Completion Date: Pending resolution to the Public Health Emergency.

Contact Person: Nicole T. Nelson, PMP, Medicaid IT Systems Director  
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Phone: 401.462.2127



## State of Rhode Island and Providence Plantations

### ***Finding 2019-062 – Corrective Action Plan***

Settlement currently occurs within the contract year. Recently, there have been anomalies (i.e. newborn reconciliation with the MCOs), however these anomalies are infrequent, and, in most cases, settlement occurs within contract year. The risk share contracts are open for 12 months after the end of the fiscal year. MCO rate corrections, however, are done more promptly.

Suggestion to "disallow" any costs from settlement calculations that can't be adjudicated through the encounter system is not appropriate. There are many items that represent true medical expenditures that are adjudicated outside of the encounter process and are allowable to be factored in rate setting as well as during the risk settlement.

Currently, the managed care contract requires the MCOs to conduct an outside, independent audit to be submitted to EOHHS upon completion. EOHHS reviews the contractual language to ensure it covers all necessary requirements included in the finding and amend if necessary.

Risk share and stop loss settlement procedures and associated calculations are extensively documented. At times, there are anomalies that necessitate a variance from the standard approach, but in general settlement calculations are consistently enforced. EOHHS will review all types of settlements to ensure the process for each is documented and that settlements adhere to the standard approach. Settlement activities include: Risk Share; Stop Loss; Withholds; Capitation Rate Corrections; newborn reconciliation (which going forward should not be an issue).

Anticipated Completion Date: Audit contract language and SOPs will be completed by the end of Q1 of SFY2021

Contact Person: Mark Kraics, Project Manager Consultant  
Executive Office of Health and Human Services  
Phone: 401.462.3516

### ***Finding 2019-063 – Corrective Action Plan***

The State Plan Amendment (RI 19-012) relating to SURS activity was updated and approved by CMS effective 7/1/19.

Anticipated Completion Date: Complete

Contact Person: Bruce McIntyre, Program Integrity Manager  
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Phone: 401.462.0613



## State of Rhode Island and Providence Plantations

### **Finding 2019-064 – Corrective Action Plan**

The project effort to incorporate MCO provider enrollment into the Medicaid provider enrollment procedures requires system modifications within the MMIS. This project is currently scheduled to be completely implemented in February 2021 and is being rolled out in three phases. Phase 1 implementation date is set at July 2020; Phase 2 is set at January 2021; and Phase 3 completes implementation during February 2021. In conversations with our State lead at CMS, it was communicated that RI was not unique in being behind schedule with compliance with this CURES Act requirement.

Anticipated Completion Date: February 2021

Contact Person: Nicole T. Nelson, PMP, Medicaid IT Systems Director  
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Phone: 401.462.2127

### **Finding 2019-065 – Corrective Action Plan**

In 2019, due to changes in BHDDH's organizational structure, BHDDH reconfigured their cost allocation plan ("CAP"). In June of 2019, BHDDH submitted the CAP to CMS seeking approval of alternate procedures to allocate administrative costs to the Medicaid Program. In June and July of 2019 BHDDH engaged with CMS in answering questions regarding the new allocation procedures as part of the CMS approval process. Several notifications were received back from CMS' Office of Cost Allocation, noting receipt of the Plan and that they would reach out for additional questions concerns. Through EOHHS' contract with PCG, BHDDH engaged with PCG in November 2019, to further revise the CAP to ensure compliance with Federal claiming requirements. Effective April 2020, BHDDH implemented the new CAP developed with assistance from the Public Consulting Group ("PCG"). PCG is an EOHHS contractor that helps determine allocation methodologies and manage CAPs.

This new CAP was submitted to CMS on April 1, 2020. CMS has acknowledged receipt of the new CAP and BHDDH is awaiting approval of this new CAP from CMS. EOHHS is implementing a process whereby any submission to CMS regarding CAP must be reviewed and approved by EOHHS prior to its submission to CMS. In addition, Medicaid will implement a continuous compliance plan regarding the CAP with the various State agencies. EOHHS will utilize the contract with PCG to implement ongoing technical assistance and regular oversight to help the State ensure compliance with Federal CAP requirements.

Anticipated Completion Date: Ongoing

Contact Person: Ben Shaffer, Medicaid Program Director  
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Phone: 401.462.3058



## State of Rhode Island and Providence Plantations

### **Finding 2019-066 – Corrective Action Plan**

2019-066a – EOHHS and BHDDH retained Manatt, Phelps and Phillips, LLP, to conduct an external audit of ESH to review the IMD status and the status of Medicaid claiming for patients in BHDDH’s custody and admitted to ESH pursuant to the Forensic Statute (“Forensic Patients”). In January 2020, based upon ESH’s patient mix census, EOHHS instructed BHDDH to develop a mitigation plan to address the IMD concerns at ESH. In January, February and March of 2020, EOHHS conducted oversight and monitoring of BHDDH and ESH to address the IMD issue. As of March 2020, ESH reported that their patient census brought them into compliance with Medicaid requirements. Medicaid determined that based upon their census they were not an IMD, allowing ESH to claim FFP. As described below in the response to 2019-066b, on May 1, 2020, as part of the new IMD Regulatory compliance process, ESH submitted its IMD Response. EOHHS reviewed the documentation as submitted by BHDDH/ESH and determined that ESH is not an IMD. EOHHS will be conducting ongoing monitoring and oversight to ensure continued IMD compliance by ESH. In addition, in April 2020, EOHHS submitted a State Plan Amendment to CMS regarding authorization for ESH’s cost based payment for inpatient hospital care. The SPA as submitted provides that government-owned and -operated hospitals will be paid on a cost basis and at a minimum EOHHS shall annually review the cost-based payment method seeking further SPAs as necessary. CMS has acknowledged receipt of the SPA and is reviewing EOHHS’ submission. BHDDH has discussed services provided to forensic patients with CMS. Review of current BHDDH operational practices related to forensic patients and review with outside counsel referenced above indicates that under current BHDDH practices, forensic billing should be discontinued as currently implemented. BHDDH will continue discussions with CMS to confirm as much.

2019-066b – The IMD exclusion is not a Medicaid compliance issue that is unique to ESH. Therefore, EOHHS developed regulations and procedures applicable to all impacted facilities in Rhode Island. Federal law and regulations provide that any inpatient and/or residential facility (excluding facilities providing services to individuals with developmental disabilities) with over 16 beds could potentially be determined an IMD and excluded from the Medicaid Program. In consultation with Manatt and after reviewing other states’ IMD compliance processes, EOHHS developed a new State IMD policy and process. On April 8, 2020, EOHHS promulgated pursuant to R.I. Gen. Laws § 42-35-2.10, emergency IMD Regulations to ensure regular monitoring and IMD compliance reviews. 210-RICR-10-00-7 (“IMD Regulations”). These IMD Regulations have an effective date of April 8, 2020. EOHHS is in the process of simultaneously promulgating IMD Regulations through the Administrative Procedures Act rule making process to ensure that the IMD Regulations are permanently in place beyond the emergency rule making time frame contained in R.I. Gen. Laws § 42-35-2.10. The IMD Regulations are specifically applicable to all Facilities with over 16 beds (“Facilities”) (including ESH), to ensure compliance with all Federal requirements regarding IMD status and participation in the Medicaid program. Based upon these IMD Regulations EOHHS now requires all Facilities (including ESH) to submit biannual reports on May 1st and December 1st of each calendar year. In accordance with the guidance contained in CMS’ State Medicaid Manual, Chapter 4 (“Manual”), Section 4390(C), these IMD Regulations require a Facility’s biannual reports to include: general characteristics of the Facility and a Facility wide point in time census to ensure amongst other issues, that the percentage of patients with a primary diagnosis is less than 51% percent and that based upon a review of the whole Facility the general characteristics are not that of an IMD. The IMD Regulations also provide for a process whereby Medicaid can conduct further and more frequent IMD compliance reviews of Facilities at greater risk of becoming an IMD. EOHHS shall conduct ongoing reviews of the submitted biannual IMD reports to determine IMD status of Facilities.

Anticipated Completion Date: Ongoing

Contact Person: Ben Shaffer, Medicaid Program Director  
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Phone: 401.462.3058





## State of Rhode Island and Providence Plantations

### **Finding 2019-067 – Corrective Action Plan**

EOHHS will continue to have monthly meetings with DCYF in order to communicate and monitor the administration of the Rhode Island Medicaid Program by DCYF and their service providers.

DCYF will produce all reports describing activity pursuant to the ISA as requested by EOHHS.

- Reports shall be delivered in an electronic format acceptable to EOHHS, unless otherwise specified. Reports shall be reported within forty-five (45) calendar days following the end of each quarter or at another mutually agreed upon time frame and shall include, at a minimum:
  - i. EOHHS Fiscal Report
  - ii. Medicaid Quarterly Summary
  - iii. A quarterly roster of all children's behavioral health organizations, congregate-care facility provider agencies (which are responsible for facilitating private foster care, adoption, independent living or group care services, including specific sites) and child placing agencies licensed by DCYF.<sup>2</sup>
  - iv. An aggregate account of time study data results for each congregate care site as well as child placing agency<sup>2</sup>
  - v. A summary of all DCYF-conducted performance and contract monitoring activities performed for each children's placement with a focus on home-based services, specialized foster care, and congregate care programs.<sup>2</sup>
  - A report submission calendar indicating due dates for report submission will be provided to DCYF by EOHHS<sup>2</sup>
  - Failure to provide timely and accurate reporting can result in corrective actions as deemed suitable by EOHHS.<sup>2</sup>

<sup>2</sup>Newly developed activities will commence September 2020.

Anticipated Completion Date: Activities that are already taking place will continue as scheduled.

Contact Person: Jason Lyon, Administrator for Children's Services, Medicaid  
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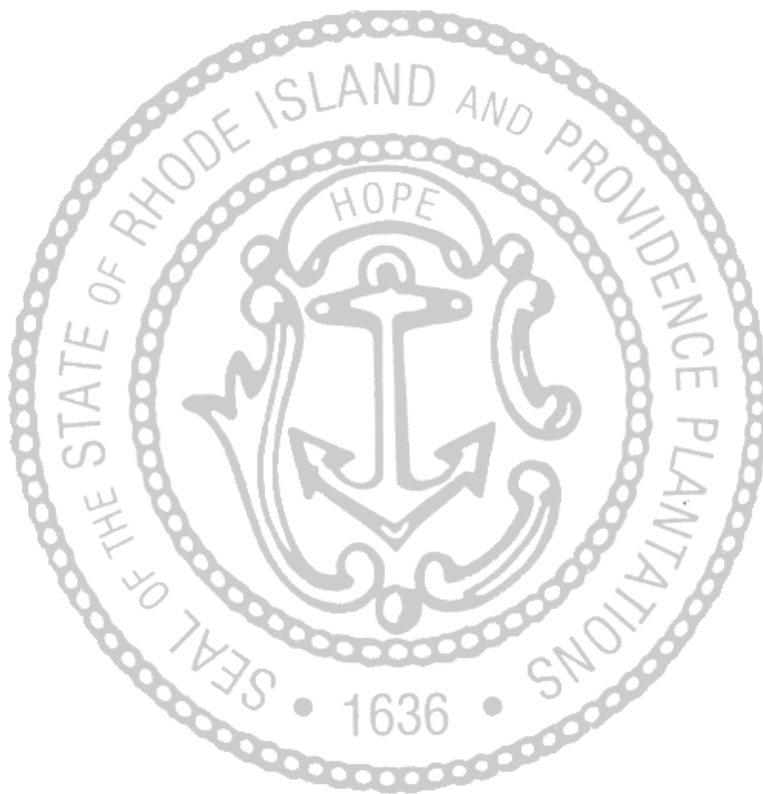
### **Finding 2019-068 – Corrective Action Plan**

Financial reconciliations between Medicaid and CHIP will now be done on a quarterly basis rather than annually. It is also anticipated that the frequency and the magnitude of such manual adjustments will diminish with continued RIBridges functionality improvements that better and more quickly determine and assign eligibility for CHIP. EOHHS will work with applicable federal partners to make appropriate corrections to previously submitted federal reports.

Anticipated Completion Date: September 2020

Contact Person: Corsino Delgado, Associate Director, Financial Management  
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**Summary Schedule  
of Prior Audit Findings**  
(prepared by the State's management)



**Summary Schedule of Prior Audit Findings  
Table of Prior Findings by Federal Program**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in Previous Single Audit Reports</u>
Financial Statements	N/A	2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-006, 2018-007, 2018-008, 2018-009, 2018-010, 2018-011, 2018-012, 2018-013, 2018-014, 2018-015, 2018-016, 2018-017, 2018-018 2018-019, 2018-020, 2018-021, 2018-022, 2018-023, 2018-024, 2018-025, 2018-026, 2018-027, 2018-028, 2018-029, 2018-030, 2018-031, 2018-032, 2018-033, 2018-034, 2018-035, 2018-036, 2018-037
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	2018-038, 2018-039, 2018-040, 2018-041, 2018-042
State Administrative Matching Grants for SNAP	10.561	
Child Nutrition Cluster:		
School Breakfast Program	10.553	2018-043, 2018-044
National School Lunch Program	10.555	
Special Milk Program for Children	10.556	
Summer Food Service Program for Children	10.559	
Home Investment Partnerships Program	14.239	2018-045
Equitable Sharing Program	16.922	2018-046
Unemployment Insurance	17.225	2018-047, 2018-048
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	2018-049, 2018-050
Recreational Trails	20.219	
Federal Transit Cluster:		
Federal Transit Capital Investment Grants	20.500	2018-051, 2018-052, 2018-053, 2018-054, 2018-055
Federal Transit Formula Grants	20.507	
Bus and Bus Facilities Formula Program	20.526	
Grants to States for Construction of State Home Facilities	64.005	2017-056
Student Financial Assistance Cluster:		
Federal Supplemental Education Opportunity Grants	84.007	2017-060
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	
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	
Nursing Student Loans	93.364	
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	2018-074, 2018-075, 2018-077, 2018-078
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	2018-038, 2018-056, 2018-057, 2018-058, 2018-059, 2018-060
Low-Income Home Energy Assistance Program	93.568	2018-061, 2018-062, 2018-063

**Summary Schedule of Prior Audit Findings  
Table of Prior Findings by Federal Program**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in Previous Single Audit Reports</u>
CCDF Cluster:		
Child Care and Development Block Grant	93.575	2018-038, 2018-064
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	
Children's Health Insurance Program	93.767	2018-038, 2018-065, 2018-067, 2018-068, 2018-070, 2018-071
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	2018-038, 2018-066, 2018-067, 2018-068, 2018-069, 2018-070, 2018-071, 2018-072, 2018-073
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	
Medical Assistance Program	93.778	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2018-074, 2018-075, 2018-076, 2018-078

**Finding 2017-056** – CFDA 64.005

DHS did not sufficiently document the specific project costs reimbursed through the federal grant. Controls should be enhanced to ensure adequate documentation is maintained to demonstrate that only eligible costs allowable for federal participation are charged to the program.

- 2017-056 Support project costs allocated to the federal grant with adequate documentation delineating the specific costs reimbursed. Enhance controls to ensure adequate documentation is maintained to demonstrate that only eligible costs allowable for federal participation are charged to the program.

**Status:** *Implemented.*

**Finding 2017-060** – CFDA 84.007; 84.033; 84.038; 84.063; 84.268; 84.379; 93.342; 93.364

*(Reported Initially in Finding 2015-046)*

Community College of Rhode Island – The Federal government requires the College to report student enrollment changes to the National Student Loan Data System (“NSLDS”) within sixty days. Out of a sample of forty students with enrollment status changes, four students’ changes were not reported in a timely manner to the NSLDS.

- 2017-060 We recommend that the Community College review and update its policies and procedures for transmitting information to the National Student Clearinghouse on enrollment changes.

**Status:** *The Community College partially corrected the prior audit finding. New management began at CCRI in FY19, and although it was noted that corrective action was previously implemented, a complete review of the College’s Clearinghouse reporting process was recently completed with an outside consultant in an effort to ensure that best practices are in place and that the College is in full compliance.*

**Finding 2018-001** – Financial Statement Finding

*(Reported Initially in Findings 2016-001 and 2016-021)*

The State lacks a strategic plan to (1) coordinate needed replacements/enhancements to its key statewide financial and administrative systems and (2) ensure that critical legacy financial systems, such as the payroll system, which pose a business continuity risk, will be available to support State operations. Without a comprehensive plan, there is substantial risk that the intended integration of various components may not be achieved.

- 2018-001a Develop and implement a comprehensive strategic plan to address the integration approach and business continuity risks for planned and contemplated replacements/enhancements to critical statewide financial system functionalities.
- 2018-001b Re-evaluate the continued operation of two separate accounting systems to support financial reporting for the IST Fund as part of the State’s preparation of a strategic plan for its core accounting and administrative functions.
- 2018-001c Propose an additional dedicated funding source to be committed to the Information Technology Investment Fund to support the anticipated enhancements to critical financial and administrative computer systems identified through the implementation of the strategic plan.

**Status:** *Partially Implemented. See finding 2019-001 for current year update and recommendation.*

**Finding 2018-002** – Financial Statement Finding

*(Reported Initially in Finding 2016-010)*

The continued and growing complexity of Medicaid program operations adds to the challenge of accurately accounting for all Medicaid program related financial activity within the State’s financial statements.

- 2018-002a Evaluate and document control processes to meet the financial reporting objectives for the Medicaid program. Delineate those responsibilities delegated to contractors and how those responsibilities are integrated in the overall control structure.
- 2018-002b Improve financial oversight of the MCOs as a basis for enhancing program compliance objectives and enhancing data available for financial reporting purposes.

**Status:** *Partially Implemented. See finding 2019-002 for current year update and recommendations.*

**Finding 2018-003 – Financial Statement Finding**

*(Reported Initially in Finding 2017-008)*

The Executive Office of Health and Human Services (EOHHS) authorized in excess of \$200 million in system payouts and manual disbursements in fiscal 2018, representing provider advances, payments to managed care organizations for contract settlements and/or non-claims based financial activity, and other program disbursements. The reporting and internal control processes relating to these types of disbursements are manual and external to other established control procedures. Such amounts are not easily identified or quantified by the Medicaid Management Information System (MMIS).

- 2018-003a Consider alternatives to issuing system payouts and manual disbursements through the State fiscal agent when possible. When using FACNs to authorize disbursements, utilize a unique identification code to facilitate tracking of FACN disbursements.
- 2018-003b Develop comprehensive reporting for system payouts and manual disbursements to allow for better oversight and monitoring by EOHHS.

**Status:** *Partially Implemented. See finding 2019-003 for current year update and recommendations.*

**Finding 2018-004 – Financial Statement Finding**

*(Reported Initially in Finding 2016-002)*

The State can enhance its communication and implementation of a statewide approach to design, document, and monitor its internal control policies and procedures following the principles contained in the revised internal control framework. The State's system of internal controls is intended to safeguard public resources and support accurate financial reporting.

- 2018-004 Enhance communication and implementation of a statewide approach to design, document, and monitor its internal control policies and procedures following the principles contained in the COSO framework/Green Book. Reassess, document, and monitor control procedures following the guidelines of the internal control framework.

**Status:** *Not Implemented. See finding 2019-004 for current year update and recommendations.*

**Finding 2018-005 – Financial Statement Finding**

Monitoring of escrow liability account balances needs to be improved and the establishment of these accounts should be more limited to ensure they are only used when that is the proper accounting for such funds.

- 2018-005a Complete a thorough review and reconciliation of all escrow liability account balances and make any required adjustments.
- 2018-005b Review and re-establish appropriate monitoring and reconciliation control procedures for escrow liability account balances. Identify reconciliation frequency and appropriate data to be used in the reconciliation for each account balance.

**Status:** *Implemented.*

**Finding 2018-006 – Financial Statement Finding**

Controls can be enhanced within the accounting system to better track the distinct components of fund balance required for presentation in the fund level financial statements.

- 2018-006a Assess potential fiscal closing procedure enhancements within the RIFANS accounting system to support the presentation of fund balance components.
- 2018-006b Establish other reconciliation processes to validate the change in fund balance components between fiscal years.

**Status:** *Partially Implemented. See finding 2019-008 for current year update and recommendations.*

**Finding 2018-007 – Financial Statement Finding**

Polices need to be developed and implemented to guide decision-making regarding what types of costs should be paid from the newly established Information Technology internal service fund.

- 2018-007 Develop policies consistent with the State’s accounting policies and generally accepted accounting principles to guide decision making regarding what types of costs should be paid from the newly established Information Technology internal service fund.

**Status:** *Partially Implemented. See finding 2019-009 for current year update and recommendation.*

**Finding 2018-008 – Financial Statement Finding**

*(Reported Initially in Finding 2015-001)*

Certain duties performed by the Office of the General Treasurer were not sufficiently segregated during fiscal 2018 which resulted in control deficiencies.

**Status:** *Implemented.*

**Finding 2018-009 – Financial Statement Finding**

*(Reported Initially in Finding 2015-008)*

The State can enhance certain system access controls within the RIFANS statewide accounting system.

- 2018-009a Review activities of “super-users” (system administrators) on a scheduled basis to ensure that additions, modifications and deletions initiated by them are appropriate.
- 2018-009b Improve controls over RIFANS access by ensuring consistent use of the reporting function and by continuing to explore reporting functionalities that would allow for periodic monitoring of noncompliance with policies relating to delegated user access.

**Status:** *Partially Implemented. See finding 2019-010 for current year update and recommendations.*

**Finding 2018-010 – Financial Statement Finding**

*(Reported Initially in Finding 2015-003)*

Statewide accounting controls over receivables should be enhanced.

- 2018-010 Explore options to enhance statewide general ledger controls over receivables.

**Status:** *Partially Implemented. See finding 2019-011 for current year update and recommendations.*

**Finding 2018-011 – Financial Statement Finding**

*(Reported Initially in Finding 2017-007)*

The form and content of the enacted State annual operating budget should be enhanced to facilitate alignment with the specific funds used to account for activities and to provide more effective planning and monitoring tools.

- 2018-011a Improve the presentation of the budget amounts for transportation activities. Consider changes in the level of detail and include all transportation activity.
- 2018-011b Modify how the Lottery operations are included in the annual budget by including a separate pro forma operating statement supporting the net transfer to the General Fund.
- 2018-011c Include fund information within the budget to facilitate recording the budget in the accounting system and preparing budget-to-actual comparisons.

**Status:** *Not Implemented. See finding 2019-012 for current year update and recommendations.*

**Finding 2018-012 – Financial Statement Finding**

*(Reported Initially in Finding 2017-010)*

Responsibility for monitoring the investment activity and other compliance aspects of funds on deposit with a fiscal agent (trustee) should be vested with the Office of the General Treasurer.

- 2018-012 Assign responsibility for oversight and monitoring of funds on deposit with fiscal agents to the Office of the General Treasurer.

**Status:** *Not Implemented. See finding 2019-014 for current year update and recommendation.*

**Finding 2018-013** – Financial Statement Finding (Reported Initially in Finding 2016-004)

Various responsibilities, related to the oversight of federal grants and assigned to the State's Office of Management and Budget (OMB), have not been fully addressed operationally.

- 2018-013 Enhance the operational activities of OMB to comply with the enabling statute and to meet the need to provide centralized monitoring of federal programs, which constitute a material portion of the State's overall activities.

**Status:** No longer valid.

**Finding 2018-014** – Financial Statement Finding (Reported Initially in Finding 2015-004)

The State can 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. Further, statewide accounting functionalities should be implemented to support time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to management and control over federal programs.

- 2018-014a Improve functionality within the statewide financial systems to facilitate federal grant administration (grants management, cash management and cost allocation).
- 2018-014b Build statewide processes over federal grant administration within the Office of Management and Budget to supplement accounting controls within the RIFANS accounting system.

**Status:** Not Implemented. See finding 2019-013 for current year update and recommendations.

**Finding 2018-015** – Financial Statement Finding (Reported Initially in Findings 2015-006 and 2015-012)

The State resumed tests of its disaster recovery plan during fiscal 2018; however, not all major systems were sufficiently tested.

- 2018-015 Ensure the off-site disaster recovery tests at the State's designated disaster recovery site include all major applications at least annually.

**Status:** Partially Implemented. See finding 2019-019 for current year update and recommendation.

**Finding 2018-016** – Financial Statement Finding (Reported Initially in Finding 2015-007)

The State does not follow uniform enterprise-wide program change control procedures for the various IT applications operating within State government. This increases the risk that unauthorized or inappropriate changes could be made to IT applications without detection.

- 2018-016a Develop and implement procedures detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.
- 2018-016b Determine the appropriate combination of operational, procedural and/or technical adjustments required to use change management software to result in adequate program change control for the entire enterprise.

**Status:** Partially Implemented. See finding 2019-020 for current year update and recommendations.



**Finding 2018-017** – Financial Statement Finding (Reported Initially in Finding 2016-011)

The State can enhance its enterprise-wide security policies and procedures and communication of these policies and procedures with State agencies. Additionally, the State can enhance its ongoing security posture by periodically performing a risk assessment to identify if mission critical systems comply with the policies and procedures.

- 2018-017a Continue to update IT security policies and procedures to ensure such policies and procedures conform to current standards and address all critical systems security vulnerabilities.
- 2018-017b Contract for the performance of IT security compliance reviews and accumulate and make use of available Service Organization Control reports to extend IT security monitoring of critical systems.
- 2018-017c New information systems or significant system modifications should be subjected to a formalized systems risk assessment security certification by DoIT or an external IT security consultant prior to becoming operational.
- 2018-017d Prepare a corrective action plan that prioritizes significant system security risks with the goal of achieving compliance with DoIT's formalized system security standards for all significant State systems.

**Status:** *Partially Implemented. See finding 2019-021 for current year update and recommendations.*

**Finding 2018-018** – Financial Statement Finding (Reported Initially in Finding 2016-018)

Historical data used to support significant financial reporting estimates for tax revenues should be reassessed periodically to ensure continued validity. Enhanced data for multiple tax years is accumulating within Taxation's STAARS system to refine and support those estimates going forward.

- 2018-018 Continue to utilize newly available historical data contained in STAARS to develop significant tax revenue and refund accrual estimates for financial reporting purposes. Refine estimates where necessary to reflect the enhanced data provided by STAARS.

**Status:** *Implemented.*

**Finding 2018-019** – Financial Statement Finding (Reported Initially in Finding 2016-015)

Processing functionalities within the Division of Taxation's STAARS system result in a volume of returns held in suspense pending resolution. This complicates financial reporting estimates due to the uncertain effect of returns that had not fully processed at fiscal year end.

- 2018-019a Continue to utilize advanced analytical tools to (1) prioritize resolution efforts for items included on the posted exceptions report, and (2) potentially apply a system resolution to groups of returns to reduce the number of returns requiring staff intervention.
- 2018-019b Assess and add additional staff as needed to meet peak demands, resolve existing backlogs, and prevent future processing backlogs.

**Status:** *Partially Implemented. See finding 2019-022 for current year update and recommendations.*

**Finding 2018-020** – Financial Statement Finding (Reported Initially in Finding 2015-014)

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

**Status:** *Implemented.*

**Finding 2018-021** – Financial Statement Finding

The Division engages its system development vendor to perform a series of data-matches in order to increase billings for unpaid taxes and related collections (revenues). The cost for these specific tasks were reflected in the accounting system as reductions of revenue rather than expenditures.

- 2018-021 Record all costs of tax administration and collections as expenditures rather than reductions to revenue.

**Status:** *Implemented.*

**Finding 2018-022 – Financial Statement Finding** (Reported Initially in Finding 2016-019)

STAARS system user access rights need to be assessed and tailored to ensure access is consistent with and appropriate for each employee's responsibilities. User access rights should be modified timely when responsibilities change and terminated immediately when terminating employment.

- 2018-022 Complete a thorough review of system access for all STAARS users to ensure user access is appropriately limited and consistent with each user's specific job function and responsibilities.

**Status:** Partially Implemented. See finding 2019-023 for current year update and recommendation.

**Finding 2018-023 – Financial Statement Finding** (Reported Initially in Finding 2017-018)

Controls should be improved over the counter tax collections accepted at the Division of Taxation by upgrading the cashiering technology and integrating that functionality into the Division's STAARS system.

- 2018-023 Complete the planned application implementation and related technology upgrades used to process counter payments at the Division of Taxation and ensure the cashiering application is integrated to the Division's STAARS system.

**Status:** Partially Implemented. See finding 2019-024 for current year update and recommendation.

**Finding 2018-024 – Financial Statement Finding** (Reported Initially in Findings 2017-019 and 2017-020)

Information technology risk assessment policies and procedures can be enhanced. The Division of Taxation can also further enhance policies and operating procedures to restrict access to personally identifiable information and to ensure the effectiveness of the business continuity plan.

- 2018-024a Perform risk assessments at least once every three years with the results documented and communicated to management for action.
- 2018-024b Implement access control for shared printers to link the individual's identity to receipt of the printed output. Develop and implement procedures and controls to restrict the use of mobile storage devices at the agency.
- 2018-024c Add all missing contact information to the agency business continuity plan.
- 2018-024d Define and implement procedures and assign resources to monitor audit log information and perform required follow-up procedures.

**Status:** Partially implemented. See finding 2019-021 which relates to enterprise-wide information technology risk assessment.

**Finding 2018-025 – Financial Statement Finding** (Reported Initially in Finding 2015-015)

Controls can be improved over the recording of license, registration and surcharge fees collected by the Division of Motor Vehicles (DMV) and deposited in the IST Fund.

- 2018-025 Strengthen and document control procedures over the fees collected by the Division of Motor Vehicles (DMV) and transferred to RIDOT to ensure compliance with RI General Law Chapter 39-18.1. Implement monitoring procedures to assess the reasonableness of revenue amounts collected by the DMV for deposit in the IST Fund.

**Status:** Partially Implemented. See finding 2019-025 for current year update and recommendations.

**Finding 2018-026 – Financial Statement Finding**

The Division of Motor Vehicles should develop, document and implement information technology risk assessment procedures for its newly implemented RIMS computer application.

- 2018-026 Develop a documented risk assessment methodology as well as related procedures the agency should also implement periodic technology risk assessments. Risk assessments should be performed at least once every three years with the results documented and communicated to management for action.

**Status:** Partially implemented. See finding 2019-021 which relates to enterprise-wide information technology risk assessment.

**Finding 2018-027 – Financial Statement Finding**

The Department of Revenue – Division of Motor Vehicles should develop and document a Business Continuity Plan (BCP) to ensure that critical business processes can continue during a time of emergency or disaster.

- 2018-027 Develop, document and test a Business Continuity Plan covering critical DMV operations and focusing specifically on RIMS system functionalities.

**Status:** *Partially Implemented. See finding 2019-027 for current year update and recommendation.*

**Finding 2018-028 – Financial Statement Finding**

Division of Motor Vehicles – RIMS - A comprehensive system security plan should be implemented to guide timely consideration of all critical system requirements.

- 2018-028a Complete the development, review and approval of the System Security Plan and once implemented, assess compliance with the designated security program.
- 2018-028b Establish a senior information security officer function to manage security oversight.
- 2018-028c Implement procedures to classify and inventory sensitive data within the RIMS database.

**Status:** *Partially Implemented. See finding 2019-026 for current year update and recommendations.*

**Finding 2018-029 – Financial Statement Finding**

*(Reported Initially in Finding 2015-015)*

IST Fund – Department of Transportation - Controls can be enhanced over the presentation of financial statements to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles.

- 2018-029a Ensure the transactions identified through the analysis of each activity and/or funding source within the IST Fund result in the appropriate categorization and reporting of fund balance components on the financial statements and general ledger. Ensure a complete reconciliation of activity by funding source to the fund balance components included on the financial statements is performed.
- 2018-029b Re-assess policies, procedures and controls to identify and record accounts payable at fiscal close with the aim of streamlining and simplifying where possible. Consider increased use of estimates where appropriate.
- 2018-029c Enhance fiscal closing procedures to ensure all expenditures recorded in clearing accounts are properly allocated to the correct accounts by fiscal year end. Consider whether recording accrual entries to the clearing accounts is appropriate.

**Status:** *Implemented: b & c. Partially Implemented: a. See finding 2019-028 for current year update and recommendations.*

**Finding 2018-030 – Financial Statement Finding**

*(Reported Initially in Finding 2015-016)*

Controls over the identification of transportation infrastructure assets have been improved but can be further enhanced to ensure the accuracy of such amounts. Controls should be improved to identify impaired infrastructure assets as well as removing infrastructure costs when assets are retired or replaced.

- 2018-030a Enhance controls over the recording of transportation infrastructure assets by documenting RIDOT's related policies, procedures and controls.
- 2018-030b Document the policies, procedures and control over the RIDOT Infrastructure Report to RIFANS reconciliation and simplify the reconciliation to ensure completeness.
- 2018-030c Enhance controls over the identification of Infrastructure in RIFANS by including the RIDOT project number in the RIFANS project code field.
- 2018-030d Enhance controls over the assignment of the project infrastructure code, by documenting project management personnel's concurrence.
- 2018-030e Enhance controls over the identification of projects determined to be substantially complete. Include the infrastructure code and substantially complete date for projects in the FMS hierarchy.
- 2018-030f Enhance controls over the accuracy of amounts reclassified from construction in progress to infrastructure including designating the infrastructure code classification.

- 2018-030g Document consideration of whether any of the State's transportation infrastructure has been impaired consistent with GAAP criteria.
- 2018-030h Implement a process to remove estimated infrastructure assets and related accumulated depreciation when assets have been replaced or taken out of service.

**Status:** *Partially Implemented: a, b, d, e, f. Not Implemented: c, g & h. See finding 2019-029 for current year update and recommendations.*

**Finding 2018-031 – Financial Statement Finding**

Controls to ensure accurate and consistent reporting of investment expenses within the pension trust funds require enhancement at both the custodian and Employees' Retirement System management level.

- 2018-031a Evaluate comprehensively and re-communicate instructions to the System's investment custodian regarding the recording of investment income and expense for alternative investments.
- 2018-031b Implement a comprehensive monitoring process within the Office of the General Treasurer to ensure investment income and expense for alternative investments are recorded by the investment custodian consistent with the System's requirements on a timely basis.
- 2018-031c Explore out-sourced options to monitor and quality-control review the recording of investment income and expense transactions for alternative investments.
- 2018-031d Develop custom reports from the custodian to facilitate the monitoring and review process for alternative investment transactions.

**Status:** *Partially Implemented. See finding 2019-035 for current year update and recommendations.*

**Finding 2018-032 – Financial Statement Finding**

The resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled should be assessed. A unified database or computer application is needed to maintain membership data for each of the State's OPEB plans. This would improve controls over the administration of the benefit programs and the process to accumulate data necessary for periodic actuarial valuations of the OPEB plans for both funding and accounting purposes.

- 2018-032a Assess the resources necessary to effectively manage and administer the OPEB System to ensure all System functions are met and adequately controlled.
- 2018-032b Implement a member benefit computer application to accumulate and manage plan membership data to support the overall administration of the OPEB System with enhanced controls.
- 2018-032c Evaluate assigned responsibilities for key functions and segregate certain responsibilities for incompatible functions to enhance controls over critical plan administrative functions.
- 2018-032d Establish consistent procedures to identify deceased plan members and prompt timely termination of coverage.

**Status:** *Not Implemented. See finding 2019-036 for current year update and recommendations.*

**Finding 2018-033 – Financial Statement Finding**

The Office of Accounts and Control should document its consideration of the adequacy of controls at service organizations, which process OPEB Trust Fund transactions to ensure the reliability of information reported in the OPEB Trust financial statements.

- 2018-033 Establish procedures to formally document consideration of the adequacy of controls at service organizations and at the user entity level that are relevant to the System's financial reporting.

**Status:** *Partially Implemented. See statewide finding 2019-005 relating to the evaluation of controls over functions performed by external parties for current year update and recommendations.*

**Finding 2018-034 – Financial Statement Finding** (Reported Initially in Findings 2015-021 and 2015-022)

Central Falls School District – Material adjustments to year-end balances and current year activity were necessary for the financial statements to be fairly presented in accordance with generally accepted accounting principles.

2018-034 A comprehensive plan to coordinate all District financial accounting recording and reporting activities is in the process of being developed and implemented. This plan should include the development of a comprehensive policies and procedures manual; adequate staffing including training of all staff as to both the processes and the software involved; appropriate controls related to authorization and review of recorded transactions; timely recording of transactions, reconciliations and reviews of reconciliations so as to detect and correct errors in a timely manner, and a comprehensive review of the District's organizational structure to ensure adequate levels of supervision and clear reporting paths for all staff involved.

**Status:** Not Implemented. See finding 2019-031 for current year update and recommendation.

**Finding 2018-035 – Financial Statement Finding** (Reported Initially in Finding 2015-025)

Central Falls School District – The District does not have procedures for maintaining the capital asset records on a perpetual basis or for taking a physical inventory of these assets. In addition, the District does not have a system in place for identifying capital assets acquired with federal grant funds.

2018-035 We recommend that the District implement an integrated software package that will enable capital assets to be recorded when the asset is acquired rather than being captured at year end. We further recommend that the capital asset inventory be updated to include the location of the asset and a code to identify all assets that are acquired with federal funds. Management should utilize this capital asset inventory listing, as well as the controllable asset listing, to conduct periodic inventories of the assets.

**Status:** Not Implemented. See finding 2019-032 for current year update and recommendation.

**Finding 2018-036 – Financial Statement Finding** (Reported Initially in Finding 2015-026)

Rhode Island Convention Center Authority – During the year ended June 30, 2018, the Authority was unable to fund the Operating Reserve requirement of the restrictive covenants for the RICC and the DDC pursuant to the indentures.

2018-036 We recommend that the Authority fund the Operating Reserve.

**Status:** Partially Implemented. See finding 2019-030 for current year update and recommendation.

**Finding 2018-037 – Financial Statement Finding**

Rhode Island Health and Educational Building Corporation – While the Corporation's policies and procedures address segregation of duties matters, we noted instances where the design of compensating controls, and the documentation of the application of control procedures, can be strengthened.

2018-037 We realize that proper segregation is not always possible in a small organization. In those instances where duties cannot be fully segregated, compensating controls should be implemented to reduce the risk of errors. Specifically, we recommend the following:

- Incoming payments – We recommend that the Administrative Assistant maintain a log of all incoming payments in connection with restrictively endorsing the checks at the time of receipt. Someone independent of the accounting process should then reconcile the log to the general ledger on a periodic basis to ensure completeness.
- Disbursements – We recommend that the Executive Director review the monthly bank statements for unusual items, and the bank reconciliations for agreement to the general ledger and timeliness of performance. In addition, a periodic review of positive pay uploads to the corporation's financial institutions is recommended.
- Documentation – Evidence of the performance of all mitigation procedures should be maintained.

Implementation of these functions will help mitigate the risk of improper financial reporting or misappropriation of the Corporation's assets

**Status:** Implemented.

**Finding 2018-038** – CFDA 10.551; 10.561; 93.558; 93.575; 93.596; 93.767; 93.775; 93.777; 93.778

(Reported Initially in Finding 2015-069)

EOHHS, DHS and the Division of Information Technology must enhance systems security oversight over systems used to administer multiple federally funded programs to fully comply with federal regulations relating to ADP risk and system security review. The plan must be sufficiently comprehensive and include timely reaction to and consideration of identified security issues and risk factors.

- 2018-038a Enhance compliance with federal ADP Risk Analysis and System Security Review requirements by creating a comprehensive, integrated plan for RIBridges and the MMIS. Coordinate the efforts of EOHHS, DHS, DoIT, and contractors in meeting these objectives.
- 2018-038b Ensure that the formalized plan includes a comprehensive risk assessment for both systems, critical controls deemed effective in mitigating those risks, and specific monitoring procedures to ensure the effective operation of those policies and procedures, including reliance on external contract services when required.

**Status:** *Partially Implemented. See finding 2019-038 for current year update and recommendations.*

**Finding 2018-039** – CFDA 10.551; 10.561

(Reported Initially in Finding 2015-030)

DHS can improve its controls over federal reporting to ensure that SNAP program expenditures are properly reported.

- 2018-039 Ensure consistent and timely operation of the departmental cost allocation system to allow appropriate allocation of shared costs to multiple federal programs including SNAP. Report administrative expenditures consistently based on the data resulting from the approved cost allocation plan system.

**Status:** *Implemented.*

**Finding 2018-040** – CFDA 10.551; 10.561

(Reported Initially in Finding 2017-041)

The Department did not submit timely and accurate federal reports required for the program due to limited data reporting functionality within RIBridges during fiscal 2018.

- 2018-040 Ensure the RIBridges system provides complete and accurate data to meet all federally required reporting for SNAP. Correct previously submitted FNS-46 reports as required.

**Status:** *Implemented.*

**Finding 2018-041** – CFDA 10.551; 10.561

(Reported Initially in Finding 2017-042)

RIBridges does not currently meet all the functional requirements of an automated data processing system as outlined in federal SNAP regulations.

- 2018-041 Continue efforts to ensure that RIBridges meets all functionalities of an automated data processing system for SNAP as required by federal SNAP regulations. Complete required corrective actions stipulated by the federal Food and Nutrition Service.

**Status:** *Partially Implemented. See finding 2019-039 for current year update and recommendation.*

**Finding 2018-042** – CFDA 10.551; 10.561

(Reported Initially in Finding 2017-043)

RIBridges was not producing reports in fiscal 2018 to allow daily reconciliation of electronic benefits authorized and disbursed and to ensure accurate and timely completion of federal reports. The service organization control reports obtained by DHS for vendors performing elements of the EBT process were not reviewed.

- 2018-042a Complete efforts to ensure that the RIBridges systems development vendor implements all designed system features including those for the SNAP benefit issuance and reconciliation requirements.
- 2018-042b Review the Service Organization Control (SOC) reports provided by vendors to evaluate IT security monitoring over the external components of the EBT systems.

**Status:** *Partially Implemented. See finding 2019-040 for current year update and recommendations.*

**Finding 2018-043** – CFDA 10.553; 10.555; 10.556; 10.559

RIDE needs to increase efforts to comply with the requirement to perform administrative reviews of all School Food Authorities every 3 years.

- 2018-043 Devote sufficient resources to ensure that all School Food Authorities are subject to administrative reviews every 3 years.

**Status:** *Implemented.*

**Finding 2018-044** – CFDA 10.553; 10.555; 10.556; 10.559

*(Reported Initially in Finding 2013-030)*

The Department of Corrections needs to ensure that it complies with federal regulations governing the receipt, distribution and inventory of USDA-Donated Foods.

- 2018-044 Improve the functionality of the software used to account for USDA-Donated Foods to ensure compliance with federal regulations.

**Status:** *Partially Implemented. The Department of Corrections will implement a new USDA inventory system in fiscal year 2020 to account for federal commodities.*

**Finding 2018-045** – CFDA 14.239

Rhode Island Housing and Mortgage Finance Corporation – HUD Form 60002 was not filed in a timely manner.

- 2018-045 We recommend that HUD Form 60002 be filed in a timely manner.

**Status:** *Implemented.*

**Finding 2018-046** – CFDA 16.922

The State can enhance uniform procedures to ensure compliance with the reporting requirements of the Equitable Sharing Program when preparing the annual Equity Sharing Agreement and Certification (ESAC) Report.

- 2018-046 Prepare the annual Equity Sharing Agreement and Certification Report using the cash basis of accounting. Follow the procedures developed to provide uniform guidance to agencies preparing the annual ESAC reports.

**Status:** *Implemented*

**Finding 2018-047** – CFDA 17.225

*(Reported Initially in Finding 2015-032)*

The Department of Labor and Training (DLT) did not make the necessary changes to its system to allow for the imposition of penalties on overpayments due to fraud, and to prohibit relief from charges to an employer's UC account when overpayment was the result of the employer failure to respond timely or adequately to a request for information.

- 2018-047 Adopt procedures to: (1) impose and collect a 15% penalty on benefit Overpayments of claimants who commit fraud (RIGL 28-42-62.1(a)(4)) and (2) prohibit providing relief to an employer account when an overpayment is the result of the employer's failure to respond timely or adequately to a request for information by the State agency (RIGL 28-43-3(2)(viii)).

**Status:** *Not Implemented. See finding 2019-043 for current year update and recommendation.*

**Finding 2018-048** – CFDA 17.225

The Department of Labor and Training (DLT) can enhance controls over preparation of the TAPR/PIRL performance report required for the Unemployment Insurance Program by reconciling similar data included on multiple reports prior to submission.

- 2018-048 Investigate the cause of the incorrect wages and take corrective action to strengthen controls to ensure that participant wages are properly reported. Submit the corrected federal report(s) as necessary.

**Status:** *Implemented.*

**Finding 2018-049** – CFDA 20.205; 20.219

*(Reported Initially in Finding 2006-033)*

RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal regulations and RIDOT policy.

- 2018-049a Update the Procedures for Uniform Record Keeping (PURK) manual to include all current policies and procedures. Maintain and distribute a completed and updated PURK manual electronically.
- 2018-049b Enhance coordination among the three sections of RIDOT that have shared responsibility for the overall operation of the Department's Quality Assurance Program.
- 2018-049c Implement a single department-wide information technology solution to ensure the Quality Assurance Testing is timely, reliable and available to the Resident Engineers responsible for projects and to enhance overall departmental efficiencies.
- 2018-049d Enforce existing policies designed to better link testing results to projects by establishing a uniform file naming convention for test results shared on the RIDOT network.
- 2018-049e Document policies, procedures and controls to ensure the materials test book is updated for change orders (i.e. changes in qualities).
- 2018-049f Train all project-related staff, scoping through closeout, as to the requirements of 23 CFR 637.205 and the Department's related policies, procedures and controls. Establish a plan of self-testing (e.g. internal audit) of the Department's policies, procedures and controls to ensure compliance with the required Quality Assurance Program.

**Status:** *Implemented: b, c, d, e & f. Partially Implemented: a. The PURK manual is a constantly evolving document that continues to be revised to reflect updated policies and procedure. The RIDOT Construction, Materials and PM staff as well as representation from FHWA Division office meet regularly to review and revise PURK section by section. As of 7/11/19 PURK manual available electronic.*

**Finding 2018-050** – CFDA 20.205; 20.219

*(Reported Initially in Finding 2012-053)*

RIDOT can improve compliance with federal requirements relating to value engineering analyses by including all the required elements in its value engineering policy. RIDOT can improve compliance with federal requirements relating to value engineering analyses by establishing a control structure in accordance with 2 CFR 200.

- 2018-050 Enhance the Value Engineering analysis policies to include all requirements contained in 23 CFR 627 and maintain effective controls to ensure compliance with the Value Engineering analysis requirement contained in 23 CFR 627.

**Status:** *Implemented.*

**Finding 2018-051** – CFDA 20.500; 20.507; 20.526

Rhode Island Public Transit Authority – During our testing of internal controls, we noted that documentation for two service reimbursements to RIPTA's operating fund contained errors resulting in the incorrect calculation of the reimbursement amount.

- 2018-051 We recommend that RIPTA ensure an individual independent of the reimbursement preparation process perform a detailed review of all service reimbursements and approve the reimbursement request prior to being submitted to the FTA.

**Status:** *Implemented.*



**Finding 2018-052** – CFDA 20.500; 20.507; 20.526

Rhode Island Public Transit Authority – RIPTA has internal control policies and procedures in place to ensure compliance with activities allowed or unallowed, allowable costs/cost principles, and period of performance requirements. RIPTA's internal control procedure to ensure compliance with these requirements is the approving initials of the Executive Director of Planning or his/her designee and approving initials of the Executive Director of Finance and Budget or his/her designee of the capital supply or operating requisition. During our testing of internal controls, we noted that for one of the forty transactions selected there was no indication on the requisition that it had been approved by the Planning department.

2018-052 We recommend that RIPTA ensure a properly approved requisition form is prepared for all federal awards program expenses to ensure proper documentation of the internal control policies and procedures related to activities allowed or unallowed, allowable costs/cost principles, and period of performance compliance requirements.

**Status:** *Implemented.*

**Finding 2018-053** – CFDA 20.500; 20.507; 20.526

Rhode Island Public Transit Authority – During our testing of internal controls, we noted one transaction over \$5,000 that was not competitively bid, however, RIPTA had no documentation on file substantiating the reasons why the service was not bid.

2018-053 We recommend that RIPTA properly document non-competitive procurements in accordance with its procurement policies and procedures and State laws and regulations.

**Status:** *Implemented.*

**Finding 2018-054** – CFDA 20.500; 20.507; 20.526

Rhode Island Public Transit Authority. – RIPTA does not have a specific procedure in place for transactions that are not competitively bid (e.g. sole source contracts) verifying that an entity with which it plans to enter into a covered transaction is not debarred, suspended or otherwise excluded. During our testing of internal controls, we noted that four sole source contracts had no documentation that RIPTA had verified that the vendor was not debarred, suspended or otherwise excluded.

2018-054 We recommend that RIPTA implement procedures to verify that all entities with which it plans to enter into a covered transaction are not debarred, suspended or otherwise excluded.

**Status:** *Implemented.*

**Finding 2018-055** – CFDA 20.500; 20.507; 20.526

Rhode Island Public Transit Authority – RIPTA has internal control policies and procedures in place to ensure compliance with reporting requirements. RIPTA's internal control procedure to ensure compliance with these requirements is the signature of the Executive Director of Finance and Budget indicating the review and approval of financial reports prior to submission to the FTA. During our testing of controls, we noted that one of the twenty-three financial reports selected was not approved by the Executive Director of Finance and Budget. We also noted one instance where the financial report, was filed with an immaterial error.

2018-055 We recommend that RIPTA ensure the financial reports are approved by the Executive Director of Finance and Budget prior to submission and that supporting documentation agrees to the financial report submitted. We also recommend that more care be taken when entering data to the FTA reporting system.

**Status:** *Partially Implemented. All FFR's are being reviewed by the Director of Accounting and ties to the supporting documentation before they are signed off by the Director of Accounting.*

**Finding 2018-056** – CFDA 93.558

(Reported Initially in Finding 2017-064)

Due to limited operation and effectiveness of controls over eligibility for the TANF program during fiscal 2018, the State did not comply with the TANF eligibility requirements, collectively.

- 2018-056a Continue efforts to ensure that the RIBridges systems development vendor implements all designed system features.
- 2018-056b Enhance controls to ensure all required documentation to support eligibility determination, including sufficient historical case data, is retained in the electronic case record and/or supported by scanned documentation.

**Status:** *Partially Implemented. See finding 2019-047 for current year update and recommendations.*

**Finding 2018-057** – CFDA 93.558

(Reported Initially in Finding 2017-065)

Operation of the RIBridges benefit system affected the availability and reliability of data needed to prepare timely and accurate federal reports.

- 2018-057a Ensure consistent and timely operation of the departmental cost allocation system to allow appropriate allocation of shared costs to multiple federal programs including TANF. Report administrative expenditures consistently based on the data resulting from the approved cost allocation plan system.
- 2018-057b Continue efforts to improve the reliability of RIBridges data reporting to allow timely and accurate federal reporting of TANF case data.
- 2018-057c Reconcile the benefits paid via the EBT system, RIBridges and RIFANS at least monthly.

**Status:** *Partially Implemented: a & c. Not Implemented: b. (a) The departmental cost allocation plan was operating effectively throughout SFY2019. Financial management began reporting administrative expenses on the federal report based on cost allocation results for the fourth quarter of SFY2019. (b) We currently have several reports from RIBridges that allows the department to accurately and timely report case data. We are always committed to the process of modifying reports to make the information more reliable. Additional TANF related reporting is scheduled for releases over the next three months. (c) Currently benefits are reconciled between the EBT system and RIFANS. Bridges reports are in development which will enable us to reconcile Bridges TANF benefits issued. We expect this process to be implemented by the end of SFY2020.*

**Finding 2018-058** – CFDA 93.558

(Reported Initially in Finding 2017-066)

RIBridges did not prompt employment and career advisors to update/develop new work participation plans for clients upon the expiration of an existing plan.

- 2018-058 Improve RIBridges functionality to prompt employment and career advisors when clients must either establish or update an expiring work participation plan. Sanction clients not in compliance with their workplans, and close cases after three months of non-compliance.

**Status:** *Partially Implemented. See finding 2019-049 for current year update and recommendation.*

**Finding 2018-059** – CFDA 93.558

(Reported Initially in Finding 2017-067)

The State did not comply with the Income Eligibility and Verification System requirements upon implementation of the new RIBridges integrated eligibility system in fiscal 2018.

- 2018-059 Implement and ensure the continued operation of federally required data interfaces within the RIBridges eligibility system to meet the IEVS TANF program requirement.

**Status:** *Not implemented. See finding 2019-050 for current year update and recommendation.*

**Finding 2018-060** – CFDA 93.558

DHS can enhance its controls to ensure transfers of funds out of the TANF program to other programs are not in excess of allowable limits.

2018-060 Monitor compliance with transfers limits each time funds are transferred to the SSBG or CCDF programs.

**Status:** *Implemented.*

**Finding 2018-061** – CFDA 93.568

*(Reported Initially in Finding 2017-061)*

Payments made to subrecipients were not consistently supported by information reflecting subrecipient cash balances and the estimates of each agency's immediate cash needs.

2018-061 Implement a frequent and regular payment schedule for all subrecipients which reflects reliable and documented estimates of immediate cash needs. Require subrecipients to all consistently use the same DHS documentation to support requests for program funds.

**Status:** *Implemented.*

**Finding 2018-062** – CFDA 93.568

*(Reported Initially in Findings 2015-053 and 2017-063)*

DHS must improve controls to ensure compliance with the LIHEAP federal reporting requirements including support for the number of families receiving LIHEAP benefits as included on the federal Annual Report on Households Assisted by LIHEAP.

2018-062a Implement controls to ensure that the unobligated balance is properly calculated, adequately supported, and reported on the Carryover and Reallotment Report and related amounts of the SF-425.

2018-062b Ensure that information reported on the Annual Report on Households Assisted by LIHEAP is adequately supported by accurate information from the systems used to administer the program. Implement management review prior to submission of reports, including support for all amounts reported.

**Status:** *Partially Implemented. See finding 2019-054 for current year update and recommendations.*

**Finding 2018-063** – CFDA 93.568

DHS subrecipient monitoring procedures need to be enhanced to ensure that funds are being used by subrecipients in compliance with LIHEAP Program laws and regulations.

2018-063 Enhance and implement comprehensive subrecipient monitoring procedures for LIHEAP subawards.

**Status:** *Partially Implemented. See finding 2019-052 for current year update and recommendation.*

**Finding 2018-064** – CFDA 93.575; 93.596

*(Reported Initially in Finding 2017-068)*

Due to limited operating effectiveness of RIBridges benefits system during fiscal 2018, controls over eligibility determinations, calculation of required parent cost-sharing amounts and payments to childcare providers were weakened within the CCDF Cluster programs.

2018-064a Ensure RIBridges consistently and correctly calculates cost-sharing amounts for parents and providers.

2018-064b Complete a plan to ensure all designed system controls over CCDF eligibility, parent cost-shares, and provider payments are fully operational.

**Status:** *Not Implemented. See finding 2019-056 for current year update and recommendations.*

**Finding 2018-065** – CFDA 93.767

(Reported Initially in Finding 2014-067)

The State did not materially comply with CHIP eligibility requirements due to the ineffective design and operation of controls over program eligibility during fiscal 2018.

- 2018-065a Require the RIBridges system developer to address the system deficiencies which result in material noncompliance with federal regulations regarding eligibility.
- 2018-065b Consider other procedures in the near term (e.g. data analysis) to ensure that only eligible CHIP claiming is charged to the program.
- 2018-065c Ensure all designed system controls (e.g. PEV and redetermination) over eligibility are fully operational with results well documented in the system.
- 2018-065d Identify ineligible CHIP costs and return to the federal grantor.

**Status:** Partially Implemented. See finding 2019-057 for current year update and recommendations.

**Finding 2018-066** – CFDA 93.775; 93.777; 93.778

(Reported Initially in Findings 2014-067 and 2015-060)

The State did not materially comply with Medicaid program eligibility requirements due to limited operation and effectiveness of eligibility controls during fiscal 2018.

- 2018-066a Require RIBridges system developer to address the system deficiencies which result in material noncompliance with federal regulations regarding eligibility.
- 2018-066b Formalize and implement a plan to ensure all designed system controls (PEV and redetermination) over eligibility are fully operational and well documented in the system.
- 2018-066c Identify ineligible Medicaid program costs (including remaining recouplements for capitation paid after recipient death) and return to the federal grantor.
- 2018-066d Improve RIBridges' documentation of critical eligibility components to ensure that it can adequately document federal compliance with recipient eligibility requirements (including better case history supporting eligibility determinations made over time).
- 2018-066e Develop and implement a policy regarding allowable limits on deductions to reported income for MAGI based eligibility determinations.

**Status:** Partially Implemented. See finding 2019-058 for current year update and recommendations.

**Finding 2018-067** – CFDA 93.767; 93.775; 93.777; 93.778

(Reported Initially in Finding 2010-080)

The effectiveness of the MEQC program is diminished by continued RIBridges functional limitations. The MEQC Unit is challenged to obtain all the information needed to verify eligibility determinations made by RIBridges. A significant volume of systemic issues identified by MEQC processes are pending corrective action in RIBridges.

- 2018-067a Enhance RIBridges functionalities and documentation to facilitate timely and effective MEQC testing (and similar eligibility testing performed in conjunction with the Single Audit and PERM requirements).
- 2018-067b Ensure timely correction of RIBridges system deficiencies highlighted through the MEQC process to ensure compliance with federal eligibility requirements for Medicaid and CHIP.

**Status:** Partially Implemented. See finding 2019-059 for current year update and recommendations.

**Finding 2018-068** – CFDA 93.767; 93.775; 93.777; 93.778

(Reported Initially in Finding 2017-073)

The State is not complying with timely determination of Medicaid eligibility requirements particularly for applicants requiring long-term care services and supports. Processing Medicaid applications for long-term care services in RIBridges continues to be problematic resulting in significant delays in determining eligibility and necessitating advances to long-term care service providers.

While the State resumed eligibility redeterminations during fiscal 2018, many cases did not meet the mandated annual redetermination requirement.

- 2018-068 Improve RIBridges system functionality and performance to ensure compliance with federal regulations governing the timely determination and annual redetermination of Medicaid eligibility.

**Status:** *Partially Implemented. See finding 2019-060 for current year update and recommendation.*

**Finding 2018-069** – CFDA 93.775; 93.777; 93.778

(Reported Initially in Finding 2017-074)

EOHHS made advance payments totaling \$154,322 to home care providers in fiscal 2018 due to delays in processing eligibility for individuals in need of long-term care services and supports. These advances were federally reimbursed (at the applicable federal financial participation rate) but did not meet criteria for reimbursement.

- 2018-069 Recoup the advances to providers and credit the federal grantor for their portion of advances made.

**Status:** *Partially Implemented. Questioned costs are being credited back to the federal grantor when the State is repaid by the provider.*

**Finding 2018-070** – CFDA 93.767; 93.775; 93.777; 93.778

(Reported Initially in Finding 2016-063)

Data discrepancies exist between the systems used to determine Medicaid and CHIP eligibility (RIBridges) and the claims/capitation payment system (MMIS). According to EOHHS internal statistics as of June 30, 2018, the MMIS reported 10,080 recipients more than RIBridges. In addition, 1,263 individuals were eligible in RIBridges but not eligible in the MMIS. This impacts controls to ensure payments are only made on behalf of eligible individuals and has resulted in duplicate capitation payments being made to managed care organizations. Additionally, in instances where eligibility is not successfully communicated to the MMIS, provider claims and capitation will not be paid for eligible individuals.

- 2018-070a Identify and resolve the underlying causes of eligibility data discrepancies between the MMIS and RIBridges systems.
- 2018-070b Determine the necessary corrective action and resources needed to eliminate the current backlog of system exceptions and future mismatches between the two systems.

**Status:** *Partially Implemented. See finding 2019-061 for current year update and recommendations.*

**Finding 2018-071** – CFDA 93.767; 93.775; 93.777; 93.778

(Reported Initially in Finding 2009-086)

EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCOs). Capitation payments to MCOs represent approximately 60% of Medicaid benefit expenditures. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. More stringent audit and financial monitoring procedures should be employed.

- 2018-071a Develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period.
- 2018-071b Improve the adjudication of MCO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods. Disallow any costs from the contract settlement process that cannot be fully adjudicated.
- 2018-071c Require an independent audit of selected controls employed by MCOs as well as the overall medical and administrative costs measured under the contracts.

**Status:** *Partially Implemented. See finding 2019-062 for current year update and recommendations.*

**Finding 2018-072** – CFDA 93.775; 93.777; 93.778 (Reported Initially in Finding 2002-065)

Controls should be improved over quarterly reporting of Medicaid administrative expenditures by reconciling reported administrative expenditures to the State's accounting system.

2018-072a Reconcile administrative expenditures reported on federal reports with Medicaid administrative accounts in RIFANS.

2018-072b Modify processes as needed to minimize reconciling items between federal reporting and RIFANS.

**Status:** *Implemented.*

**Finding 2018-073** – CFDA 93.775; 93.777; 93.778 (Reported Initially in Finding 2017-079)

EOHHS needs to reassess all activities considered surveillance utilization review services (SURS) performed within the Medicaid program to comply with federal regulations and amend the State Plan to accurately reflect the State's current practices. With the majority of medical services now being performed by managed care organizations, formalized procedures should include consideration of new regulations regarding Medicaid managed care activities.

2018-073 Reassess and formally document the State's comprehensive activities designed to materially comply with federal requirements relating to SURS. Amend the Medicaid State plan to accurately reflect the State's current practices relating to SURS, including those specific to managed care activities.

**Status:** *Partially Implemented. See finding 2019-063 for current year update and recommendation.*

**Finding 2018-074** – CFDA 93.243; 93.959

Cash drawdowns performed by BHDDH were not performed, or consistently supported, in a timely manner which led to excess federal cash on hand at times during fiscal 2018. BHDDH can improve its controls over cash drawdown procedures to ensure compliance with federal cash management requirements.

2018-074a Enhance controls over cash management to ensure compliance with 31 CFR Part 205, Subpart B.

2018-074b Utilize the appropriate state accounting system "Cash Resources Report" consistently to identify and support federal amounts drawn for the programs.

**Status:** *Implemented.*

**Finding 2018-075** – CFDA 93.243; 93.959

BHDDH can improve its controls over federal reporting to ensure that substance abuse programs expenditures are reported accurately and consistently with federal reporting requirements.

2018-075 Maintain supporting documentation for program expenditures reported on the federal financial reports and enhance control procedures to ensure these amounts are properly supported by and reconciled to the State accounting system.

**Status:** *Implemented.*

**Finding 2018-076** – CFDA 93.959

BHDDH can improve its controls over the process to demonstrate and document that it complied with maintenance of effort requirements for the Substance Abuse Block Grant.

2018-076 Maintain adequate supporting documentation for meeting maintenance of effort requirements. Ensure that these amounts are properly supported by the State accounting system.

**Status:** *Not Implemented. The BHDDH Fiscal and Data team are in the process of creating a procedure for the Maintenance of Effort calculation and supporting documentation maintenance. Supporting documentation for meeting the MOE requirements will be maintained in a shared file based on the State Accounting System. Date of Completion: May 15, 2020.*

**Finding 2018-077 – CFDA 93.243**

Expenditures were incorrectly charged to CFDA 93.243 due to an error made in the State accounting system.

- 2018-077 Process accounting adjustments and revise federal reports to correct the error in recording program expenditures.

**Status:** *Implemented.*

**Finding 2018-078 – CFDA 93.243; 93.959**

BHDDH can enhance its monitoring of subrecipients as required by federal program requirements.

- 2018-078a Enhance the coordination of overall subrecipient monitoring procedures to ensure compliance with federal requirements by sub-grantees. Design procedures for tracking monitoring results and communicating issues identified.
- 2018-078b Develop a uniform standard for documentation required from subrecipients to support requests for reimbursement.
- 2018-078c Ensure contracts and subaward documentation contains all the required elements at the time of award to allow compliance by subgrantees.
- 2018-078d Coordinate with EOHHS to ensure all subrecipients are identified to allow collection and review of applicable single audit reports.

**Status:** *Not Implemented.* (a) All supporting documentation for invoices is required to be submitted with each invoice. This has been communicated to the providers by the BH Contract Monitors. A memo will be sent to each provider to ensure appropriate communication. An Invoice Instruction Manual has been developed and will be shared with every contractor at the contract kick off meeting. The Manual will be reviewed, and an approval signature will be required by a representative at the provider agency. Invoice processing will not take place prior to the approval of this Invoice Instruction Manual. Any provider who will be billing multiple grants for a common expense will receive a cost allocation breakdown with their invoice to ensure accurate allocation of expenditures for Federal Programs. A standardized invoice is being implemented and will be included in all contracts going forward. The BH Fiscal team has implemented a Monthly Expenditure Tracking spreadsheet to ensure compliance and accuracy as well as detect and correct any errors in a timely manner. This report will be reviewed by a contract monitor who will report any inaccuracies to the fiscal unit. The Fiscal Compliance Team is currently implementing a standardized Site Visit Monitoring Procedure. The target date for site visits is Summer 2020. (b) All future contract will include all the required elements of the grant specified in the deliverable section of the contract. (c) All future contracts will include all the required elements of the grant specified in the deliverable section of the contract which will include an invoice template set up with the approved budget. (d) The BH fiscal team will work closely with the contract monitoring team to develop a process to evaluate the need for a subrecipients single audit and this will be completed at least quarterly. A member of the Fiscal Compliance team has been designated to be the liaison between BH and EOHHS to ensure appropriate communication between the two agencies.