State of Rhode Island
and Providence Plantations

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2014

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
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March 31, 2015

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, 2014. This audit was required by both state law (sections 22-13-4 and 35-7-10 of the General Laws) and the federal Single Audit Act.

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

The State has prepared a corrective action plan addressing each finding, which immediately follows each finding in Section D of this report. The status of prior year findings has been prepared by the State and is included herein in Section E.

The following two pages summarize selected information from the report including highlighted findings related to federal programs.

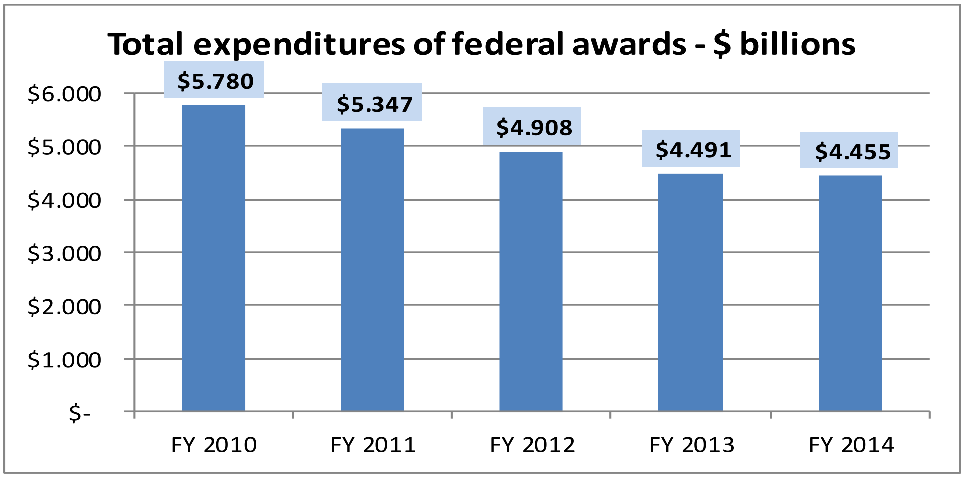
As required by the federal Single Audit Act, this report is additionally submitted to the Federal Single Audit Clearinghouse for distribution to federal funding agencies.

Respectfully submitted,

Dennis E. Hoyle, CPA
Auditor General

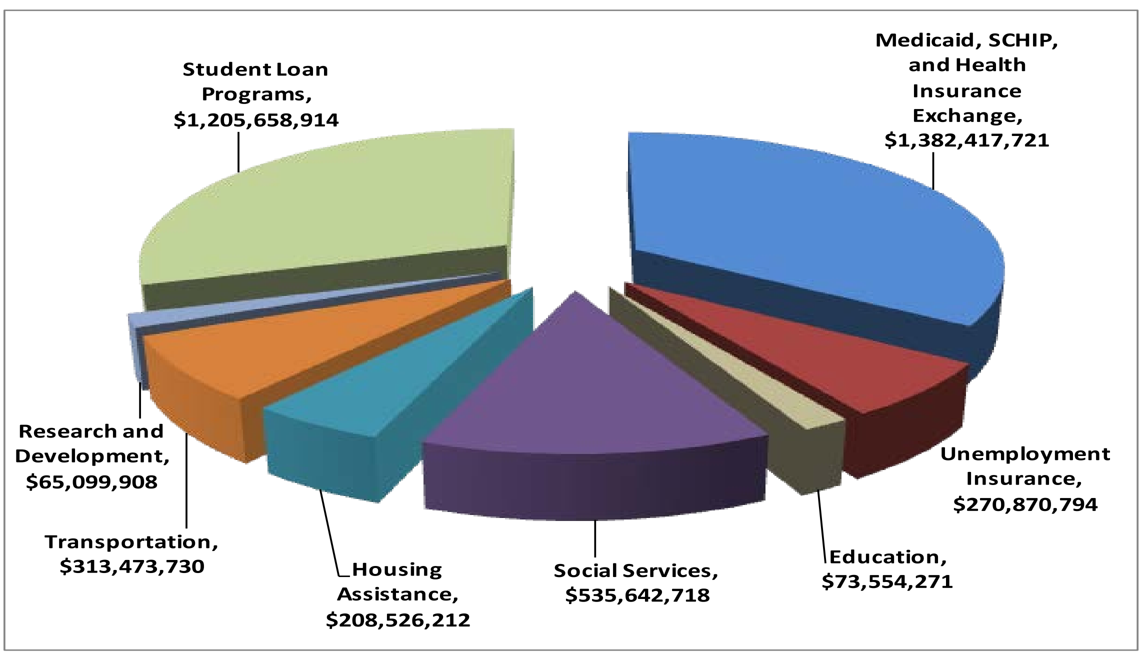
The annual Single Audit is required by federal law as a condition of continued federal assistance. The report includes the State's financial statements, a detailed schedule of federal award expenditures and our reports outlining internal control deficiencies over financial reporting and the administration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

Federal funding represents more than 39% 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 2014. The general decrease in aggregate federal funding is largely due to the phase-out of federal stimulus funding (American Recovery and Reinvestment Act – ARRA) which began in fiscal year 2009 but resulted in significant expenditures in fiscal years 2010 and 2011. Additionally, due to changes in the administration of federally insured student loans, insured loan balances, which are included as federal award expenditures for single audit purposes, are declining each year due to loan repayments.



The State's fiscal 2014 expenditures of federal awards totaled $4.5 billion (including component units). 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 400 individual programs. Many programs are jointly financed with federal and state funding -- Medicaid is the single largest program with total fiscal 2014 expenditures totaling $2.3 billion. The federal government shared $1.3 billion of that cost. Consistent with federal guidelines, we tested 91% of the total expenditures of federal awards as major programs. Major program expenditures are summarized in the chart below by functional category.

Fiscal 2014 Federal Award Expenditures Tested as Major Programs - Summarized by Function



The Single Audit Report includes 77 findings as summarized in the following table.

Summary of findings included in the *Single Audit Report*			
	Primary government	Component units	Total
Findings related to the financial statements			
Material weaknesses in internal control	9	3	12
Significant deficiencies in internal control	9	3	12
Material noncompliance		1	1
Findings related to the administration of federal programs			
Material weaknesses in internal control	21		21
Significant deficiencies in internal control	14	12	26
Material noncompliance/material weakness in internal control	2		2
Other noncompliance matters	2	1	3
Total	57	20	77

Highlighted federal program findings:

Medicaid:

- Controls over Medicaid eligibility were weakened during fiscal 2014 due to the implementation of the new Unified Health Infrastructure Project system used to determine Medicaid eligibility. Data interfaces required to validate self-attested Medicaid applicant information were not operating as designed. (*Finding 2014-067*)

- The State needs to develop a comprehensive risk assessment and monitoring plan to ensure that Medicaid managed care expenditures are validated and settled each contract period. (*Finding 2014-068*)

Unemployment Insurance - The EmployRI computer system is used to facilitate claimant job searches and employer recruitment. We found that in certain situations, a claimant actively receiving an unemployment benefit may actually be classified as "inactive" thereby eliminating the claimant from the pool of workers available to a prospective employer. (*Finding 2014-033*)

Highway Planning and Construction - RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal and RIDOT policy. (*Finding 2014-035*)

Vocational Rehabilitation - The Office of Rehabilitation Services (ORS) must immediately review the system access of all users within its automated case management system to limit the number of individuals with system administrator access roles and to ensure appropriate segregation of duties. (*Finding 2014-052*)

Monitoring of Subrecipients - The Departments of Education, Human Services, and Transportation need to improve required monitoring of federal funds passed through to subrecipients. (*Findings 2014-036, 2014-055, 2014-061, and 2014-063*)

Race to the Top – Early Learning Challenge Grant - RIDE can improve the monitoring of activities of Participating State Agencies (PSA) utilizing funding from the Early Learning Challenge Grant to ensure all PSA costs incurred are necessary and reasonable and comply with federal cost principles. (*Finding 2014-056*)

HealthSource RI - We noted control deficiencies relating to inadequate documentation being obtained and reviewed prior to vendor payments and failure to document personnel costs allocated to the federal grants used to build and support the State's Health Insurance Exchange. (*Finding 2014-057*)

Temporary Assistance to Needy Families (TANF) - Controls over eligibility can be enhanced by timely resolution of Income Eligibility Verification System (IEVS) data match information posted to recipient case records. While improved compared to prior years, IEVS data matches were not resolved timely in 10 out of 40 case files tested. (*Finding 2014-060*)

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Basic Financial Statements

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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, 2014, 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 2% 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 63% of the assets and deferred outflows and 2% of the revenues of the business-type activities;
- the HealthSource RI Trust, an agency fund, and the Ocean State Investment Pool, an external investment trust, which collectively represent less than 1% of the assets and 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, 2014, 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 Notes 1(S) and 18(F), the State implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities.* This resulted in adjustments to beginning net position and changes in financial statement presentation.

As described in Note 1(S), the State will adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans – an amendment to GASB Statement No. 27* in fiscal 2015. Implementation of this standard in the next fiscal year will result in a significant restatement of beginning governmental activities net position at July 1, 2014.

As described in Note 13, various lawsuits have been filed challenging legislatively enacted pension reforms, which are pending in Superior Court. An adverse judgment to the State resulting from these challenges could significantly increase both the unfunded liability of the defined benefit plans included within the pension trust funds and the State's annual actuarially determined contribution.

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-24, the Budgetary Comparison Schedules on pages A-113 through A-116, and the Schedules of Funding Progress on pages A-117 through A-118 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the

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

Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis, and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated December 18, 2014 report on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Dennis E. Hoyle, CPA
Auditor General

December 18, 2014

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, 2014. The MD&A is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Position:** The total assets plus deferred outflows of resources of the State exceeded total liabilities plus deferred inflows of resources on June 30, 2014 by $1,971.4 million. This amount is presented as "net position" on the Statement of Net Position for the Total Primary Government. Of this amount, ($1,505.8) million was reported as unrestricted net position (deficit), $833.1 million as restricted net position, and $2,644.1 million as net investment in capital assets.

- **Changes in Net Position:** In the Statement of Activities, the State's total net position increased by $291.3 million in fiscal year 2014. Net position of governmental activities increased by $181.0 million compared to an increase of $284.8 million in fiscal year 2013.

  This year to year reduction in the change in net position for governmental activities is primarily attributable to a greater rate of increase in net expenses for governmental activities which increased by $191.1 million as compared with an increase in general revenues and transfers of $70.8 million. Expenses in the general government and human services areas rose due in part to programs initiated as a result of the Affordable Care Act and the recognition of a liability relating to a moral obligation of the State under the Job Creation Guaranty Program as discussed in Note 7 H. Net position of the business-type activities increased by $110.3 million due primarily to the significant operating surplus of the Employment Security Fund. The fund was positively impacted by a declining unemployment rate, changes in benefits and measures implemented that were successful in increasing the financial strength of the fund.

Fund Financial Statements

<u>**Governmental Funds**</u>

- The State's governmental funds reported a combined ending fund balance of $1,011.3 million, a decrease of $46.5 million in comparison with the previous fiscal year. This is primarily a result of the Intermodal Surface Transportation Fund and capital projects funds included in Other Governmental Funds expending debt proceeds from prior years' debt issuances.

- As of June 30, 2014, the State's General Fund reported an ending fund balance of $395.4 million, a decrease of $5.8 million as compared to the prior year. This change was caused by a number of factors including a significant reduction in the assigned category resulting from a decrease in fund balance carried forward to fund subsequent year operations.

- As of June 30, 2014, the State's Intermodal Surface Transportation Fund reported an ending fund balance of $118.4 million, a decrease of $23.3 million as compared to the prior year. The decrease was mainly due to spending bond proceeds from prior years' issuances for road and bridge construction and rehabilitation projects.

Proprietary Funds

- The Rhode Island State Lottery transferred $376.3 million to the General Fund in support of general revenue expenditures during the fiscal year, a decrease of $2.9 million in comparison with the previous fiscal year.

- The Employment Security Fund ended the fiscal year with a net position of $27.9 million, an increase of $109.2 million from fiscal year 2013. This favorable change is primarily attributable to a significant reduction in benefits paid due to the improving employment level in the State.

- The R.I. Convention Center Authority ended the fiscal year with a net position deficiency of ($57.6) million, a deficit decrease of $0.4 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 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.

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.

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

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

Discretely Presented Component Units

Discretely presented component units are legally separate from the primary government. They are financially accountable to the primary government, or have relationships with the primary government such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. These discretely presented component units serve or benefit those outside of the primary government. The State distinguishes between major and nonmajor component units. The criteria for distinguishing between major and nonmajor component units are 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 progress in funding its obligation to provide pension and other post-employment benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally enacted budget.

Other Supplementary Information

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

Government-Wide Financial Analysis

Net 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 (governmental and business-type activities) totaled $1,971.4 million at the end of fiscal year 2014, compared to $1,680.1 million (as restated) at the end of the prior fiscal year. Governmental activities reported unrestricted net position (deficit) of ($1,498.7) 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, 2014
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013 *	2014	2013 *	2014	2013 *
Current and other assets	$ 1,914,572	$ 2,045,690	$ 118,971	$ 124,171	$ 2,033,543	$ 2,169,861
Capital assets	3,683,740	3,490,408	162,001	169,267	3,845,741	3,659,675
Total assets	5,598,312	5,536,098	280,972	293,438	5,879,284	5,829,536
Deferred outflows of resources	26,723		6,819		33,542	
Long-term liabilities outstanding	2,580,071	2,621,233	225,965	386,108	2,806,036	3,007,341
Other liabilities	1,010,133	1,062,240	97,159	52,955	1,107,292	1,115,195
Total liabilities	3,590,204	3,683,473	323,124	439,063	3,913,328	4,122,536
Deferred inflows of resources	28,076	26,883			28,076	26,883
Net position (deficit):						
Net investment in capital assets	2,706,209	2,486,783	(62,060)	(67,394)	2,644,149	2,419,389
Restricted	799,274	775,758	33,795	8,340	833,069	784,098
Unrestricted	(1,498,728)	(1,436,799)	(7,068)	(86,571)	(1,505,796)	(1,523,370)
Total net position (deficit) as restated	$ 2,006,755	$ 1,825,742	$ (35,333)	$ (145,625)	$ 1,971,422	$ 1,680,117

* Restated

As indicated above, the State reported a balance in unrestricted net position (deficit) of ($1,505.8) million as of June 30, 2014 in the Statement of Net Position. This deficit results in part from the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government's direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. As of June 30, 2014 approximately $592.0 million of general obligation bonds related to such projects were outstanding.

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

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

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

- Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882.4 million of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation to satisfy any deficiency or default of any payment of the bonds. As of June 30, 2014 approximately $744.8 million of principal and $101.7 million of accreted interest are included in the State's debt.

- Historic Tax Credit Bonds - In fiscal year 2009 the R.I. Commerce Corporation (RICC), on behalf of the State, issued $150.0 million of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. As of June 30, 2014, approximately $74.4 million is outstanding.

- The State has entered into certain capital lease agreements, Certificates of Participation (COPS), the proceeds of which are to be used, for example, by the State's university and colleges for energy conservation projects or by local school districts to increase electronic communication on a state-wide basis. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly. As of June 30, 2014, approximately $207.6 million is outstanding relating to these projects.

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

Changes in Net Position

The State's overall net position for the primary government improved by $291.3 million during fiscal year 2014. Total revenues of $7,486.3 million increased by $263.7 million compared to fiscal year 2013. The favorable results were aided by increased general revenues due primarily to greater tax collections due to the improving economy and rising operating grants which, in part, related to federal assistance provided to begin or expand programs under the Affordable Care Act (ACA). The State's expenses, which cover a wide range of services, increased by $342.8 million. This net increase, which occurred primarily in the general government and human services categories, was caused by a number of factors including significant expenditures for initiatives under the ACA and the recognition of a liability relating to a moral obligation of the State under the Job Creation Guaranty Program as discussed in Note 7 H. Offsetting these costs were significant savings in employment insurance costs attributable to a decline in unemployment levels in the State.

A more detailed analysis of changes in revenues and program expenses for both governmental activities and business-type activities is presented after each of the following pie charts.

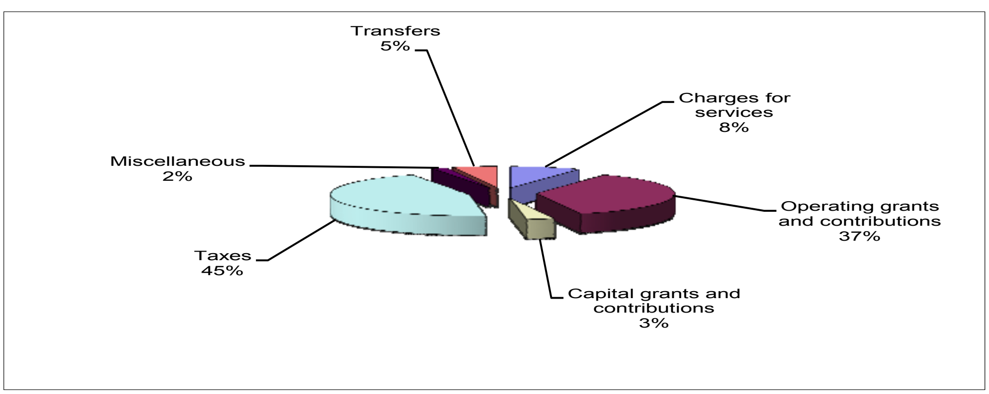
State of Rhode Island's Changes in Net Position
For the Fiscal Year Ended June 30, 2014
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	$ 547,589	$ 551,500	$ 1,127,206	$ 1,055,070	$ 1,674,795	$ 1,606,570
Operating grants and contributions	2,403,772	2,211,800	53,146	166,164	2,456,918	2,377,964
Capital grants and contributions	228,649	190,551			228,649	190,551
General revenues:						
Taxes	2,980,387	2,870,969			2,980,387	2,870,969
Interest and investment earnings	4,852	4,893	109	117	4,961	5,010
Miscellaneous	109,351	146,997	31,208	24,490	140,559	171,487
Total revenues	6,274,600	5,976,710	1,211,669	1,245,841	7,486,269	7,222,551
Program expenses:						
General government	736,911	625,081			736,911	625,081
Human services	3,302,590	3,038,841			3,302,590	3,038,841
Education	1,399,347	1,364,575			1,399,347	1,364,575
Public safety	478,826	473,580			478,826	473,580
Natural resources	80,690	76,730			80,690	76,730
Transportation	298,626	300,639			298,626	300,639
Interest and other charges	129,421	129,714			129,421	129,714
Lottery			462,153	397,625	462,153	397,625
Convention Center			49,255	48,437	49,255	48,437
Employment insurance			257,145	396,909	257,145	396,909
Total expenses	6,426,411	6,009,160	768,553	842,971	7,194,964	6,852,131
Excess (deficiency) before transfers	(151,811)	(32,450)	443,116	402,870	291,305	370,420
Transfers	332,824	333,804	(332,824)	(333,804)		
Change in net position	181,013	301,354	110,292	69,066	291,305	370,420
Net position (deficit) - Beginning	1,842,302	1,418,495	(143,514)	(212,580)	1,698,788	1,205,915
Cumulative effect of prior period adjustments	(16,560)	122,453	(2,111)		(18,671)	122,453
Net position (deficit) - Beginning, as restated	1,825,742	1,540,948	(145,625)	(212,580)	1,680,117	1,328,368
Net position (deficit) - Ending	$ 2,006,755	$ 1,842,302	$ (35,333)	$ (143,514)	$ 1,971,422	$ 1,698,788

See Note 18 F for an explanation of the restatement.

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2014.

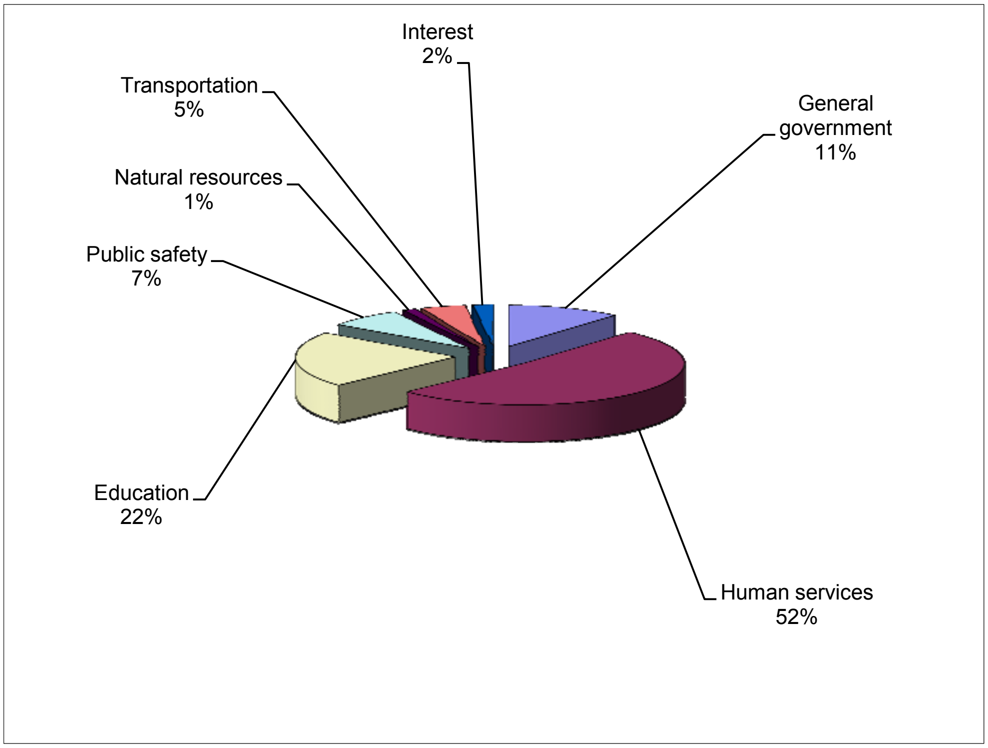
Chart 1 - Revenues and Transfers - Governmental Activities



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal year 2014 versus the prior fiscal year. Taxes continued to represent the largest source of revenue at 45% of the total while operating grants and contributions represented 37% of the total in fiscal year 2014.

Chart 2 depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2014.

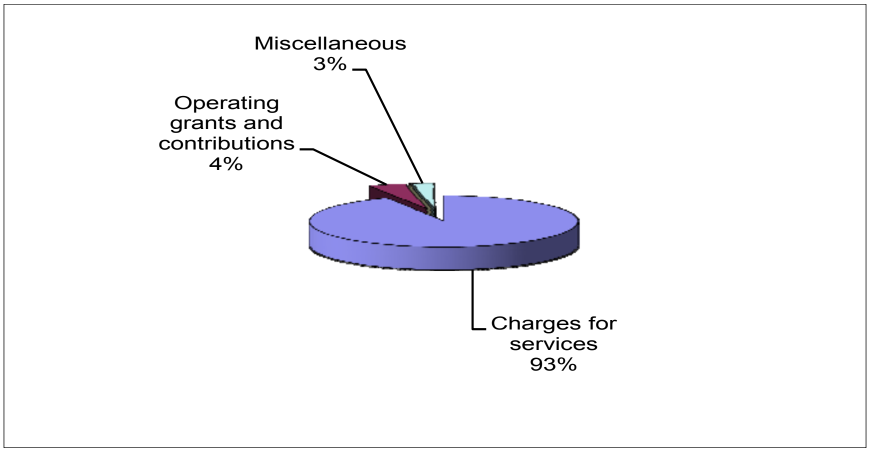
Chart 2 - Program Expenses - Governmental Activities



The relative mix of program expenses - governmental activities remained about the same in fiscal year 2014 as the prior fiscal year. A slight increase from 51% to 52% occurred in the percent of total spending that is directed towards human services programs due, in part, to expansion of programs under the Affordable Care Act.

Chart 3 depicts the State's sources of revenues from Business Type Activities for the fiscal year ended June 30, 2014.

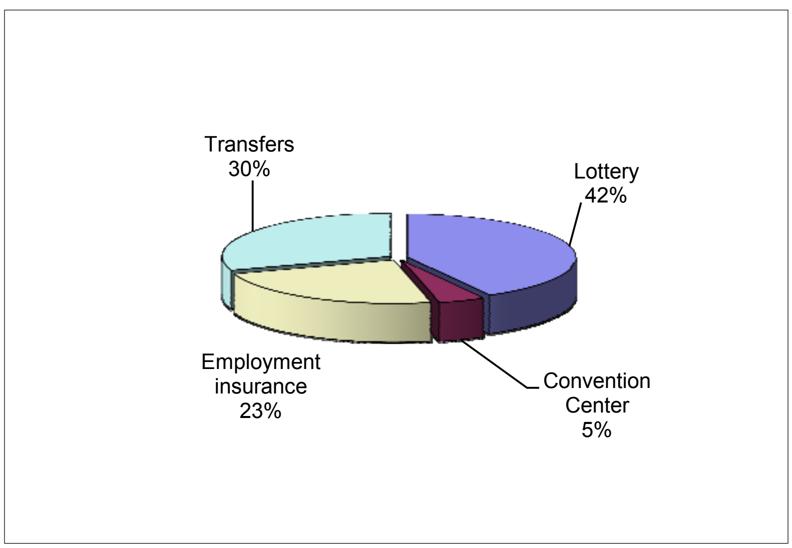
Chart 3 - Revenues – Business Type Activities



Operating grants and contributions declined from 13% to 4% of total revenues - business type activities in fiscal year 2014 when compared to the prior fiscal year because of a significant reduction in spending on the employment insurance program.

Chart 4 depicts the expenses and transfers related to Business Type Activities that were expended during the fiscal year ended June 30, 2014.

Chart 4 - Expenses and Transfers – Business Type Activities



The relative mix of expenses and transfers – business type activities changed significantly due to a reduction in the amount of benefits paid under the employment insurance program. In fiscal year 2014 such payments represented 23% of total business type expenses and transfers as compared to 34% in fiscal year 2013.

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 $1,011.3 million, a decrease of $46.5 million from June 30, 2013. A breakdown of the components follows (expressed in thousands):

			Increase (decrease) from 2013	
	2014	2013	Change	Percent
Governmental Funds				
Nonspendable	$ 174	$ 174	$	
Restricted	913,284	942,335	(29,051)	-3.08%
Unrestricted				
Committed	22,682	4,198	18,484	440.30%
Assigned	72,005	105,894	(33,889)	-32.00%
Unassigned	3,165	5,210	(2,045)	-39.25%
Total	$ 1,011,310	$ 1,057,811	$ (46,501)	-4.40%

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

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

Significant changes in fund balance are discussed below:

- The significant decrease in the assigned portion of the unrestricted fund balance is primarily attributable to a reduction in the amount of the year end fund balance earmarked by the legislature as a resource in the subsequent fiscal year's budget. At June 30, 2013 this amount was approximately $94,797,000 compared to approximately $60,614,000 at June 30, 2014.

- The increase in the committed portion of the unrestricted fund balance is primarily a result of a significant increase from approximately $169,000 at June 30, 2013 to approximately $13,795,000 at June 30, 2014 in the excess of actual revenues over estimated revenues transferred to the Employees' Retirement System pursuant to the General Laws. See Note 8 for more information.

The major governmental funds of the primary government are:

General Fund

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

			Increase (decrease) from 2013	
	2014	2013	Change	Percent
Restricted	$ 297,617	$ 282,137	$ 15,480	5.49%
Unrestricted				
Committed	18,564	4,035	14,529	360.07%
Assigned	72,005	105,639	(33,634)	-31.84%
Unassigned	7,193	9,323	(2,130)	-22.85%
Total	$ 395,379	$ 401,134	$ (5,755)	-1.43%

Revenues and transfers of the General Fund totaled $6,051.7 million in fiscal year 2014, an increase of $314.5 million or 5.48%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2013	
	2014	2013	Amount	Percent
Taxes:				
Personal income	$ 1,109,702	$ 1,083,011	$ 26,691	2.46%
Sales and use	1,126,729	1,073,428	53,301	4.97%
General business	377,361	375,014	2,347	0.63%
Other	52,731	37,060	15,671	42.29%
Subtotal	2,666,523	2,568,513	98,010	3.82%
Federal grants	2,345,942	2,129,847	216,095	10.15%
Restricted revenues	216,142	220,983	(4,841)	-2.19%
Licenses, fines, sales, and services	330,565	323,308	7,257	2.24%
Other general revenues	60,458	57,537	2,921	5.08%
Subtotal	2,953,107	2,731,675	221,432	8.11%
Total revenues	5,619,630	5,300,188	319,442	6.03%
Transfer from Lottery	376,327	379,225	(2,898)	-0.76%
Other transfers	55,722	57,787	(2,065)	-3.57%
Total revenue and other sources	$ 6,051,679	$ 5,737,200	$ 314,479	5.48%

Personal income taxes increased modestly between fiscal year 2013 and fiscal year 2014. Final payments, payments made with a return and extension payments, decreased by 15.0%. This decrease was due primarily to federal tax law changes that occurred at the end of tax year 2012 and induced taxpayers to shift the realization of capital gains from tax year 2013 into tax year 2012. As a result, final payments were stimulated in fiscal year 2013 and depressed in fiscal year 2014. Personal income tax withholding payments showed solid growth of 3.9% in fiscal year 2014 while personal income tax estimated payments experienced a minimal gain of 1.0%. The increase in withholding tax payments was coincidental with the State's improving economy.

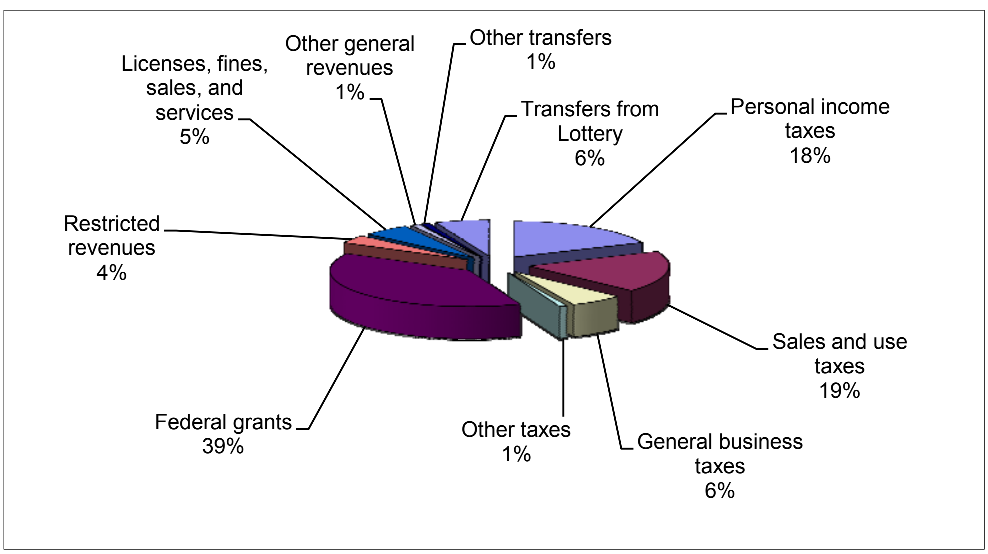
The State's unemployment rate continued its downward trajectory which, according to Moody's Analytics, fell from 9.8% in fiscal year 2013 to 9.0% in fiscal year 2014. Personal income tax refunds and adjustments fell by 2.5% in fiscal year 2014 compared to fiscal year 2013, helping to bolster net personal income tax revenues received by the State. Sales and use taxes exhibited strong year-over-year growth at 5.0%, a further indication of the State's improving economy, particularly in the housing sector and consumer durables such as motor vehicles.

General business taxes grew modestly, aided in part by increased insurance company gross premiums tax revenues that resulted from the implementation of the Affordable Care Act in the state, including the expansion of Medicaid to childless adults with incomes above 138% of the federal poverty level. In addition, fiscal year 2014 financial institutions tax revenues were up 74.5% over fiscal year 2013 amounts. Other taxes showed exceptional growth in fiscal year 2014 led by estate and transfer tax revenues which were $15.1 million more than in fiscal year 2013, an increase of 53.0%.

Finally, R.I. Lottery's transfer to the General Fund was down 0.8% in fiscal year 2014 from fiscal year 2013 due to declines in sales of traditional lottery products and a downturn in gross gaming revenue from video lottery terminals installed at the State's two casino type gaming facilities. The latter may be reflective of increased competition in the northeast gaming market during fiscal year 2014.

Chart 5 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2014.

Chart 5 – Revenues and Other Sources – General Fund



Expenditures and other uses totaled $6,057.4 million in fiscal year 2014, an increase of $348.2 million, or 6.10%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2013	
	2014	2013	Amount	Percent
General government	$ 488,707	$ 470,328	$ 18,379	3.91%
Human services	3,325,538	3,042,705	282,833	9.30%
Education	1,357,630	1,330,128	27,502	2.07%
Public safety	478,108	463,734	14,374	3.10%
Natural resources	76,118	70,145	5,973	8.52%
Debt Service:				
Principal	117,975	125,148	(7,173)	-5.73%
Interest	67,113	68,295	(1,182)	-1.73%
Total expenditures	5,911,189	5,570,483	340,706	6.12%
Transfers	146,245	138,737	7,508	5.41%
Total expenditures and other uses	$ 6,057,434	$ 5,709,220	$ 348,214	6.10%

The significant increase in the Human Services function is primarily attributable to the implementation of the Affordable Care Act and the new HealthSource RI health benefits exchange. Within the Medicaid program, new enrollees resulted in a significant increase in federally funded expenses. In addition, there were increases in costs under the regular Medicaid program due to caseload increases and also in the Managed Care and Rhody Health Partners programs.

The primary driver of increases in the Education function is the continued transition to the new Education Funding Formula, which required over $33.0 million in additional funding in fiscal year 2014.

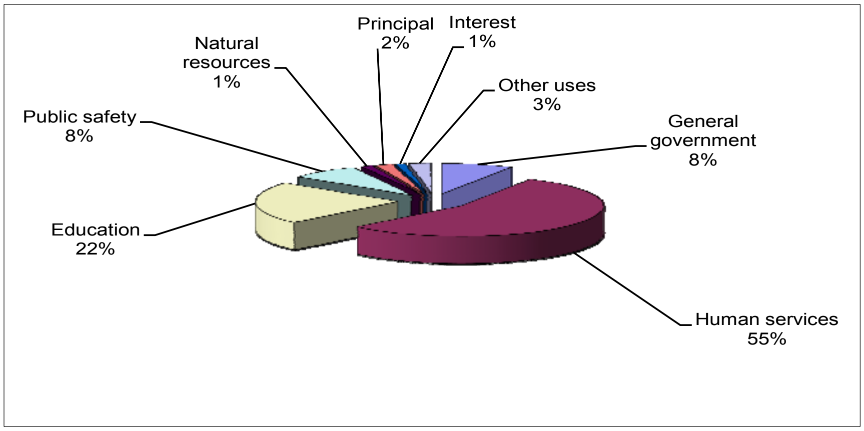
Within the General Government function, the HealthSource RI program, which falls under the Department of Administration, expended over $25.5 million more in fiscal year 2014 as they continued the development of the health benefits exchange and provided funding for the Unified Health Infrastructure Project (UHIP).

Within the Public Safety function, the Department of Public Safety expended about $5.0 million from the Google Settlement received through the US Department of Justice. In addition, expenditures for the Department of Corrections were higher due to additional overtime costs.

Debt service expenditures decreased due to savings from a refinancing of prior debt issuances and due to lower new debt issuances in recent years than in the past.

Chart 6 depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2014.

Chart 6 – Expenditures and Other Uses – General Fund



Intermodal Surface Transportation Fund

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's 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 fund balance of the IST fund are as follows (expressed in thousands):

			Increase (decrease)	
	2014	2013	Change	Percent
Restricted	$ 118,426	$ 145,473	$ (27,047)	-18.59%
Unrestricted				
Committed	4,039	95	3,944	4151.58%
Assigned		255	(255)	-100.00%
Unassigned (deficit)	(4,028)	(4,113)	85	2.07%
Total	$ 118,437	$ 141,710	$ (23,273)	-16.42%

The decrease in fund balance for the IST Fund at June 30, 2014 is primarily attributable to the use of bond proceeds from prior years' issuances for various road and bridge construction and rehabilitation projects.

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. If the balance in the Reserve exceeds five percent 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 budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established.

Adjustments to general revenue receipt estimates resulted in an increase of $35.0 million between the original budget and the final budget. General revenue appropriations decreased from the original budget by $7.4 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General Fund Budgetary Highlights
General Revenue Sources

	Original Budget	Final Budget	Actual	Final Budget vs. Actual Variance
Revenues and sources:				
Taxes:				
Personal income	$ 1,109,155	$ 1,103,200	$ 1,115,513	$ 12,313
General business	384,426	388,800	379,168	(9,632)
Sales and use	1,088,875	1,116,500	1,126,729	10,229
Other taxes	40,500	47,300	52,731	5,431
Departmental revenue	348,708	359,161	360,679	1,518
Other sources:				
Lottery transfer	394,100	380,700	376,327	(4,373)
Unclaimed property	9,700	11,900	12,724	824
Miscellaneous	5,545	8,480	6,392	(2,088)
Total revenues and other sources	3,381,009	3,416,041	3,430,263	14,222
Expenditures and other uses:				
General government	440,356	437,761	427,858	9,903
Human services	1,317,927	1,320,800	1,311,791	9,009
Education	1,152,557	1,147,020	1,146,888	132
Public safety	411,984	410,523	413,191	(2,668)
Natural resources	36,931	36,295	36,695	(400)
Total expenditures and other uses	3,359,755	3,352,399	3,336,423	15,976
Excess of revenues and other sources over expenditures and other uses	$ 21,254	$ 63,642	$ 93,840	$ 30,198

The strong positive variance between the fiscal year 2014 actual revenues to the fiscal year 2014 original budget for personal income taxes was due to two factors: $26.3 million less in personal income tax refunds actually being paid out in fiscal year 2014 vs. what was estimated when the original fiscal year 2014 budget was enacted in July 2013 and a significant change in the actual personal income tax net accrual posted for fiscal year 2014 vs. the estimated personal income tax net accrual for fiscal year 2014, a swing of $12.9 million in revenues. These two positive changes in fiscal year 2014 actual revenues relative to the fiscal year 2014 original budget were offset in part by actual personal income tax final payments falling short of the original budget amount by 15.4%. Actual fiscal year 2014 general business taxes also came in below the estimate contained in the original budget and was due primarily to actual business corporation tax revenues coming in well below the estimated amount included in the original budget. Sales and use tax revenues actually received in fiscal year 2014 outperformed estimated sales and use tax revenues included in the fiscal year 2014 original budget due to stronger than anticipated cigarette and other tobacco products excise tax revenues and general sales and use tax revenues exceeding the estimated general sales and use tax revenues included in the original budget. Finally, the actual fiscal year 2014 Lottery transfer to the General Fund lagged the estimated Lottery transfer to the General Fund contained in the fiscal year 2014 original budget as both actual traditional lottery products revenues and video lottery net terminal income fell nearly $23.0 million short of the estimated revenues included in the fiscal year 2014 original budget. This shortfall was offset in part by actual net table game revenues transferred to the General Fund exceeding the estimate included in the original budget.

The positive expenditure variance in the General Government function of approximately $9.9 million was primarily in two agencies, Administration and the Legislature. Within Administration, the majority of the positive variance, $2.4 million, was due to the General Assembly budgeting funding for the two percent

(2.0%) cost of living adjustment provided to most state employees in April 2014 centrally in the Administration budget instead of allocating these funds to each agency. In addition, several programs had surpluses due to funding enacted for specific projects remaining unspent at year end, which was subsequently approved by the Governor for reappropriation to fiscal year 2015. These included, $280,000 for a classification and compensation study; $527,000 for the implementation of an e-permitting system; $615,900 for the I-195 Commission; and $223,000 for the Housing Rental Subsidy program. In the Legislature's budget, the positive variance was primarily in the grants category, where funds may be committed but not fully expended within the fiscal year. Under Rhode Island law, the entire surplus for the Legislature is reappropriated to fiscal year 2015.

The positive variance in the Human Services function of approximately $9.0 million was due to a positive variance of $8.0 million in the Office of Health and Human Services (OHHS) and a $3.2 million surplus in the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH), offset by a $2.5 million deficit in the Department of Children, Youth and Families (DCYF). The OHHS positive variance was primarily in the Medicaid program due to final caseloads being lower than estimated by the Caseload Estimating Conference in May 2014. The BHDDH positive variance was due to underspending in the Medicaid program and better than anticipated federal reimbursements in the Hospital program.

The DCYF deficit was primarily due to the System of Care Networks exceeding their contracts due to additional children being placed in settings outside the home and in out-of-state placements, which are much more costly than in-state. Often the determination of a placement is made by the Courts and is outside the control of the Department.

The negative variance in the Public Safety function is primarily due to deficits in the Department of Corrections ($1.5 million) and in the Department of Public Safety ($1.8 million). The Corrections deficit was primarily in overtime expenses in the Institutional Custody and Security program due to staffing shortages in the Correctional Officer ranks, that are the result of the Department delaying a new training class due to a Department of Justice lawsuit on hiring practices. The Department of Public Safety deficit was primarily in overtime expenses in the State Police program. Federal rules and laws mandate overtime, namely the "Garcia Rule," which dictates how police officers are paid overtime if they exceed a certain number of hours in a given work cycle.

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, 2014, amounts to $3,845.7 million, net of accumulated depreciation of $2,503.6 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 5.08% of net book value (as restated). This increase is primarily caused by investments in the construction and rehabilitation of highways and bridges as well as other infrastructure.

Actual expenditures to purchase or construct capital assets were $362.0 million for the year. Of this amount $228.6 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $181.0 million.

State of Rhode Island's Capital Assets as of June 30, 2014
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Capital assets not being depreciated or amortized						
Land	$ 388,033	$ 375,225	$ 45,558	$ 45,558	$ 433,591	$ 420,783
Works of Art	2,389	2,389			2,389	2,389
Intangibles	166,716	161,777			166,716	161,777
Construction in progress*	456,371	591,406	44	445	456,415	591,851
Total capital assets not being depreciated or amortized	1,013,509	1,130,797	45,602	46,003	1,059,111	1,176,800
Capital assets being depreciated or amortized						
Land improvements	3,700	3,700			3,700	3,700
Buildings*	723,688	712,593	234,384	234,384	958,072	946,977
Building improvements*	270,378	270,378			270,378	270,378
Equipment*	265,842	253,088	30,147	27,079	295,989	280,167
Intangibles	14,040	14,040	175	175	14,215	14,215
Infrastructure*	3,747,835	3,295,847			3,747,835	3,295,847
	5,025,483	4,549,646	264,706	261,638	5,290,189	4,811,284
Less: Accumulated depreciation or amortization*	2,355,252	2,190,035	148,307	138,374	2,503,559	2,328,409
Total capital assets being depreciated or amortized	2,670,231	2,359,611	116,399	123,264	2,786,630	2,482,875
Total capital assets (net)	$ 3,683,740	$ 3,490,408	$ 162,001	$ 169,267	$ 3,845,741	$ 3,659,675

*Certain fiscal year 2013 balances have been restated.

In fiscal year 2014, the State completed several significant capital projects, including new facilities to house The Metropolitan Career and Technical Center in Newport and a number of significant road and bridge infrastructure initiatives.

Additional information on the State's capital assets can be found in Note 6 to the financial statements of this report.

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of $2,235.5 million, of which $1,074.8 million is general obligation debt, $415.9 million is special obligation debt and $744.8 million is debt of the blended component units. Additionally, accreted interest of $101.7 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 decreased by $102.5 million during fiscal year 2014. This decrease consists of a $29.2 million decrease in general obligation debt, a decrease of $52.8 million in special obligation debt, and a decrease of $20.5 million in the blended component units' debt. The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaled $349.6 million and are discussed in Note 7.

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, 2014 amounted to $191.4 million; other obligations that are authorized but unissued totaled $358.5 million and are described in Note 7. 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 2015 Budget

The first quarter report for fiscal year 2015 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2015, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2014 Caseload and Revenue Estimating Conferences. The fiscal year 2015 balance, based upon these assumptions, is estimated to reflect a $34.5 million general revenue deficit in the General Fund.

The Budget Office continues to review department and agency fiscal year 2015 expenditure plans in conjunction with the fiscal year 2016 budget process. All changes recommended by the Governor in the fiscal year 2015 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly in February 2015.

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 $15.8 million more than enacted for fiscal year 2015. Taxes are expected to exceed enacted estimates by $18.5 million, while departmental revenues and other sources, including lottery revenues, are expected to be less than enacted estimates by $2.7 million. The November Revenue Estimating Conference estimates that revenues will be $3,508.9 million as compared with the enacted estimate of $3,493.1 million for fiscal year 2015.

The November Caseload Estimating Conference estimates reflect, in comparison to the fiscal year 2015 enacted budget, increased general revenue funding for fiscal year 2015 of $37 million. This is due to a number of factors including increased costs for hospitals, long term care, managed care and pharmaceuticals.

Lottery Revenue

The General Fund derives more than 6.2% of general revenue from the Rhode Island Lottery.

The Lottery's gaming operations currently compete with casinos in nearby Connecticut. In addition, Massachusetts's law makers passed legislation allowing three resort-style casinos and one slot parlor in the State. Massachusetts has divided the State into three regions and accepted license applications for each. The regions include Eastern Massachusetts (region A), Western Massachusetts (region B), and Southeastern Massachusetts (region C) as category 1 resort-style casino licenses. The Western Massachusetts (region B) category 1 license was awarded in June 2014 and the Eastern Massachusetts (region A- Greater Boston) category 1 license was awarded in September 2014. The category I license award in Southeastern Massachusetts (region C) is anticipated to be awarded in August 2015. Additionally, a category 2 slots only license was awarded in February 2014. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

The General Laws delineating the allocation of net table game revenue between Twin River Casino and the State included modification of the commission percentage for Twin River Casino and the Town of Lincoln subsequent to the first full year that video lottery net terminal income decreases after the implementation of table games. For the fiscal year ending June 30, 2014, net terminal income at Twin River decreased from the prior year. This results in the State's share of fiscal year 2015 net table game revenue decreasing by 2% to 16%, and an additional 1% going to Twin River and an additional 1% going to the Town of Lincoln. The additional 1% to the Town of Lincoln is payable through June 30, 2018 when this 1% will be paid to Twin River.

Pension Benefits

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

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

See Note 13 for information about litigation that has been filed relating to these reforms.

In fiscal year 2015 the State will be implementing GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27*. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. This Statement will require the State to restate opening net position as of July 1, 2014 to recognize its share of net pension obligation. The restatement is expected to reduce net position of the primary government by approximately $2.4 billion as of July 1, 2014.

Other Postemployment Benefits (OPEB)

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

In accordance with GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. The most recent actuarial study completed as of June 30, 2013 has determined the State's net unfunded actuarial liability for all six plans included in the Rhode Island State Employees' and Electing Teachers OPEB System to be $714.1 million. Based on a discount rate of 5.0%, the State and other participating employers' annual required contribution was $62.8 million. For fiscal year 2014, the State funded the retiree health care program in accordance with law by contributing the actuarially required contribution. At June 30, 2014 the OPEB Trust's net position was $109.7 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Future changes in healthcare costs, as well as investment returns and other assumptions, could significantly affect the level of contributions required of the State.

Transportation Funding Initiatives

During the 2014 legislative session, the financing mechanism for transportation infrastructure and bridge repairs changed dramatically when the General Assembly enacted Article 21 – Relating to Transportation of the fiscal year 2015 Appropriations Act. This article creates a long-term solution for financing Rhode Island's roads and bridges, along with removal of the authority to toll the Sakonnet River Bridge. As part of this article, the General Assembly expanded the Highway Maintenance Account within the Intermodal Surface Transportation Fund, such that this account will become Rhode Island's primary source for transportation financing by making a number of technical changes to existing law and by implementing various funding streams as a means to finance the transportation plan. This account will collect and disburse various motor vehicle fees, surcharges and tax revenue currently accounted for in the General Fund, but now to be deposited to the Highway Maintenance Account (HMA).

Article 21 removes authority of the Rhode Island Turnpike and Bridge Authority to toll the Sakonnet River Bridge as of June 30, 2014 (the toll was formally removed on June 20, 2014 by order of the Governor). The Rhode Island Turnpike and Bridge Authority will continue to control the four bridges in the East Bay (Newport Pell, Jamestown, Mount Hope, and Sakonnet). To make up for the loss of toll revenue on the Sakonnet River Bridge, Article 21 transfers three and one-half cents ($0.035) of the State gas tax to the Rhode Island Turnpike and Bridge Authority beginning July 1, 2014 to be used for maintenance expenses, capital expenditures and debt service on any of the Authority's projects.

Article 21 makes additional changes that result in new revenue to the HMA, including: 1) authorization to increase the gas tax every other fiscal year equivalent to the increase in the Consumer Price Index (CPI), rounded to the nearest 1.0 cent increment; 2) transfer of fees collected for certificate of title issuance; 3) transfer of surcharges collected on the rental of vehicles; 4) imposition of a new twenty-five dollar ($25) fee on dismissals based on good driving records; 5) increase of the fee on motor vehicle inspections from thirty-nine dollars ($39) to fifty-five dollars ($55), thirty-two dollars ($32) of which will go to the HMA; and 6) transfer of most motor vehicle related fees over a three year period, with 25.0 percent transferred in fiscal year 2016, 75.0 percent in fiscal year 2017 and 100.0 percent in fiscal year 2018. In total, these changes will result in an estimated increase in resources for transportation infrastructure of over $70.0 million by fiscal year 2018 and thereafter.

Google Inc. Settlement

An investigation by the United States Attorney's Office in Rhode Island and the U.S. Food and Drug Administration's Office of Criminal Investigations Rhode Island Task Force resulted in the forfeiture of $500 million in revenue by Google. Because several State law enforcement agencies participated in the investigation, the State was awarded $110 million of this forfeiture. As of June 30, 2014 the State had spent approximately $10.7 million of the total award and will be able to use the balance of the award in future years. The funds must be utilized for public safety purposes.

Local Government Financial Matters

A number of local governments in the State continue to experience financial difficulties involving cumulative deficits, budgetary imbalances, and unfunded pension and OPEB obligations. Most notably, the City of Central Falls was under the control of a State appointed receiver and subsequently filed for federal bankruptcy protection in August 2011. The Fourth Amended Plan of Debt Adjustment became effective on October 25, 2012 and allowed the City of Central Falls to emerge from bankruptcy. Under the plan, the City will have court-ordered balanced budgets for fiscal years 2013, 2014, 2015, 2016 and 2017 and will impose a 4 percent property tax increase in each of the next five years. Also, as a result of the agreement with the retirees, the City's five-year budget plan contains affordable pay as you go pension and retiree health insurance costs based upon the restructured plans.

The State has certain oversight responsibilities with respect to municipalities which are outlined in the General Laws and carried out by the Department of Revenue – Division of Municipal Finance and the Office of the Auditor General. The General Laws give the State, acting through the Department of Revenue, the power to implement three levels of oversight and control: fiscal overseer, budget commission, and state receiver. A State fiscal overseer and a budget commission were appointed for the City of East Providence in 2011. In September 2013 it was determined that the fiscal health of the City improved to a level that such oversight was no longer necessary. In addition, a budget commission was appointed for the City of Woonsocket in May 2012 and continues to oversee the City's financial affairs.

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

Requests for Information

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

State of Rhode Island and Providence Plantations
Statement of Net Position
June 30, 2014
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	**Business - Type Activities**	**Totals**	**Component Units**
Assets				
Current assets:				
Cash and cash equivalents	$ 818,184	$ 23,356	$ 841,540	$ 295,879
Funds on deposit with fiscal agent	107,488	187	107,675	
Investments				12,401
Receivables (net)	614,958	82,967	697,925	73,601
Restricted assets:				
Cash and cash equivalents		5,892	5,892	253,535
Investments	70,128		70,128	29,276
Receivables (net)				1,442
Other assets				35,728
Due from primary government				13,607
Due from component units	4,466		4,466	255
Internal balances	(2,608)	2,608		
Due from other governments and agencies	174,327	1,257	175,584	2,071
Inventories	1,812	696	2,508	10,472
Other assets	6,840	490	7,330	6,240
Total current assets	1,795,595	117,453	1,913,048	734,507
Noncurrent assets:				
Investments				181,801
Receivables (net)	18,385		18,385	47,945
Due from other governments and agencies	19,407		19,407	
Restricted assets:				
Cash and cash equivalents				76,708
Investments				372,963
Other assets				1,479,434
Due from component units	50,561		50,561	1,394
Capital assets - nondepreciable	1,013,509	45,602	1,059,111	245,258
Capital assets - depreciable (net)	2,670,231	116,399	2,786,630	1,646,806
Derivative instruments	28,072		28,072	
Other assets	2,552	1,518	4,070	160,047
Total noncurrent assets	3,802,717	163,519	3,966,236	4,212,356
Total assets	5,598,312	280,972	5,879,284	4,946,863
Deferred outflows of resources	26,723	6,819	33,542	6,430
Liabilities				
Current Liabilities:				
Accounts payable	555,673	17,490	573,163	100,143
Due to primary government				4,466
Due to component units	13,607		13,607	255
Due to other governments and agencies				230
Accrued expenses		4,484	4,484	
Unearned revenue	81,049		81,049	
Other current liabilities	112,683	358	113,041	224,120
Current portion of long-term debt	247,121	66,920	314,041	209,101
Obligation for unpaid prize awards		7,907	7,907	
Total current liabilities	1,010,133	97,159	1,107,292	538,315
Noncurrent Liabilities:				
Due to primary government				50,561
Net pension obligation	3,470		3,470	
Net OPEB obligation	8,485		8,485	54,463
Unearned revenue		5,590	5,590	15,215
Due to component units				1,394
Notes payable	3,475		3,475	17,449
Loans payable				45,689
Obligations under capital leases	202,246		202,246	5,806
Compensated absences	10,036	287	10,323	22,806
Bonds payable	2,257,063	220,088	2,477,151	1,992,828
Other liabilities	95,296		95,296	323,204
Total noncurrent liabilities	2,580,071	225,965	2,806,036	2,529,415
Total liabilities	3,590,204	323,124	3,913,328	3,067,730
Deferred inflows of resources	28,076		28,076	82
Net position (deficit)				
Net investment in capital assets	2,706,209	(62,060)	2,644,149	1,207,805
Restricted for:				
Budget reserve	176,719		176,719	
Capital Projects	116,487		116,487	
Debt	116,569	5,892	122,461	227,431
Assistance to other entities	98,114		98,114	
Employment insurance programs	155,232	27,903	183,135	
Other	135,979		135,979	177,036
Nonexpendable	174		174	102,052
Unrestricted	(1,498,728)	(7,068)	(1,505,796)	171,157
Total net position (deficit)	$ 2,006,755	$ (35,333)	$ 1,971,422	$ 1,885,481

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, 2014
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Totals**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 736,911	$ 212,275	$ 115,455	$ 414	$ (408,767)	$	$ (408,767)	$
Human services	3,302,590	229,047	1,949,303	4,230	(1,120,010)		(1,120,010)	
Education	1,399,347	27,617	210,181	50	(1,161,499)		(1,161,499)	
Public safety	478,826	44,192	38,286	3,664	(392,684)		(392,684)	
Natural resources	80,690	27,259	20,010	7,749	(25,672)		(25,672)	
Transportation	298,626	7,199	70,537	212,542	(8,348)		(8,348)	
Interest and other charges	129,421				(129,421)		(129,421)	
Total governmental activities	6,426,411	547,589	2,403,772	228,649	(3,246,401)		(3,246,401)	
Business-type activities:								
State lottery	462,153	837,951				375,798	375,798	
Convention center	49,255	25,097				(24,158)	(24,158)	
Employment security	257,145	264,158	53,146			60,159	60,159	
Total business-type activities	768,553	1,127,206	53,146			411,799	411,799	
Total primary government	$ 7,194,964	$ 1,674,795	$ 2,456,918	$ 228,649	(3,246,401)	411,799	(2,834,602)	
Component units:	$ 1,258,999	$ 723,871	$ 439,095	$ 87,702				(8,331)
General Revenues:								
Taxes:								
Personal income					1,111,799		1,111,799	
General business					380,950		380,950	
Sales and use					1,126,481		1,126,481	
Gasoline					137,542		137,542	
Other					223,615		223,615	
Interest and investment earnings					4,852	109	4,961	32,325
Miscellaneous revenue					108,398	31,208	139,606	20,028
Gain on sale of capital assets					953		953	
Transfers (net)					332,824	(332,824)		
Total general revenues and transfers					3,427,414	(301,507)	3,125,907	52,353
Change in net position					181,013	110,292	291,305	44,022
Net position (deficit) - beginning as restated					1,825,742	(145,625)	1,680,117	1,841,459
Net position (deficit) - ending					$ 2,006,755	$ (35,333)	$ 1,971,422	$ 1,885,481

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, 2014
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 410,771	$ 24,776	$ 337,044	$ 772,591
Funds on deposit with fiscal agent		89,546	17,942	107,488
Restricted investments			70,128	70,128
Receivables (net)	541,653	14,311	70,287	626,251
Due from other funds	3,972			3,972
Due from component units		1,040		1,040
Due from other governments and agencies	138,553	52,440		190,993
Loans to other funds	19,553		50,647	70,200
Other assets	831			831
Total assets	$ 1,115,333	$ 182,113	$ 546,048	$ 1,843,494
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable	482,513	28,915	25,298	536,726
Due to other funds		1,119	6,101	7,220
Due to component units	3,395	5,534	4,679	13,608
Loans from other funds	50,647		12,193	62,840
Unearned revenue	81,049			81,049
Other liabilities	84,822	10,973	283	96,078
Total liabilities	702,426	46,541	48,554	797,521
Deferred inflows of resources	17,528	17,135		34,663
Fund Balances				
Nonspendable			174	174
Restricted	297,617	118,426	497,241	913,284
Unrestricted				
Committed	18,564	4,039	79	22,682
Assigned	72,005			72,005
Unassigned	7,193	(4,028)		3,165
Total fund balances	395,379	118,437	497,494	1,011,310
Total liabilities, deferred inflows of resources and fund balances	$ 1,115,333	$ 182,113	$ 546,048	$ 1,843,494

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, 2014
(Expressed in Thousands)

Fund balance - total governmental funds			$ 1,011,310
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	6,032,630	
	Accumulated depreciation	(2,351,655)	
			3,680,975
Deferred outflows of resources			26,723
Bonds, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.			
	Compensated absences	(76,334)	
	Bonds payable	(2,337,179)	
	Net premium/discount	(62,717)	
	Obligations under capital leases	(207,595)	
	Premium	(16,611)	
	Interest payable	(20,828)	
	Other liabilities	(120,742)	
			(2,842,006)
Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
	Receivables	2,740	
	Due from component units	53,987	
	Derivative instruments	28,072	
	Other assets	2,552	
	Unavailable revenue	34,663	
			122,014
Deferred inflows of resources			(28,076)
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.			35,815
Net position - total governmental activities			$ 2,006,755

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, 2014
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,666,523	$ 137,542	$ 170,951	$ 2,975,016
Licenses, fines, sales, and services	330,565		2,090	332,655
Departmental restricted revenue	216,142	7,172		223,314
Federal grants	2,345,942	284,736		2,630,678
Income from investments	650	350	3,809	4,809
Other revenues	59,808	3,248	52,748	115,804
Total revenues	5,619,630	433,048	229,598	6,282,276
Expenditures:				
Current:				
General government	488,707		168,119	656,826
Human services	3,325,538			3,325,538
Education	1,357,630		273	1,357,903
Public safety	478,108			478,108
Natural resources	76,118		9	76,127
Transportation		381,875	1,941	383,816
Capital outlays			139,848	139,848
Debt service:				
Principal	117,975	37,005	21,905	176,885
Interest and other charges	67,113	18,967	36,583	122,663
Total expenditures	5,911,189	437,847	368,678	6,717,714
Excess (deficiency) of revenues over (under) expenditures	(291,559)	(4,799)	(139,080)	(435,438)
Other financing sources (uses):				
Bonds and notes issued			53,150	53,150
Proceeds from refundings			78,700	78,700
Premium			14,719	14,719
Transfers in	432,049	25,479	108,548	566,076
Payment to refunded bonds escrow agent			(91,991)	(91,991)
Transfers out	(146,245)	(43,953)	(41,519)	(231,717)
Total other financing sources (uses)	285,804	(18,474)	121,607	388,937
Net change in fund balances	(5,755)	(23,273)	(17,473)	(46,501)
Fund balances - beginning	401,134	141,710	514,967	1,057,811
Fund balances - ending	$ 395,379	$ 118,437	$ 497,494	$ 1,011,310

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, 2014
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ (46,501)
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	360,267	
Depreciation expense	(170,728)	
		189,539
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	176,885	
Debt defeased in refunding	84,220	
Accrued interest and other charges	(16,116)	
Proceeds from sale of debt	(131,850)	
Deferral of premium/discount	(14,719)	
Amortization of premium/discount	12,449	
Deferral of refunding costs	6,168	
Amortization of refunding costs	(1,488)	
		115,549
Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.		
Compensated absences	2,058	
Program expenses	(76,792)	
Program revenue	(8,373)	
Capital grant revenue	1,743	
General revenue - taxes	5,371	
General revenue-miscellaneous	(6,469)	
		(82,462)
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.		4,888
Change in net position - total governmental activities		$ 181,013

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, 2014
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Assets					
Current assets:					
Cash and cash equivalents	$ 18,564	$ 3,686	$ 1,106	$ 23,356	$ 45,593
Restricted cash and cash equivalents		5,892		5,892	
Funds on deposit with fiscal agent			187	187	
Receivables (net)	6,543	1,119	75,305	82,967	7,094
Due from other funds		1,072	2,077	3,149	1,323
Due from other governments and agencies			1,257	1,257	
Inventories	696			696	1,812
Other assets	45	445		490	5,994
Total current assets	25,848	12,214	79,932	117,994	61,816
Noncurrent assets:					
Capital assets - nondepreciable		45,602		45,602	
Capital assets - depreciable (net)	460	115,939		116,399	2,765
Other assets		1,518		1,518	
Total noncurrent assets	460	163,059		163,519	2,765
Total assets	26,308	175,273	79,932	281,513	64,581
Deferred outflows of resources					
Deferred loss on advance debt refunding		6,819		6,819	
Liabilities					
Current liabilities:					
Accounts payable	12,522	4,963	5	17,490	18,949
Due to other funds	541			541	683
Due to other governments and agencies			52,024	52,024	
Loans from other funds					7,360
Accrued expenses	4,484			4,484	
Unearned revenue	625	3,269		3,894	
Other current liabilities	358			358	1,774
Notes payable		43		43	
Bonds payable		10,750		10,750	
Compensated absences	209			209	
Obligation for unpaid prize awards	7,907			7,907	
Total current liabilities	26,646	19,025	52,029	97,700	28,766
Noncurrent liabilities:					
Unearned revenue	5,000	590		5,590	
Bonds payable		220,088		220,088	
Compensated absences	287			287	
Total noncurrent liabilities	5,287	220,678		225,965	
Total liabilities	31,933	239,703	52,029	323,665	28,766
Net Position (Deficit)					
Net investment in capital assets	460	(62,520)		(62,060)	2,765
Restricted for:					
Debt		5,892		5,892	
Employment insurance programs			27,903	27,903	
Unrestricted	(6,085)	(983)		(7,068)	33,050
Total net position (deficit)	$ (5,625)	$ (57,611)	$ 27,903	$ (35,333)	$ 35,815

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, 2014
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	**R.I. Convention Center**	**Employment Security**	**Totals**	**Internal Service Funds**
Operating revenues:					
Charges for services	$	$ 24,677	$ 264,158	$ 288,835	$ 299,293
Lottery sales	242,786			242,786	
Video lottery, net	507,057			507,057	
Table games	88,108			88,108	
Federal grants			53,146	53,146	
Miscellaneous		420		420	
Total operating revenues	837,951	25,097	317,304	1,180,352	299,293
Operating expenses:					
Personal services	9,438	15,542		24,980	12,240
Supplies, materials, and services	306,642	11,049		317,691	280,522
Prize awards, net of prize recoveries	145,959			145,959	
Depreciation and amortization	114	10,021		10,135	169
Benefits paid			247,138	247,138	
Total operating expenses	462,153	36,612	247,138	745,903	292,931
Operating income (loss)	375,798	(11,515)	70,166	434,449	6,362
Nonoperating revenues (expenses):					
Interest revenue	108	1		109	44
Other nonoperating revenue	1,023		30,185	31,208	17
Interest expense		(12,643)	(3,024)	(15,667)	
Other nonoperating expenses			(6,983)	(6,983)	
Total nonoperating revenue (expenses)	1,131	(12,642)	20,178	8,667	61
Income (loss) before transfers	376,929	(24,157)	90,344	443,116	6,423
Transfers in	23	24,575	19,559	44,157	
Transfers out	(376,327)		(654)	(376,981)	(1,535)
Change in net position	625	418	109,249	110,292	4,888
Net position (deficit) - beginning. as restated	(6,250)	(58,029)	(81,346)	(145,625)	30,927
Net position (deficit) - ending	$ (5,625)	$ (57,611)	$ 27,903	$ (35,333)	$ 35,815

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, 2014
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from gaming activities	$ 838,122	$	$	$ 838,122	$
Cash received from customers		25,397	261,489	286,886	300,393
Cash received from grants			53,630	53,630	
Cash payments for gaming activities	(447,910)			(447,910)	
Cash payments to suppliers	(4,287)	(11,581)		(15,868)	(278,716)
Cash payments to employees	(9,332)	(15,412)		(24,744)	(12,918)
Cash payments for benefits			(247,228)	(247,228)	
Other operating revenue (expense)			99	99	17
Net cash provided by (used for) operating activities	376,593	(1,596)	67,990	442,987	8,776
Cash flows from noncapital financing activities:					
Loan from federal government			150,116	150,116	
Payment of interest on loan from federal government			(5,005)	(5,005)	
Loans from other funds					4,552
Loans to other funds					(10,871)
Repayment of loans to other funds					9,660
Repayment of loans from other funds					(3,153)
Transfers in		25,352	21,484	46,836	
Transfers out	(376,881)		(583)	(377,464)	(1,535)
Net transfers from (to) fiscal agent			(234,035)	(234,035)	
Net cash provided by (used for) noncapital financing activities	(376,881)	25,352	(68,023)	(419,552)	(1,347)
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(10,248)		(10,248)	
Interest paid on capital obligations		(13,041)		(13,041)	
Acquisition of capital assets	(172)	(2,876)		(3,048)	(617)
Net cash provided by (used for) capital and related financing activities	(172)	(26,165)		(26,337)	(617)
Cash flows from investing activities:					
Interest on investments	109	1		110	44
Net cash provided by investing activities	109	1		110	44
Net increase (decrease) in cash and cash equivalents	(351)	(2,408)	(33)	(2,792)	6,856
Cash and cash equivalents, July 1	18,915	11,986	1,139	32,040	38,737
Cash and cash equivalents, June 30	$ 18,564	$ 9,578	$ 1,106	$ 29,248	$ 45,593
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	375,798	(11,515)	70,166	434,449	6,362
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	114	10,021		10,135	169
Other revenue (expense) and transfers in (out)	398		70	468	19
Net changes in assets and liabilities:					
Receivables, net	783	(432)	(2,246)	(1,895)	878
Inventory	3			3	(117)
Prepaid items	(3)	18		15	615
Due to / due from transactions	(83)			(83)	
Accounts and other payables	(1,422)	(420)		(1,842)	1,527
Accrued expenses	273			273	(677)
Unearned revenue	3	732		735	
Prize awards payable	729			729	
Total adjustments	795	9,919	(2,176)	8,538	2,414
Net cash provided by (used for) operating activities	$ 376,593	$ (1,596)	$ 67,990	$ 442,987	$ 8,776

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, 2014
(Expressed in Thousands)

	Pension and Other Postemployment Benefits Trusts	External Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue	Agency
Assets				
Cash and cash equivalents	$ 5,971	$	$	$ 18,285
Deposits held as security for entities doing business in the State				58,207
Advance held by claims processing agent	775			
Receivables				
Contributions	32,876			
Due from state for teachers	15,714			
Miscellaneous	933	2		3,158
Total receivables	49,523	2		3,158
Prepaid expenses	1,800			
Investments, at fair value				
Equity in short-term investment fund		5,315		
Equity in pooled trust	8,314,739			
Other investments	277,480		2,605	
Total investments	8,592,219	5,315	2,605	
Total assets	8,650,288	5,317	2,605	$ 79,650
Liabilities				
Accounts payable	7,612			2,994
Incurred but not reported claims	2,466			
Unearned revenue	3,033			
Deposits held for others				76,656
Total liabilities	13,111			$ 79,650
Net position				
Held in trust for:				
Pension benefits	8,527,503			
Other postemployment benefits	109,674			
Pool participants		5,317		
Other			2,605	
Total net position	$ 8,637,177	$ 5,317	$ 2,605	

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, 2014
(Expressed in Thousands)

	Pension and Other Postemployment Benefits Trusts	External Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue
Additions			
Contributions			
Member contributions	$ 197,079	$	$
Employer contributions	404,169		
Supplemental employer contributions	584		
State contributions for teachers	76,701		
Interest on service credits purchased	309		
Service credit transfer payments	13		
From participants		557	
Total contributions	678,855	557	
Amortization of unearned revenue	3,033		
Other income	718		
Investment income			
Net appreciation in fair value of investments	1,082,967		278
Interest	63,282	21	
Dividends	14,414		40
Other investment income	10,030		121
	1,170,693	21	439
Less: investment expense	14,622	13	
Net income from investing activities	1,156,071	8	439
Total additions	1,838,677	565	439
Deductions			
Retirement benefits	898,547		
Death benefits	3,464		
Distributions	2,643	8,636	101
Refund of contributions	12,526		
Administrative expense	8,651		
Service credit transfers	13		
OPEB benefits	52,334		
Total deductions	978,178	8,636	101
Change in net position:			
Pension benefits	816,945		
Other postemployment benefits	43,554		
Other		(8,071)	338
Net position - beginning	7,776,678	13,388	2,267
Net position - ending	$ 8,637,177	$ 5,317	$ 2,605

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, 2014
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA
Assets					
Current Assets:					
Cash and cash equivalents	$ 43,345	$ 3,873	$ 77	$ 7,088	$ 2,360
Investments				1,569	
Receivables (net)	8,221	1,662		4,524	106
Restricted assets:					
Cash and cash equivalents	21,774	19,772			5,554
Investments	2,258	3,134			12,110
Receivables (net)	1,439	3			
Other assets	46				607
Due from primary government		61	94	5,750	645
Due from other governments					
Due from other component units		7			
Inventories				1,849	234
Other assets	664	76	44	158	133
Total current assets	77,747	28,588	215	20,938	21,749
Noncurrent Assets:					
Investments		1,807		934	7,005
Receivables (net)	262	3,687			
Restricted assets:					
Cash and cash equivalents	40,961	9,612			
Investments	14,704	23,925			4,789
Other assets		1,088			
Capital assets - nondepreciable	80,296	129		16,100	250
Capital assets - depreciable (net)	443,029	50		142,360	159,532
Due from other component units		697			
Other assets, net of amortization	1,612		214		
Total noncurrent assets	580,864	40,995	214	159,394	171,576
Total assets	658,611	69,583	429	180,332	193,325
Deferred outflows of resources	5,388				
Liabilities					
Current liabilities:					
Accounts payable	6,400	163	104	5,607	6,471
Due to primary government				1,047	133
Due to other component units	63				
Due to other governments					
Other liabilities	19,663	2,688	148	6,037	3,783
Current portion of long-term debt	10,111	6,548		25	27,720
Total current liabilities	36,237	9,399	252	12,716	38,107
Noncurrent liabilities:					
Due to primary government	2,020			14,058	907
Due to other component units					
Unearned revenue		14,473			
Notes payable	45				
Loans payable	41,541				
Obligations under capital leases					
Net OPEB obligation				44,043	
Other liabilities		6,156		9,556	
Compensated absences				398	
Bonds payable	281,769	26,510	38,400		58,273
Total noncurrent liabilities	325,375	47,139	38,400	68,055	59,180
Total liabilities	361,612	56,538	38,652	80,771	97,287
Deferred inflows of resources					82
Net position (deficit)					
Net investment in capital assets	212,905	179		143,355	74,696
Restricted for:					
Debt					18,271
Other	44,099				
Other nonexpendable		4,901			
Unrestricted	45,383	7,965	(38,223)	(43,794)	2,989
Total net position (deficit)	$ 302,387	$ 13,045	$ (38,223)	$ 99,561	$ 95,956

(Continued)

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Position
Component Units
June 30, 2014
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets					
Current Assets:					
Cash and cash equivalents	$ 127,936	$ 20,336	$ 16,930	$ 73,934	$ 295,879
Investments				10,832	12,401
Receivables (net)	33,825	6,552	4,010	14,701	73,601
Restricted assets:					
Cash and cash equivalents				206,435	253,535
Investments				11,774	29,276
Receivables (net)					1,442
Other assets				35,075	35,728
Due from primary government	3,907	269		2,881	13,607
Due from other governments				2,071	2,071
Due from other component units				248	255
Inventories	3,158	500	891	3,840	10,472
Other assets	1,107	8	131	3,919	6,240
Total current assets	169,933	27,665	21,962	365,710	734,507
Noncurrent Assets:					
Investments	142,588	26,090	2,864	513	181,801
Receivables (net)	27,803	4,560	25	11,608	47,945
Restricted assets:					
Cash and cash equivalents	346	315	4,948	20,526	76,708
Investments				329,545	372,963
Other assets	21,776	1,127	784	1,454,659	1,479,434
Capital assets - nondepreciable	22,192	12,959	9,110	104,222	245,258
Capital assets - depreciable (net)	576,202	118,772	66,527	140,334	1,646,806
Due from other component units				697	1,394
Other assets, net of amortization	2,415	18		155,788	160,047
Total noncurrent assets	793,322	163,841	84,258	2,217,892	4,212,356
Total assets	963,255	191,506	106,220	2,583,602	4,946,863
Deferred outflows of resources				1,042	6,430
Liabilities					
Current liabilities:					
Accounts payable	42,665	7,925	2,465	28,343	100,143
Due to primary government	1,715	936	635		4,466
Due to other component units				192	255
Due to other governments			210	20	230
Other liabilities	16,416	3,519	4,069	167,797	224,120
Current portion of long-term debt	10,985	4,855	4,300	144,557	209,101
Total current liabilities	71,781	17,235	11,679	340,909	538,315
Noncurrent liabilities:					
Due to primary government	15,590	13,696	4,290		50,561
Due to other component units				1,394	1,394
Unearned revenue				742	15,215
Notes payable		1,240		16,164	17,449
Loans payable	846			3,302	45,689
Obligations under capital leases	5,600			206	5,806
Net OPEB obligation				10,420	54,463
Other liabilities	12,912	4,284	18	290,278	323,204
Compensated absences	17,273	1,786	791	2,558	22,806
Bonds payable	225,033	17,634	2,677	1,342,532	1,992,828
Total noncurrent liabilities	277,254	38,640	7,776	1,667,596	2,529,415
Total liabilities	349,035	55,875	19,455	2,008,505	3,067,730
Deferred inflows of resources					82
Net position (deficit)					
Net investment in capital assets	372,006	97,404	67,759	239,501	1,207,805
Restricted for:					
Debt				209,160	227,431
Other	79,828	6,488	2,449	44,172	177,036
Other nonexpendable	79,329	16,102	1,720		102,052
Unrestricted	83,057	15,637	14,837	83,306	171,157
Total net position (deficit)	$ 614,220	$ 135,631	$ 86,765	$ 576,139	$ 1,885,481

(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, 2014
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA	URI	RIC	CCRI	Other Component Units	Totals
Expenses	$ 81,657	$ 24,552	$ 1,214	$ 119,844	$ 27,854	$ 489,822	$ 141,982	$ 120,985	$ 251,089	$ 1,258,999
Program revenues:										
Charges for services	66,112	2,640	13	33,031	20,332	312,002	70,253	40,215	179,273	723,871
Operating grants and contributions		1,395	1,322	63,940		161,961	65,881	80,516	64,080	439,095
Capital grants and contributions	18,248			5,671		48,386	12,393	2,475	529	87,702
Total program revenues	84,360	4,035	1,335	102,642	20,332	522,349	148,527	123,206	243,882	1,250,668
Net (Expenses) Revenues	2,703	(20,517)	121	(17,202)	(7,522)	32,527	6,545	2,221	(7,207)	(8,331)
General revenues:										
Interest and investment earnings	68	2,490		8	753	15,443	3,865	446	9,252	32,325
Miscellaneous revenue	39	15,495		930	764		907	619	1,274	20,028
Total general revenue	107	17,985		938	1,517	15,443	4,772	1,065	10,526	52,353
Change in net position	2,810	(2,532)	121	(16,264)	(6,005)	47,970	11,317	3,286	3,319	44,022
Net position (deficit) - beginning as restated	299,577	15,577	(38,344)	115,825	101,961	566,250	124,314	83,479	572,820	1,841,459
Net position (deficit) - ending	$ 302,387	$ 13,045	$ (38,223)	$ 99,561	$ 95,956	$ 614,220	$ 135,631	$ 86,765	$ 576,139	$ 1,885,481

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

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Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

The accompanying financial statements include all funds of the State and its component units. GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and GASB Statement No. 61*, The Financial Reporting Entity: Omnibus*, defines component units as a) legally separate entities for which the elected officials of the primary government (such as the State) are financially accountable, or b) legally separate entities for which a primary government is not financially accountable but whose exclusion from the State's financial statements would cause said statements to be misleading.

GASB has set forth criteria to be considered in determining financial accountability. 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.

The State has considered all agencies, boards, commissions, public benefit authorities and corporations, the State university and colleges, the Central Falls School District and The Metropolitan Regional Career and Technical Center to be potential component units. Audited financial statements of the individual component units can be obtained from their respective administrative offices. Those entities that were deemed to be component units were included as such because of the entity's relationship with the State as determined by application of GASB statements 14, 39, and 61.

Blended Component Units

A component unit should be 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.

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

Rhode Island Convention Center Authority (RICCA)

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

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. TSFC's purchase of tobacco settlement revenues occurred previous to the effective date of GASB 48 and as a result, is not accounted for as a sale of future revenues. For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02908.

Rhode Island Public Rail Corporation (RIPRC)

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

Discretely Presented Component Units

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

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 (DPCUs) 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. The RIAC leases the land on which the State's largest airport is located and reimburses the State annually for general obligation proceeds utilized for 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.

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. Until June 30, 2013 the corporation was known as the R.I. Economic Development Corporation. The 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. The RICC's activities are largely supported by State appropriations and the 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.

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. Upon completion of the redevelopment of the I-195 land, the commission will oversee the sale of the land in an attempt to maximize the economic benefits to the State. The commission issued debt and utilized the proceeds to reimburse the State for the fair value of the land acquired. The State will appropriate amounts to the commission for debt service and operating assistance until sufficient land sale proceeds are available to fund these expenses. Proceeds from land sales are expected to fund the majority of the debt service. 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.

Rhode Island Public Transit Authority (RIPTA)

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include passenger revenue and operating assistance grants from the State and federal governments. 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, 265 Melrose Street, Providence, RI 02907, or at www.ripta.com.

Rhode Island Turnpike and Bridge Authority (RITBA)

This authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. The authority 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. 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 the authority. 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.

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.ribghe.org.

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 of Rhode Island assumed responsibility for the administration and operational funding of the Central Falls School 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 Central Falls School District in a manner consistent with most local school committees. In addition, the Commissioner of 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.

Rhode Island Higher Education Assistance Authority (RIHEAA)

This authority was created by law in 1977 for the dual purpose of guaranteeing loans to students attending eligible institutions and administering other programs of post-secondary student assistance. The authority receives significant appropriations from the State annually to administer certain scholarship and grant programs on its behalf. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Higher Education Assistance Authority, 560 Jefferson Boulevard, Warwick, RI 02886, or at www.riheaa.org.

Rhode Island 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 the RIHMFC is secured in part by capital reserve funds which the General Assembly may, but is not required to, appropriate funding of any deficiencies in such reserves. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721, or at www.rhodeislandhousing.org.

Rhode Island 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 the 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.

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. The authority'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.

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. The 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 the RIRRC's superfund site. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919, or at www.rirrc.org.

Rhode Island Water Resources Board Corporate (RIWRBC)

This board was created by law to foster and guide the development of water resources, including the establishment of water supply facilities, and to lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. All administrative duties of the board are being performed by the State Division of Planning as RIWRBC transfers all functions, programmatic and financial, to the Rhode Island Clean Water Finance Agency, a related organization of the State, upon repayment of the RIWRBC's existing debt due to be fully repaid in fiscal 2015. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, One Capitol Hill, Providence, RI 02908.

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.

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 900 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.

Related Organizations

The following are "related organizations" under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and Statement No. 61*, The Financial Reporting Entity: Omnibus:* Rhode Island Student Loan Authority, Narragansett Bay Commission, Rhode Island Health and Education Building Corporation, and Rhode Island Clean Water Finance Agency. 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 part of 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 and liabilities, 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.

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 Fund – This fund is 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, prison industry operations, surplus property, telecommunications and other utilities, and records maintenance.

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

Fiduciary Fund Types

Pension and Other Post-Employment Benefit Trust Funds

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

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

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

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

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

In addition, in fiscal year 2014 an agency fund was established to account for the HealthSource RI Trust. The Trust was created for the purpose of collecting health and dental insurance premium payments from qualified employers and individuals and paying such premiums to insurance carriers for plans offered through the HealthSource RI health benefits exchange established under Section 1311 of the Patient Protection and Affordable Care Act.

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

- Total assets 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, 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, 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.

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, interest income, and loans from the Federal Unemployment Trust Fund. 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. 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.

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

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

E. Cash and Cash Equivalents

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

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

G. Investments

Investments have a maturity of more than three months and are generally stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, as opposed to a forced or liquidation sale.

H. Receivables

Receivables are stated net of estimated allowances for uncollectible amounts, which are determined based upon past collection experience. Within governmental funds, an allowance for unavailable (amounts not expected to be collected in the next twelve months) amounts is also reflected.

I. Due From Other Governments and Agencies

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

J. Interfund Activity

In general, eliminations have been made to minimize the double counting of internal activity, including internal service fund type activity, on the government-wide financial statements. However, in order to avoid distorting the direct costs and program revenues of the applicable functions, interfund services provided and used between different functional categories have not been eliminated.

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

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

K. Inventories

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

L. Capital Assets

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

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

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

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

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

The State has recorded its investment in intangible assets, which includes certain land rights such as conservation and agricultural easements as well as certain rights of way obtained by the State. These easements tend to be of a perpetual nature and thus are not amortized. Intangible assets also include the State's capitalization of internally developed or substantially customized computer software, which is amortized over a 5-year period. The State has included its investment in intangible assets within Note 6, Capital Assets.

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

M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. In the government-wide financial statements bond discounts, premiums, 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 amounts 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 (See Note 7E).

O. Compensated Absences

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

P. 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.

Q. Deferred Outflows of Resources and Deferred Inflows of Resources

Deferred outflows of resources are defined as a consumption of net position by the State that is applicable to a future reporting period. Deferred inflows of resources are defined as 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, 2014 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	$ 26,723	$ 6,819	$ 33,542	$ 6,430
Total deferred outflows of resources	$ 26,723	$ 6,819	$ 33,542	$ 6,430
Deferred inflows of resources:				
Derivatives	$ 28,072	$	$ 28,072	$
Deferred gain on refunding of debt	4		4	82
Total deferred inflows of resources	$ 28,076	$	$ 28,076	$ 82

The components of the deferred outflows of resources and deferred inflows of resources related to the governmental funds as of June 30, 2014 are as follows (expressed in thousands):

	General Fund	IST Fund	Other Governmental Funds	Total Governmental Funds
Deferred inflows of resources:				
Taxes	$ 9,473	$	$	$ 9,473
Other general revenue	8,055			8,055
Federal revenue		17,135		17,135
Total deferred inflows of resources	$ 17,528	$ 17,135	$	$ 34,663

R. Fund Balances

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

- Nonspendable – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, as is the case for the Budget Reserve and Cash Stabilization Fund, or (c) by law through enabling legislation enacted by the General Assembly.
- Committed – amounts that can only be used for specific purposes as established through the enactment of legislation by the General Assembly, and that remain binding unless modified or rescinded through subsequent legislative action. The underlying action that imposed the limitation must occur no later than the close of the fiscal year and must be binding unless repealed by the General Assembly.
- Assigned – amounts that are constrained by the State's intent that they be used for specific purposes. The intent is generally established by legislation enacted by the General Assembly and is implemented at the direction of the Governor.
- 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.

S. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2014, the State adopted the following new accounting standards issued by GASB:

GASB Statement No. 65 – *Items Previously Reported as Assets and Liabilities.* This Statement establishes accounting and financial reporting standards that require that certain items no longer be reported in statements of net position since they do not meet the definition of assets, liabilities, deferred outflows of resources, or deferred inflows of resources. In addition, the standard requires that certain items previously reported as assets or liabilities be reported as deferred inflows or outflows of resources. As required by the Statement, effective July 1, 2013, bond issuance costs are expensed as incurred and gains or losses on debt refunding are reported as a deferred inflow of resources or a deferred outflow of resources, respectively. Previously, bond issuance costs were deferred and amortized over the life of the related debt and deferred gains or losses on advance debt refundings were reported as a component of bonds payable. Due to the adoption of the standard, the net position at July 1, 2013 has been restated. See Note 18F for details about the restatement.

The following GASB statements that are effective for the fiscal year ending June 30, 2014 had little or no effect on the State's financial statements.

GASB Statement No. 66 – *Technical Corrections – 2013 – an amendment to GASB No. 10 and No. 62*.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25*. This Statement relates to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The Statement addresses accounting and financial reporting for the activities of such pension plans.

The Employees' Retirement System (ERS) is the administrator for six defined benefit pension plans that are subject to Statement No. 67. The ERS's Statement No. 67-compliant stand-alone financial statements can be obtained by writing to the Employees' Retirement System, 50 Service Ave., Warwick, RI 02886.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*.

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

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27*. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for the fiscal year ending June 30, 2015 and the State will be required to restate opening net position as of July 1, 2014 to recognize its share of the net pension obligation. The restatement is expected to reduce the net position of the primary government-governmental activities by approximately $2.4 billion as of July 1, 2014.

GASB Statement No. 69 – *Government Combinations and Disposals of Governmental Operations*.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The requirements of this statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. The benefit will be achieved without the imposition of significant additional costs. The provisions of this standard will be applied simultaneously with the provisions of Statement 68.

T. Change in Reporting Entity

On an annual basis the State considers the provisions of GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and Statement No. 61*, The Financial Reporting Entity: Omnibus.* After a review of potential component units conducted in fiscal year 2014 it was determined that The Metropolitan Regional Career and Technical Center ("The Met") presents the potential to provide a financial benefit or impose a financial burden on the State. The State, acting through the Department of Education, appoints The Met's Board of Trustees. In addition, the State provides significant funding for operations. The State also finances, constructs and has title to The Met's facilities.

See Note 18F regarding restatements of prior period net position for the State's discretely presented component units resulting from the change in the State's reporting entity resulting from the addition of The Met as a component unit.

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

A. Primary Government-Governmental and Business-Type Activities

Cash Deposits

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

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2014 pursuant to this statutory provision. However, the Office of the General Treasurer has instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance. 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 SEC Rule 2a-7. While investment in the pool is not guaranteed or fully collateralized, certain investments within the pool are collateralized. At June 30, 2014, of the $499.3 million invested, $221.8 million was either a US Government or Agency Security ($52.4 million) or a Collateralized Repurchase Agreement ($169.4 million).

With the exception of $568,190 in bank balances of the R.I. Convention Center Authority, as of June 30, 2014 all of the bank balances were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's or the blended component unit's name.

Cash Equivalent Investments and Investments

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

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

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

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

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

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

The State's cash equivalents and investments (expressed in thousands) at June 30, 2014 are as follows:

Pooled cash equivalents (at amortized cost)	
Financial company commercial paper	$ 238,678
Other commercial paper	13,494
Asset backed commercial paper	9,998
Government agency repurchase agreement	90,375
Other repurchase agreements	79,000
Treasury debt	30,614
Certificates of deposit	5,000
Government agency debt	21,767
Other Municipal Debt	2,407
Other notes	6,000
Other Instruments	2,000
Total investments	499,333
Plus: other assets in excess of other liabilities	161
Total investment pool	499,494
Funds held by fiduciary funds and discretely presented component units	
Less:	
Amounts categorized as funds on deposit with fiscal agent	5,959
Amounts held by fiduciary trust funds:	
Pension trusts	170,358
OPEB trust	3,427
RIPTA health fund	686
Amounts held by discretely presented component units:	
URI	10,127
RIHEAA	7
RIIRBA	2,856
Amounts held for external parties	5,317
Primary government pooled cash equivalents	300,757
Other primary government cash equivalents and investments	
Repurchase agreements	1,651
Financial company commercial paper	52,649
Government agency debt	17,479
Money Market Mutual Funds	6,704
Total primary government cash equivalents and investments	$ 379,240
Cash equivalents and investments	$ 379,240
Cash	538,320
Total cash, cash equivalents and investments	$ 917,560
Statement of Net Position	
Cash and cash equivalents	$ 841,540
Restricted cash and cash equivalents	5,892
Restricted investments	70,128
Total cash, cash equivalents and investments	$ 917,560

The State's restricted investments, equaling $70,128,000 are held by the Tobacco Settlement Financing Corporation, a blended component unit.

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.

As of June 30, 2014, information about the State's exposure to interest rate risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

			Investment Maturities (in days) (At Amortized Cost)				
Investment Type	**At Fair Value**	**Total Amortized Cost**	**0-30**	**31-90**	**91-180**	**181-397**	**>397**
Financial Company Commercial Paper	$ 238,696	$ 238,678	$ 75,246	$ 109,457	$ 42,977	$ 10,998	$
Other Commercial Paper	13,496	13,494	7,499		5,995		
Asset Backed Commercial Paper	9,999	9,998	4,000	5,998			
Gov't Agency Repurchase Agreements	90,375	90,375	90,375				
Other Repurchase Agreements	79,009	79,000	58,000	5,000	16,000		
Treasury Debt	30,616	30,614	12,606	8,008	6,004	3,996	
Certificates of Deposit	5,000	5,000	5,000				
Government Agency Debt	21,774	21,767		3,000		9,999	8,768
Other Municipal Debt	2,407	2,407		2,407			
Other Notes	6,000	6,000		1,000	5,000		
Other Instruments	2,000	2,000	2,000				
Grand Total	$ 499,372	$ 499,333	$ 254,726	$ 134,870	$ 75,976	$ 24,993	$ 8,768

Non-pooled Cash Equivalents and Investments:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Financial company commercial paper	$ 52,649	$ 52,649	$ 0	$ 0	$ 0
Government agency debt	17,479	17,479	0	0	0
Money Market Mutual Funds	6,704	6,704	0	0	0
Repurchase agreements	1,651	1,651	0	0	0
Cash equivalents and investments	$ 78,483	$ 78,483	$ 0	$ 0	$ 0

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

As of June 30, 2014, information about the State's exposure to credit risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

Investment Type	At Fair Value	Total Amortized Cost	Quality Ratings (1) (At Amortized Cost) A-1+	A-1	A-2
Financial Company Commercial Paper	$ 238,696	$ 238,678	$ 89,972	$ 146,706	$ 2,000
Other Commercial Paper	13,496	13,494	5,995		7,499
Asset Backed Commercial Paper	9,999	9,998		9,998	
Gov't Agency Repurchase Agreements	90,375	90,375	88,375	2,000	
Other Repurchase Agreements	79,009	79,000	4,000	75,000	
Treasury Debt	30,616	30,614	30,614		
Certificates of Deposit	5,000	5,000		3,000	2,000
Government Agency Debt	21,774	21,767	21,767		
Other Municipal Debt	2,407	2,407	2,407		
Other Notes	6,000	6,000	5,000		1,000
Other Instruments	2,000	2,000		2,000	
Grand Total	$ 499,372	$ 499,333	$ 248,130	$ 238,704	$ 12,499

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.

Non-pooled Cash Equivalents and Investments:

Issuer	Fair Value	Type of Investment	Moody's Rating	Average Maturities in Days
Government Agencies				
Federal Home Loan Bank Discount Note	$ 17,479	Government Agency	P-1	Not Applicable
Money market mutual funds				
Fidelity Institutional Money Market Gvt. Port Class III	6,495	Money Market	Aaa-mf	52
Goldman Sachs Treasury Instruments Fund	4	Money Market	Aaa-mf	47
Wells Fargo Advantage 100% Treasury Money Market Fund	205	Money Market	Aaa-mf	55
Commercial Paper				
Banco Santander Chile Commercial Paper	52,649	Commercial Paper	P-1	Not Applicable
	$ 76,832			

The Tobacco Settlement Financing Corporation, a blended component unit, purchased the Federal Home Loan Bank Discount Note and the Banco Santander Chile Commercial Paper listed in the above table under the terms of two contracts that are discussed in Note 3.

Funds on Deposit with Fiscal Agent

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

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2014 and the breakdown by maturity are as follows:

Investment Type	Fair Value	Investment Maturities (in Years) Less Than 1	1-5	6-10	More Than 10
Money Market Mutual Funds	$ 101,789	$ 101,789	0	0	0
Investment Contracts	5,699	5,699	0	0	0
Investments	$ 107,488	$ 107,488	$ 0	$ 0	$ 0

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

Issuer		Fair Value	Moody's Rating	Average Maturities in Days
Money Market Funds				
Dreyfus Treasury Prime Cash Management Fund	$	2,174	Aaa-mf	55
Federated Govt. Obligation Tax Managed Fund		13,014	Aaa-mf	48
Fidelity Institutional Money Market Gvt. Port Class III		38,293	Aaa-mf	52
First American Government Obligations Fund		39,181	Aaa-mf	40
Wells Fargo Advantage 100% Treasury Money Market Fund		589	Aaa-mf	55
Morgan Stanley Prime Portfolio		2,579	Aaa-mf	28
Ocean State Investment Pool		5,959	N/A	N/A
Investment Contracts				
FSA Capital Management GIC		5,699	N/A	N/A
	$	107,488		

Funds on deposit with fiscal agent also include approximately $187 thousand held by the Federal Unemployment Insurance Trust Fund.

B. Concentration of Credit Risk

The SIC has adopted limitations as to the maximum percentages of the State's total short-term investment portfolio that may be invested in a specific investment type or with any one issuer of securities. The combined portfolio concentrations for cash equivalents, investments and funds in trust by issuer (expressed in thousands) that are greater than 5% are as follows:

Type	Issuer		Amount	Percentage
Money Market Funds	Fidelity Institutional Money Market Gvt. Port Class III	$	44,788	9.20%
Money Market Funds	First American Government Obligations Fund		39,181	8.05%
Commercial Paper	Banco Santander Chile Commercial Paper		52,649	10.82%

C. Pension Trusts

The Employees' Retirement System (ERS) consists of six plans: the Employees' Retirement System, Municipal Employees' Retirement System (MERS), State Police Retirement Board Trust (SPRBT), Judicial Retirement Board Trust (JRBT), Rhode Island Judicial Retirement Fund Trust (RIJRFT), and Teachers' Survivors Benefit Plan (TSBP).

Cash Deposits and Cash Equivalents

At June 30, 2014, the carrying amount of the ERS cash deposits was $2,385,000 and the bank balance was $2,653,000. The bank and book balances represent the plans' deposits in short-term trust accounts which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. The bank balance, $886,000, and the remainder representing interest-bearing collateralized bank deposits totaling $1,767,000, 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 one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2014 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance.

Investments

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

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. In January 2014, the assets of the RIJFRT were added to the pool for investment purposes only. The assets of the TSBP had previously been pooled with the assets of the ERS.

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

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

The following table presents the fair value of investments by type that are held within the Pooled Trust for the defined benefit plans at June 30, 2014 (expressed in thousands):

Pooled Investment Trust - Investment Type	Fair Value
Cash and Cash Equivalents	$ 21,476
Foreign Currencies	1,246
Money Market Mutual Fund	319,976
U.S. Government Securities	557,956
U.S. Government Agency Securities	351,280
Collateralized Mortgage Obligations	18,802
Corporate Bonds	422,341
Term Loans	341,055
International Government Bonds	112,541
Domestic Equity Securities	824
International Equity Securities	272
Commingled Funds - Domestic Equity	2,055,284
Commingled Funds - International Equity	2,035,354
Private Equity	544,763
Real Estate Limited Partnerships and Commingled Funds	252,953
Hedge Funds	1,154,573
Derivative Investments	122
Investments at Fair Value	$ 8,190,818
Receivable for investments sold	240,732
Payable for investments purchased	(226,011)
Total	$ 8,205,539

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 ERS manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the ERS are:

Barclays US Aggregate Index

Barclays World Government Inflation–Linked All Maturities USD Hedge

Custom High Yield and Bank Loan Index – 30% Bank of America Merrill Lynch 1-3 BB-B High Yield and 70% Credit Suisse Institutional Leveraged Loan Index

At June 30, 2014, no fixed income manager was outside of the policy guidelines.

The following table shows the ERS's fixed income investments by type, fair value and the effective duration at June 30, 2014 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 557,956	4.26
U.S. Government Agency Securities	351,280	3.69
Collateralized Mortgage Obligations	18,802	2.17
Corporate Bonds	422,341	6.24
International Government Bonds	112,541	3.93
Term Loans	341,055	0.52
Total Fixed Income	$ 1,803,975	3.78

The ERS had investments at June 30, 2014 totaling $170,358,479 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The ERS's investment accounted for 34% of the total OSIP at June 30, 2014.

OSIP operates in a manner consistent with SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

The ERS also invested $149,616,358 in a short-term money market mutual fund that held investments with a weighted average maturity of 66 days at June 30, 2014.

The ERS 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 ERS 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 prepayments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

Credit Risk

The ERS manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for their portfolios and by establishing limits on the percentage of the portfolios that are invested in non-investment grade securities. The ERS's exposure to credit risk as of June 30, 2014 is as follows (expressed in thousands):

Rating	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds	International Government Bonds	Term Loans
Aaa	$ 10,967	$ 351,280	$ 17,791	$ 26,910	$
Aa	1,908		15,267	78,171	
A	4,723		73,407	4,437	
Baa	1,204		241,986	3,022	4,490
Ba			23,885		93,173
B			40,299		169,973
Caa			8,380		20,697
Ca			97		
Not rated			1,229		52,722
Fair Value	$ 18,802	$ 351,280	$ 422,341	$ 112,540	$ 341,055

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 ERS's pooled investment trust that comprises 5% of the overall portfolio.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2014, all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, Bank of New York Mellon.

Foreign Currency Risk

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

The ERS's exposure to foreign currency risk at June 30, 2014, was as follows (expressed in thousands):

Currency	Commingled Funds	Currency	Equities	Private Equity	International Bonds	Term Loans	Derivatives	Total
Australian Dollar	$ 108,320	$ 71	$	$	$ 3,350	$	$	$ 111,741
Austrian Schilling	3,802							3,802
Belgian Franc	17,177							17,177
Brazilian Real	45,281							45,281
Canadian Dollar	156,740	(40)	192	14,879	4,677		(47)	176,401
Chilean Peso	6,985							6,985
Chinese Yuan	58,822							58,822
Colombian Peso	4,562							4,562
Czech Republic Koruna	1,111							1,111
Danish Krone	21,100							21,100
Egyptian Pound	898							898
Euro Currency	430,187	55		81,777	36,652	137	206	549,014
Great Britain Pound	290,003	(192)	80		46,702		10	336,603
Hong Kong Dollar	66,590	1,158					109	67,857
Hungarian Forint	1,000							1,000
Indian Rupee	31,622							31,622
Indonesia Rupiah	11,097							11,097
Israeli Shekel	7,470							7,470
Japanese Yen	290,584	(39)			8,263		(230)	298,578
Malaysian Ringgit	17,564							17,564
Mauritian Rupee	322							322
Mexican Peso	23,154							23,154
New Zealand Dollar	1,994							1,994
Norwegian Krone	12,116							12,116
Peruvian Nouveau Sol	1,437							1,437
Philippine Peso	4,473							4,473
Polish Zloty	7,591							7,591
Qatari Real	1,659							1,659
Russian Ruble	24,582							24,582
Singapore Dollar	19,259							19,259
Swedish Krona	42,500	(109)					5	42,396
Swiss Franc	130,683							130,683
South African Rand	34,362	342					3	34,707
South Korean Won	70,889							70,889
Taiwan Dollar	55,334							55,334
Thailand Baht	9,644							9,644
Turkish Lira	7,774							7,774
United Arab Emirates Dirham	1,836							1,836
Total	$ 2,020,524	$ 1,246	$ 272	$ 96,656	$ 99,644	$ 137	$ 56	$ 2,218,535
US Dollar	14,830							
Commingled Fund Total	$ 2,035,354							

In addition to the foreign currency exposure highlighted in the foregoing table, certain hedge and private equity fund investments may have foreign currency exposure.

Derivatives and Other Similar Investments

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

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

Forward foreign currency contracts – The ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. A currency forward is a contractual agreement to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. If not offset by a corresponding position with the opposite currency exposure, these contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Position. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in currency contracts. The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The ERS uses futures to manage its exposure to the domestic and international equity, money market, and bond markets and the fluctuations in interest rates and currency values. Futures are also used to obtain target market exposures in a cost effective manner and to narrow the gap between the ERS's actual 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 ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS investments. Losses may arise due to movements in the underlying or reference markets.

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

The ERS invests in mortgage-backed securities, which include collateralized mortgage obligations and U.S. Government Agency Securities. These securities are based on the cash flows from interest and principal payments by the underlying mortgages. As a result, they are sensitive to prepayments by mortgagees, which are likely in declining interest rate environments, thereby reducing the value of these securities.

Additional information regarding interest rate risks for these investments is included in the Interest Rate Risk section of this note.

The ERS may sell a security in anticipation of a decline in the fair value of that security or to lessen the portfolio allocation of an asset class. Short sales may increase the risk of loss to the ERS when the price of a security underlying the short sale increases and the ERS is obligated to deliver the security in order to cover the position.

The following summarize the ERS's exposure to specific derivative investments at June 30, 2014 (expressed in thousands):

Investment Derivative Instruments	Change in fair value included in investment income	Fair value at June 30, 2014	Notional amount
Fixed income futures - long	$ 610	$ (5)	$ 48,493
Index futures - long	664	261	28,129
Index futures - short	(736)	(676)	(79,324)
Credit default swap	24	86	2,990
Interest rate swaps	464	456	4,950
	$ 1,026	$ 122	
Foreign Currency Forward Contracts:			
Pending payable (liability)		$ (1,406)	

The ERS 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, 2014 was $113,240. 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.

Credit Default Swaps can be used in the portfolio by the credit manager 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. buy protection). The actual swap entered into sold protection on an index to effectively and quickly gain long exposure to the high yield markets giving this new manager time to invest in individual cash bonds in line with the mandate.

Interest rate swaps can be used to manage interest rate risk and increase returns in the fixed income or term loan portion of the portfolio.

The ERS executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa1 (Moody's) or better. One counterparty was not rated by Moody's but is rated A+ by Fitch.

Other Investments—Defined Contribution Plans

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 Plan's holdings at June 30, 2014 are as follows (expressed in thousands):

Investment Type	Fair Value	% of Total	Duration (years)	Weighted Average Maturity (days)
Annuities				
TIAA Stable Value	$ 3,278	1.2%		
TIAA Real Estate-variable annuity	1,345	0.5%		
Total	$ 4,623	1.7%		
Money Market				
Vanguard Prime Money Market Fund Investor Class	$ 306	0.1%		57
Fixed Income Funds				
Pimco Real Return Institutional Class	2,189	0.8%	6.78	
Vanguard Total Bond Market Index Signal Class	1,687	0.6%	5.62	
Total	$ 3,876	1.4%		
Target Retirement Funds				
Vanguard Target Retirement 2010 Trust II	5,428	2.0%		
Vanguard Target Retirement 2015 Trust II	21,377	7.7%		
Vanguard Target Retirement 2020 Trust II	38,902	14.0%		
Vanguard Target Retirement 2025 Trust II	41,117	14.8%		
Vanguard Target Retirement 2030 Trust II	40,834	14.7%		
Vanguard Target Retirement 2035 Trust II	38,719	14.0%		
Vanguard Target Retirement 2040 Trust II	30,335	10.9%		
Vanguard Target Retirement 2045 Trust II	22,252	8.0%		
Vanguard Target Retirement 2050 Trust II	11,827	4.3%		
Vanguard Target Retirement 2055 Trust II	2,646	1.0%		
Vanguard Target Retirement 2060 Trust II	280	0.1%		
Vanguard Target Retirement Income Trust II	1,720	0.6%		
Total	$ 255,437	92.1%		
Equity Mutual Funds				
TIAA-CREF International Equity Index Fund Institutional	1,437	0.5%		
TIAA-CREF Social Change Equity Institutional	82	0.0%		
Vanguard 500 Index Fund Signal Class	5,727	2.1%		
Vanguard Emerging Markets Stock Index Signal Class	1,232	0.4%		
Vanguard Mid-Cap Index Fund Signal Class	2,414	0.9%		
Vanguard Small Cap Index Fund Signal Class	2,254	0.8%		
Total	$ 13,146	4.7%		
Total	$ 277,388	100.0%		

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2014, 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.

The assets of the FICA Alternative Retirement Income Security Program are primarily invested in an array of Vanguard Target Retirement Funds that are selected based on the age of the participant. At June 30, 2014, all assets and securities were registered in the name of TIAA-CREF as the record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

D. OPEB Trust Funds

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

Cash Deposits and Cash Equivalents

At June 30, 2014, the carrying amount of the OPEB System's cash deposits was approximately $158,000 and the bank balance was the same amount. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include fully insured demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. At June 30, 2014, the System's cash deposits were either federally insured or collateralized.

In addition, at June 30, 2014, the System also had cash equivalent investments consisting of approximately $3,427,000 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 0.7% of the total investment in OSIP at June 30, 2014. Funds of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State are eligible to invest in OSIP. OSIP operates in a manner consistent with a SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

Investments

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

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

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2014 (expressed in thousands):

Investment Type	Fair Value
Money Market Mutual Fund	$ 2,256
US Government Securities	12,302
US Government Agency Securities	11,704
Collateralized Mortgage Obligations	638
Corporate Bonds	10,792
Commingled Funds - Domestic Equity	71,303
	108,995
Net investment receivable	204
Investments at Fair Value	$ 109,199

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

Interest Rate Risk

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

The following table shows the OPEB System's fixed income investments by type, fair value and the effective duration at June 30, 2014 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
US Government Agency Securities	$ 11,704	3.66
US Government Securities	12,302	5.47
Collateralized Mortgage Obligations	638	4.37
Corporate Bonds	10,792	7.40
Total Fixed Income	$ 35,436	5.11

The OPEB System's investment in Dreyfus Institutional Cash Advantage Fund, a money market mutual fund, had an average maturity of 47 days at June 30, 2014.

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, 2014 is as follows (expressed in thousands):

Rating(1)	Collateralized Mortgage Obligations	US Government Agency Obligations	Corporate Bonds
Aaa	$ 638	$ 11,704	$ -
Aa			438
A			2,424
Baa			7,632
Ba			298
Fair Value	$ 638	$ 11,704	$ 10,792

(1) Moody's Investor Service

The OPEB System's investment in a short-term money market mutual fund (Dreyfus Institutional Cash Advantage Fund) was rated AAAm by Standard & Poor's Investors Service.

Concentration of Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the OPEB System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2014, 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 Trust

The private purpose trust (Touro Jewish Synagogue) had investments of approximately $2,605,000 in the Fidelity Balanced Fund as of June 30, 2014.

F. Agency Funds

As of June 30, 2014, 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. Hedging Derivatives

In connection with the issuance of revenue bonds in June 2002, the Tobacco Settlement Financing Corporation (TSFC) entered into two interest-bearing contracts. The contracts are considered hedging derivatives. The contracts are a type of investment in which the investor, in this case the TSFC, purchases eligible securities selected by the agreement provider on a periodic basis from the agreement provider at a fixed rate of return that is specified in the contract.

One contract, having a notional amount of $51,351,531, with Morgan Stanley & Co. Inc. as provider, generates a fixed annual rate of return of 5.48% through June 1, 2042. As of June 30, 2014 Morgan Stanley & Co. Inc. long-term debt was rated Baa1 by Moody's and A- by Standard & Poor's. At June 30, 2014 Banco Santander Chile Commercial Paper was held pursuant to this contract.

The other contract, the notional amount of which varies based on the TSFC's debt service payment requirements, is with JP Morgan Chase Bank, N.A. as provider and generates a fixed annual rate of return of 4.013% through June 1, 2022 or the date on which the trustee and the TSFC have satisfied all of their obligations under the agreement. As of June 30, 2014 JP Morgan Chase Bank, N.A. long-term debt was rated A2 by Moody's and A- by Standard & Poor's. At June 30, 2014 a Federal Home Loan Bank Discount Note was held pursuant to this contract.

The interest-earning investment contracts provide for a fixed annual rate of return for investments held within the TSFC's debt service reserve fund and debt service fund. The counterparty to the investment contract purchases investments based on types permitted by the TSFC's trust indenture. When the earnings on such investments are less than the fixed annual return rate as specified in the contract, the counterparty is required to make an additional payment to the trustee on behalf of the TSFC.

Through the interest-earning investment contracts, the TSFC is exposed to concentration of credit risk since the counterparty is required to purchase only permitted investments but not necessarily diversify such holdings. The fair value of the investment contracts is estimated based on the present value of their estimated future cash flows and is sensitive to interest rate changes. The terms of the investment contracts generally coincide with the TSFC's outstanding indebtedness and maintenance of the debt service and debt service reserve fund. The contracts provide for the payment of a termination amount under certain conditions specified in the agreement (e.g., defeasance, default). The termination amount payable between the provider and the TSFC would vary depending on prevailing interest rates at the time the termination amount was calculated. Under certain market conditions, the termination amount payable by the TSFC (or its trustee) could be substantial. In addition, the contracts also require the providers to pledge collateral in certain circumstances.

Note 4. Receivables

Receivables at June 30, 2014 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Total Receivables, Net	Due from Other Governments and Agencies	Due from Component Units
Governmental receivables	$ 471,015	$ 374,021	$ 1,826	$ 846,862	$ 193,734	$ 55,027
Less: Allowance for Uncollectibles	105,811	106,785	923	213,519		
Governmental receivables, net	365,204	267,236	903	633,343	193,734	55,027
Business-type receivables	75,964	32,665		108,629	1,257	
Less: Allowance for Uncollectibles	4,078	21,584		25,662		
Business-type receivables, net	71,886	11,081		82,967	1,257	
Receivables, Net of Allowance for Uncollectibles	437,090	278,317	903	716,310	194,991	55,027
Less: Current Portion						
Governmental receivables	355,731	259,181	46	614,958	174,327	4,466
Business-type receivables	71,886	11,081		82,967	1,257	
Noncurrent Receivables, Net	$ 9,473	$ 8,055	$ 857	$ 18,385	$ 19,407	$ 50,561

Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2014 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	$ 3,972	$	Reimbursement for operating expenses
Intermodal Surface Transportation		1,119	Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		979	Debt service and administrative costs
Bond Capital		3,209	State match for transportation
RI Capital Plan		1,279	Primarily for transportation State match
Certificates of Participation		602	Fees restricted for COPS debt service
Permanent School		32	Payment of operating expenses
Total Non-Major Funds		6,101	
Total Governmental	3,972	7,220	
Proprietary Funds			
Enterprise			
RI Lottery		541	Net income owed to General Fund
RI Convention Center Authority	1,072		Project funding
Employment Security Trust	2,077		Benefit reimbursements
Total Enterprise	3,149	541	
Internal Service	1,323	683	Settlement of services rendered
Total primary government	$ 8,444	$ 8,444	

Note 6. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2014 consists of the following (expressed in thousands):

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 375,225	$ 12,884	$ (76)	$ 388,033
Works of Art	2,389			2,389
Intangibles	161,777	4,941	(2)	166,716
Construction in progress *	591,406	313,172	(448,207)	456,371
Total capital assets not being depreciated or amortized	1,130,797	330,997	(448,285)	1,013,509
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings *	712,593	11,196	(101)	723,688
Building Improvements	270,378			270,378
Furniture and equipment	253,088	18,526	(5,772)	265,842
Intangibles	14,040			14,040
Infrastructure	3,295,847	451,988		3,747,835
Total capital assets being depreciated or amortized	4,549,646	481,710	(5,873)	5,025,483
Less accumulated depreciation or amortization for:				
Land improvements	3,439	34		3,473
Buildings	225,184	15,101	(57)	240,228
Building Improvements	184,072	7,219		191,291
Furniture and equipment	220,178	12,646	(5,623)	227,201
Intangibles	12,974	712		13,686
Infrastructure	1,544,188	135,185		1,679,373
Total accumulated depreciation or amortization	2,190,035	170,897	(5,680)	2,355,252
Total capital assets being depreciated or amortized, net	2,359,611	310,813	(193)	2,670,231
Governmental activities capital assets, net	$ 3,490,408	$ 641,810	$ (448,478)	$ 3,683,740

* Beginning balances have been restated

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

General government	$ 8,622
Human services	6,197
Education	3,573
Public safety	12,090
Natural resources	5,286
Transportation	135,129
Total depreciation or amortization expense - governmental activities	$ 170,897

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	445	890	(1,291)	44
Total capital assets not being depreciated	46,003	890	(1,291)	45,602
Capital assets being depreciated:				
Buildings	234,384			234,384
Machinery and equipment	27,079	3,268	(200)	30,147
Intangibles	175			175
Total capital assets being depreciated	261,638	3,268	(200)	264,706
Less accumulated depreciation for:				
Buildings	117,478	8,176		125,654
Machinery and equipment	20,881	1,932	(200)	22,613
Intangibles	15	25		40
Total accumulated depreciation	138,374	10,133	(200)	148,307
Total capital assets being depreciated, net	123,264	(6,865)		116,399
Business-type activities capital assets, net	$ 169,267	$ (5,975)	$ (1,291)	$ 162,001

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 110,365	$ 9,109	$	$ 119,474
Construction in progress *	125,128	111,817	(111,411)	125,534
Other	250			250
Total capital assets not being depreciated or amortized	235,743	120,926	(111,411)	245,258
Capital assets being depreciated or amortized:				
Buildings	1,897,306	87,696		1,985,002
Land improvements	197,562	18,370		215,932
Machinery and equipment *	409,508	21,577	(15,844)	415,241
Infrastructure	189,749	23,185	(3,314)	209,620
Total capital assets being depreciated or amortized	2,694,125	150,828	(19,158)	2,825,795
Less accumulated depreciation or amortization for:				
Buildings	678,376	62,207	(288)	740,295
Land improvements	119,104	5,810		124,914
Machinery and equipment *	237,682	28,387	(14,964)	251,105
Infrastructure	55,494	7,731	(550)	62,675
Total accumulated depreciation or amortization	1,090,656	104,135	(15,802)	1,178,989
Total capital assets being depreciated or amortized, net	1,603,469	46,693	(3,356)	1,646,806
Total capital assets, net	$ 1,839,212	$ 167,619	$ (114,767)	$ 1,892,064

* Beginning balances have been restated

Note 7. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2014 are presented in the following table:

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Bonds Payable						
General obligation bonds (see section B)	$ 1,103,945	$ 131,850	$ (161,045)	$ 1,074,750	$ 87,480	$ 987,270
RICC Grant Anticipation Revenue Bonds	311,645		(32,615)	279,030	34,160	244,870
RICC Rhode Island Motor Fuel Tax Revenue Bonds	66,510		(3,985)	62,525	4,185	58,340
Tobacco Settlement Asset-Backed Bonds	765,161		(20,340)	744,821		744,821
Accreted interest on TSFC bonds	83,051	18,603		101,654		101,654
RICC Historic Tax Credit Bonds	90,575		(16,175)	74,400	17,010	57,390
Net unamortized premium/discount	58,619	14,719	(10,620)	62,718		62,718
Bonds Payable, net	2,479,506	165,172	(244,780)	2,399,898	142,835	2,257,063
Obligation under capital leases (see section E)	232,975		(25,380)	207,595	21,960	185,635
Net unamortized premium/discount	18,441		(1,830)	16,611		16,611
Obligation under capital leases, net	251,416		(27,210)	224,206	21,960	202,246
Job Creation Guaranty Program Obligation (see section H)	2,500	82,673	(2,500)	82,673	8,383	74,290
Compensated absences (see section K)	80,298	67,153	(69,802)	77,649	67,613	10,036
Net pension obligation (see note 14)	1,816	1,654		3,470		3,470
Net OPEB Obligation (see note 15 C)	11,341	35	(2,891)	8,485		8,485
Special obligation notes (see section C)	6,675		(1,565)	5,110	1,635	3,475
Other Long-term Liabilities						
Pollution remediation (see section I)	9,507	932	(5,917)	4,522	932	3,590
Other (see section N)	26,442	3,764	(9,027)	21,179	3,763	17,416
Total Governmental Long-term Liabilities	$ 2,869,501	$ 321,383	$ (363,692)	$ 2,827,192	$ 247,121	$ 2,580,071
Business-type Activities						
Revenue bonds (see section B)	$ 236,960	$	$ (10,060)	$ 226,900	$ 10,750	$ 216,150
Net unamortized premium/discount	5,099		(1,161)	3,938		3,938
Revenue bonds, net	242,059		(11,221)	230,838	10,750	220,088
Notes payable (see section C)	231		(188)	43	43	
Unearned Revenue (see section N)	9,377	732	(625)	9,484	3,894	5,590
Compensated absences (see section K)	390	325	(219)	496	209	287
Due to Other Governments and Agencies (see Section J)	155,276	57	(103,309)	52,024	52,024	
Total Business-type Long-term Liabilities	$ 407,333	$ 1,114	$ (115,562)	$ 292,885	$ 66,920	$ 225,965
Component Units						
Bonds payable (see section B)	$ 2,204,445	$ 170,945	$ (304,049)	$ 2,071,341	$ 93,087	$ 1,978,254
Net unamortized premium/discount	15,811	1,250	(1,738)	15,323	749	14,574
Bonds Payable, net	2,220,256	172,195	(305,787)	2,086,664	93,836	1,992,828
Notes payable (see section C)	97,977	302,739	(292,815)	107,901	90,452	17,449
Loans payable (see section D)	43,607	3,631	(636)	46,602	913	45,689
Obligations under capital leases	8,027		(1,120)	6,907	1,101	5,806
Net OPEB obligation	46,877	7,678	(92)	54,463		54,463
Compensated absences (see section K)	32,622	1,370	(1,638)	32,354	9,548	22,806
Due to primary government (see section M)	59,904	1,167	(6,043)	55,028	4,467	50,561
Due to Other Governments and Agencies (see section J)	114		(94)	20	20	
Unearned Revenue (see section N)	13,727	6,517	(102)	20,142	4,927	15,215
Due to Component Units	1,815		(228)	1,587	193	1,394
Other Long-term liabilities						
Arbitrage rebate (see section L)	1,700		(435)	1,265		1,265
Pollution remediation (see section I)	16,904	2,917		19,821	1,486	18,335
Other liabilities (see section N)	288,057	26,017	(3,629)	310,445	6,841	303,604
Total Component Units Long-term Liabilities	$ 2,831,587	$ 524,231	$ (612,619)	$ 2,743,199	$ 213,784	$ 2,529,415

The State implemented GASB Statement 65; therefore, all beginning balances for bonds payable were restated (see note 18F).

Certain beginning balances of the component units have been reclassified to conform to the current financial statement presentation or restated due to changes in the reporting entity, see Note 18F.

B. Bonds Payable

At June 30, 2014, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities			
	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 142,835	$ 71,768	$ 10,750	$ 12,229	$ 93,087	$ 79,757
2016	148,945	65,056	11,300	11,673	75,120	77,995
2017	156,225	57,771	11,285	11,182	79,466	75,415
2018	148,470	50,327	10,955	10,620	79,820	72,549
2019	117,335	42,905	11,505	10,064	83,118	69,571
2020 - 2024	454,380	136,799	73,335	40,355	426,440	297,137
2025 - 2029	245,065	52,098	63,875	18,944	414,297	203,143
2030 - 2034	253,565	7,416	27,385	7,147	353,735	119,381
2035 - 2039		116,156	6,510	395	263,930	55,261
2040 - 2044	371,700	69,694			134,345	21,853
2045 - 2049					53,740	7,501
2050 - 2054	197,006	2,637,174 *			14,243	486
	$ 2,235,526	$ 3,307,164	$ 226,900	$ 122,609	$ 2,071,341	$ 1,080,049

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

Primary Government - *Governmental Activities*

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

During the year ended June 30, 2014 the State issued $53,150,000 of general obligation bonds with interest rates ranging from 0.45% to 5.06%, maturing from 2015 through 2034. $12,500,000 of these bonds is taxable. Also, the State issued $78,700,000 of refunding bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2015 through 2026. These bonds, combined with the premium of $11,184,000 and other sources of $2,689,000, were used to advance refund $84,220,000 of bonds with interest rates from 3.70% to 5.00% and maturities from 2015 to 2026. The economic gain was approximately $6,742,000 with a net present value savings of approximately $4,057,000.

At June 30, 2014, general obligation bonds authorized by the voters and unissued amounted to $191,402,195. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved, unless extended by the General Assembly.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years: (1) Energy Conservation Certificates of Participation - $35,200,000, (2) Information Technology Improvements Certificates of Participation - $36,130,000 (3) Nursing Education Center Debt - $36,000,000 and (4) Garrahy Courthouse Garage Debt - $45,000,000.

Historic Tax Credit Bonds - In fiscal year 2009 the R.I. Commerce Corporation (RICC), on behalf of the State, issued $150,000,000 of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RICC has no taxing power. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. There is remaining authorization to issue up to $206,200,000 of Historic Tax Credit Bonds.

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 ($.02) per gallon of the thirty-two cents ($.32) per gallon Motor Fuel Tax. The bonds provide the State matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RICC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly. Pledged revenues were sufficient to fund fiscal 2014 debt service payments for Grant Anticipation and Motor Fuel Tax Revenue Bonds. These revenues have been pledged for the term of the Grant Anticipation and Motor Fuel Tax Revenue Bonds through fiscal 2021 and 2027, respectively.

Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds. The TSFC has no taxing power. Certain of the TSFC bonds are capital appreciation bonds on which no periodic interest payments are made, but which were issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the TSFC is required to apply 100% of all collections that are in excess of the current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2014, TSFC utilized $20,340,000 of excess collections to early redeem an equal amount of outstanding bonds. Pledged tobacco revenues were sufficient to fund fiscal 2014 debt service payments for Tobacco Settlement Asset-Backed bonds. These revenues have been pledged for the term of the underlying debt through fiscal 2052.

Primary Government - *Business-Type Activities*

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2014, outstanding bond and note indebtedness totaled $226,943,000.

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

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

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. During fiscal year 2014, the RICCA was unable to fund the Operating Reserve requirement and Renewal and Replacement component of the restrictive covenants pursuant to its indentures.

During July 2013, RICCA and the State entered into two agreements that provide for appropriations from the Rhode Island Capital Plan Fund (RICAP) for the purpose of funding the renewal and replacement requirement included in the 2006 Series A Bonds (DDC) and funding renovations and repairs to the RICCA through June 30, 2018. Under the agreement for the DDC, RICCA was authorized to receive funding of $925,000 in fiscal year 2014 and annual appropriations of $1,387,500 through fiscal year 2018. Under the agreement for the RICCA, RICCA was authorized to receive funding of $1,000,000 in fiscal year 2014, and will receive annual appropriations of $1,000,000 through fiscal year 2018. Any unexpended funds from one fiscal year will be recommended to be re-appropriated to the subsequent fiscal year. During fiscal year 2014 RICCA received appropriations for the DDC totaling $596,580 and appropriations for the RICCA totaling $939,103.

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, 2014 revenue bonds outstanding were approximately as follows: URI - $227,192,000 RIC - $17,738,000 and CCRI - $2,836,000.

R.I. Airport Corporation

Per its Master Indenture of Trust and Supplemental Indentures, the R.I. Airport Corporation (RIAC) has pledged net revenues derived from the operation by RIAC of the Airport and certain general aviation airports to repay approximately $238,095,000 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, was approximately $38,243,000 for the year ended June 30, 2014. Principal and interest payments for the year ended June 30, 2014 were approximately $21,208,000.

RIAC has pledged facility revenues related to the InterLink Facility, net of specified operating expenses, to repay $46,870,000 in First Lien Special Facility Bonds. Proceeds from the bonds were used for the construction of the InterLink Facility. Facility revenues, including interest income, net of specified operating expenses, were approximately $5,885,000 for the year ended June 30, 2014. Principal and interest payments per the terms of the indenture of trust on the First Lien Special Facility Bonds for the year ended June 30, 2014 was approximately $3,096,000.

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 $37,440,000 and $960,000, respectively. The I-195 Redevelopment District Commission (I-195 RDC) is the obligor for both Series A and Series B Bonds. The 2013 Series A Bonds mature in April 2033 and the 2013 Series B Bonds mature in April 2019. Both bond series currently bear interest at the lesser of 7.75% or the 30-Day London InterBank Offered Rate (LIBOR) (0.15% at June 30, 2014) plus applicable margin.

Applicable margin and applicable taxable 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):	AA/Aa2 or Higher	AA-/Aa3	A+/A1	A/A2	A-/A3
Applicable Margin, 2013 Series A	1.00%	1.17%	1.37%	1.57%	1.82%
Applicable Taxable Margin, 2013 Series B	1.15%	1.32%	1.52%	1.72%	1.97%

The State's general obligation bonds were rated AA and Aa2 by S&P and Moody's, respectively, as of October 2013, which is the most recent date for which bond rating information is available. As such, at June 30, 2014, the 2013 Series A Bonds bore interest at 1.15%, and the 2013 Series B Bonds bore interest at 1.30%.

Concurrent with the issuance of the 2013 Series A and B Bonds, the Commission, 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. Also concurrently, the State entered into a separate Rate Cap Agreement with the bank for each series, under which the bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.15% at June 30, 2014) 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 and the 2013 Series B bonds through maturity. The interest rate for the Series A Bonds and the Series B Bonds is capped at 6.75% and 6.85%, respectively.

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 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 Commission.

The Commission 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 Commission 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 Commission's payment obligations.

R.I. Turnpike and Bridge Authority

At June 30, 2014, the R. I. Turnpike and Bridge Authority (RITBA) had revenue bonds outstanding with principal amounts totaling $61,735,000. These bonds are from the 2003 Series A Taxable Refunding Revenue Bonds and from the 2010 Series A Revenue Bonds, maturing in 2017 and 2039, respectively. The bond proceeds are used to finance the repair, rehabilitation, upgrading, and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge, and other such activities as stated in the Authority Acts which authorized the issuance of the bonds. The State has authorized RITBA to issue approximately $68 million of additional revenue bonds. The terms and expected date for such issuance have not yet been determined.

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

Primary Government

Special Obligation Notes (expressed in thousands) at June 30, 2014 are as follows*:*

Note payable to a financial institution - to finance the design, development and implementation of a motor vehicles information management system for the Division of Motor Vehicles – the note is payable with interest of 4.2137% due semi-annually and principal due April 1, 2014-2017.	$ 5,110

The special obligation note is subject to annual appropriation by the General Assembly. The note payable to a financial institution will be repaid from a $1.50 surcharge on every transaction processed at the Division of Motor Vehicles. This surcharge is pledged to fund debt service on the note. Pledged revenues were sufficient to fund fiscal 2014 debt service payments for this special obligation note. These revenues have been pledged for the term of the note through fiscal 2017.

Discretely Presented Component Units

Notes payable (expressed in thousands) at June 30, 2014 are as follows:

Component Units -	
Rhode Island College note payable to the federal government with interest at 5.5% payable in semi-annual installments of principal and interest through 2024.	$ 1,346
R.I. Resource Recovery note payable to the host municipality with an interest rate of 1.4%, payable in equal installments over the next 14 years.	1,500
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 1.22% to 6.25% interest, payable through 2043.	79,904
R.I. Turnpike and Bridge Authority Bond Anticipation Note maturing on February 7, 2015 at interest at the thirty-day London InterBank Offered Rate plus an applicable margin rate based on RITBA's debt rating payable monthly.	25,000
R.I. Airport Corporation note payable at 4.15% interest, payable through 2015	151
	107,901
Less: current portion	(90,452)
	$ 17,449

D. Loans Payable

Discretely Presented Component Units

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 $42,000,000 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 now completed InterLink Facility Project. Upon completion of the project, RIAC began making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments are made on behalf of 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 Facility. As of June 30, 2014, RIAC had approximately $41,541,000 in borrowings under this agreement. Interest payments on the TIFIA loan for the year ended June 30, 2014 were approximately $2,185,000.

The remaining balance consists of loans payable by the University of Rhode Island, the Quonset Development Corporation, and the Metropolitan Regional Career and Technical Center of approximately $1,040,000, $3,907,000, and $114,000, respectively.

E. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets. The State's obligation under capital leases at June 30, 2014 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2014:

Fiscal Year Ending June 30	Total
2015	$ 31,078
2016	30,638
2017	30,735
2018	25,219
2019	25,314
2020 - 2024	97,546
2025 - 2029	19,790
Total future minimum lease payments	260,320
Amount representing interest	(52,725)
Present value of future minimum lease payments	$ 207,595

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 6, 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.

F. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2014, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 154,600
Certificates of Participation	86,685
R.I. Convention Center Authority	3,095
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	127,555
R.I. Commerce Corporation	8,320
R.I. Turnpike and Bridge Authority	34,895

G. Conduit Debt

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, 2014 was $73,000,000 and $903,700,000 respectively, for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 13.

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).

In November 2010, the 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 studio in the City of 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 the RICC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the 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. The RICC and the Trustee for the bonds have obtained court approval to take custody of the assets pledged by 38 Studios to secure the payment of the bonds. It is not certain at this time what the value of the pledged assets is. It is estimated that the total remaining debt service on the bonds, after considering any existing reserves held by the trustee, will be approximately $82.7 million. The maturity dates on the bonds range from 2014 to 2020 with maximum annual debt service of approximately $12.5 million. The General Assembly made appropriations for fiscal years 2014 and 2015 to restore the shortfall in the Capital Reserve Fund. The fiscal year 2015 enacted budget includes an appropriation of $12.3 million, which together with remaining amounts available in the Capital Reserve Fund, will be used to pay the principal and interest on the bonds due in fiscal year 2015.

The State has recorded a liability of $82.7 million relating to its moral obligation to the 38 Studios bondholders under the JCGP at June 30, 2014. This amount represents the current estimate of the amount of probable loss by the State. Such amount, 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.

In November 2012, the RICC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of the RICC and various advisors to the RICC alleging fraud, negligence, breach of fiduciary duty and other charges. The suit seeks repayment of compensatory and punitive damages associated with the various counts identified in the lawsuit. A settlement was reached with two of the defendants and, after expenses, a net recovery of approximately $3.2 million was received in August of 2014. The net amount of the settlement was paid to the trustee for the benefit of the bondholders and will be used to pay a portion of the fiscal year 2015 debt service. To the extent there are additional recoveries resulting from the lawsuit, such amounts, net of legal fees, would be available to reduce amounts, if any, appropriated by the State to fund the Capital Reserve Fund and pay debt service on the bonds.

On August 27, 2014, a bank sent a notice of nonpayment to RICC in accordance with RICC's guaranty (the Guaranty) of a term loan advanced by the bank to another borrower under the JCGP. In accordance with its moral obligations under the Guaranty, RICC made payment of the amount sought by the bank (the Advance) and subsequently made demand upon the borrower to pay RICC for such Advance. The approximate amount of the term loan for which RICC provided the Guaranty is $3.30 million. On December 17, 2014, RICC submitted a certificate to the Governor of the State of Rhode Island identifying a deficiency arising under a term loan extended by the bank, in the amount of $2.25 million. The amount of any estimated loss related to the State's moral obligation for this borrower under the JCGP is not presently determinable.

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

I. Pollution Remediation Liabilities

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

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

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

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State's obligation. As of June 30, 2014, no reasonable estimates of those recoveries can be made. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

J. Due to Other Governments and Agencies

The State has borrowed amounts from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits paid from the Employment Security Fund to eligible unemployed individuals. The amount outstanding under this loan was approximately $48,660,000 on June 30, 2014. Interest accrued beginning January 1, 2011 and is payable on October 1 of each year. The amount outstanding was paid in full in November 2014.

K. Compensated Absences

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

L. Arbitrage Rebate

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

M. Due to the Primary Government

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

N. Other Long-Term Liabilities

Governmental Activities - the liabilities consist primarily of:

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

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.
- 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 8. Net Position/Fund Balances

Governmental Activities

Restricted Net Position

The Statement of Net Position reflects $799,274,000 of restricted net position, of which $276,129,000 is restricted by enabling legislation. The net position that is restricted by enabling legislation is included in the Employment Insurance Programs and Other categories on the Statement of Net Position. The principal components of the remaining balance of the restricted net position relate to the Budget Reserve and Cash Stabilization Account and unexpended bond proceeds.

Governmental Funds – Fund Balances

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

Governmental Funds - Fund Balance

	Major Funds			
	General Fund	IST Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Permanent Fund Principal	$	$	$ 174	$ 174
Restricted for:				
Budget Reserve and Cash Stabilization	176,719			176,719
Purposes specified by enabling legislation	120,898			120,898
Debt Service		20,305	94,530	114,835
Capital Projects			239,480	239,480
Temporary Disability Insurance			155,232	155,232
Historic Tax Credit Redemption			5,486	5,486
Transportation-Infrastructure		98,121		98,121
Education			1,840	1,840
Other			673	673
Committed to:				
Transportation-Maintenance		4,039	79	4,118
Employees' Retirement System Transfer	13,794			13,794
Other	4,770			4,770
Assigned to:				
Subsequent Years Expenditures	67,992			67,992
Other	4,013			4,013
Unassigned:	7,193	(4,028)		3,165
Totals	$ 395,379	$ 118,437	$ 497,494	$ 1,011,310

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 2014, 3.0% of total general revenues and opening surplus are transferred to the Reserve. Amounts 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 the members of the General Assembly "in the event of an emergency involving the health, safety or welfare of the citizens of the State". The Reserve may also be appropriated by a majority of the members of the General Assembly "to fund any unanticipated general revenue deficit caused by a general revenue shortfall" in any given year. As general revenue estimates are adjusted several times each year, including at the May Revenue Estimating Conference, significant shortfalls between the final estimated revenue amounts and actual revenues for a fiscal year have been very rare. In fact, since its inception the Reserve has been accessed only once in fiscal year 2009 to address an unexpected severe revenue shortfall. This shortfall resulted from the effects of the Great Recession, which severely impacted the State with little warning. At that time the General Assembly appropriated $22 million from the Reserve.

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

Pursuant to the General Laws upon issuance of the audited financial statements, the State Controller is required to transfer all general revenues received in the fiscal year (net of the transfer to the State Budget Reserve and Cash Stabilization Account) in excess of those estimates adopted for that fiscal year as contained in the final enacted budget, to the Employees' Retirement System. The amount of such transfer is $13,794,501 which is reflected in the committed category of fund balance in the table above. The transfer will be made in fiscal year 2015 upon issuance of the audited financial statements.

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

Note 9. 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	$ 1,109,702	$ 1,111,799
General Business Taxes:		
Business Corporations	113,808	113,873
Public Utilities Gross Earnings	101,382	101,967
Financial Institutions	16,611	19,606
Insurance Companies	100,957	100,980
Bank Deposits	2,472	2,472
Health Care Provider Assessment	42,131	42,052
Sub-total - General Business Taxes	377,361	380,950
Sales and Use Taxes:		
Sales and Use	916,083	915,806
Motor Vehicle	52,408	52,408
Motor Fuel	524	520
Cigarettes	139,462	139,495
Alcoholic Beverages	18,252	18,252
Sub-total - Sales and Use Taxes	1,126,729	1,126,481
Other Taxes:		
Inheritance and Gift	43,592	43,440
Racing and Athletics	1,177	1,177
Realty Transfer	7,962	8,047
Sub-total - Other Taxes	52,731	52,664
Total - General Fund	2,666,523	2,671,894
Intermodal Surface Transportation Fund		
Gasoline	137,542	137,542
Other Governmental Funds	170,951	170,951
Total Taxes	$ 2,975,016	$ 2,980,387

Note 10. Transfers

Transfers for the fiscal year ended June 30, 2014 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 42,028	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,907	Administrative cost reimbursement
Historic Tax Credit	7,617	Reimbursement for tax credits claimed
Bond Capital	511	Interest earnings transfer
RI Capital Plan	3,005	Reimbursement for capital expenditures
Business-Type Activities		
Lottery	376,327	Net income transfer
Employment Security	654	Administrative cost reimbursement
Intermodal Surface Transportation		
General Fund	1,889	Infrastructure funding
Bond Capital	15,854	Infrastructure funding
RI Capital Plan	7,736	Infrastructure funding
Nonmajor Funds		
COPs		
General	2,030	Debt service
RI Capital Plan		
General	101,272	Transfer statutory excess in budget reserve
Bond Capital	3,321	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,925	Operating assistance
Total Governmental Activities	566,076	
Business-Type Activities		
Lottery Fund		
RI Capital Plan	23	Capital Improvement
Convention Center		
General	23,030	Debt service
RI Capital Plan	1,545	Capital Improvement
Employment Security		
General	18,024	Debt service
Assessed Fringe Benefits	1,535	Reimbursement for State employees' unemployment compensation
Total transfers primary government	$ 610,233	

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $13,493,000 for the fiscal year ended June 30, 2014. 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, 2014:

Fiscal Year Ending June 30	
2015	$ 12,318
2016	9,007
2017	4,532
2018	3,794
2019	3,534
2020 - 2024	4,970
Total	$ 38,155

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

Note 12. Commitments

Primary Government

The primary government is committed at June 30, 2014 under various contractual obligations for infrastructure construction projects and other capital projects, which will be principally financed with debt proceeds, Rhode Island Capital Plan funds and federal grants. The total of commitments outstanding for the most significant category, infrastructure construction projects, is approximately $427 million at June 30, 2014.

The primary government is also committed at June 30, 2014 under contracts to develop and implement a number of software systems. These projects will be principally financed with debt proceeds and federal grants.

Encumbrances within the General Fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2014 under contractual obligations with various service providers, which will be funded through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years.

Performance-based Agreements

The R.I. 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) $3,680,000 in the first five years and $3,560,000 in years 6 through 20. In the year ended June 30, 2014, $3,560,000 was paid to the developer.

The 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 $3,081,000 of the debt on the related economic development revenue bonds in fiscal year 2014. The State has commitments relating to this debt through fiscal year 2027.

Rhode Island Lottery – Master Contract Agreements

Gaming Systems Provider - GTECH

The Lottery in May 2003 entered into a 20-year master contract with its gaming systems provider, GTECH, granting it the right to be the exclusive provider of information technology hardware, software, and related services for all lottery games. This contract is effective from July 1, 2003 through June 30, 2023, and it amends all previous agreements between the parties. As consideration for this exclusive right, the gaming systems provider paid the Lottery $12.5 million. In the event that the contract term is not fulfilled, the Lottery will be obligated to refund a pro-rata share of this amount to the gaming systems provider. Additionally, GTECH was obligated to invest $100 million in connection with the construction of a new corporate headquarters and expansion of its manufacturing operations in the State. The gaming system contractor is also required to employ no less than 1,000 full time active employees during the term of the agreement.

Video Lottery Facilities – UTGR, Inc.

During fiscal year 2006, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Twin River, to manage one of the State's licensed video lottery facilities. The contract entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. UTGR and the Lottery extended the contract and signed the first five-year extension term commencing on July 18, 2010. The second term would commence on July 18, 2015. Certain extensions are contingent on UTGR's compliance with full-time employment mandates.

The Master Contract has been amended in recent years to reflect the statutory authorization of the operation of a promotional points program at Twin River. In fiscal year 2014, Twin River was authorized and issued approximately $33.4 million in promotional points to facility patrons.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse UTGR for allowable marketing expenses at an amount not to exceed $6 million multiplied by the Lottery's percentage of net terminal income (61.02% for fiscal year 2014). The reimbursement of marketing expenses by the Lottery occurs only after UTGR has incurred $4 million in qualified marketing expenses (with marketing expenses defined by the Lottery). The Master Contract is being amended to reflect recently enacted legislation regarding the Lottery's reimbursement to UTGR for allowable marketing expenses not to exceed an additional $3 million multiplied by the Lottery's percentage of net terminal income. The reimbursement of marketing expenses by the Lottery occurs after UTGR has incurred an additional $4 million in qualified marketing expenses defined by the Lottery.

Video Lottery Facilities – Newport Grand

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand to continue to manage one of the State's licensed video lottery facilities.

Newport Grand and the Lottery extended the contract and signed the first five-year extension term of the contract commencing on November 23, 2010. The second term, which would commence on November 23, 2015, is contingent on Newport Grand's compliance with full-time employment mandates specified in the 2010 law. The contract, as amended, entitles Newport Grand to compensation equal in percentage of net terminal income to that of Twin River. Recent legislation increased the percentage of net terminal income by 2.25% effective July 1, 2013, and expiring June 30, 2015.

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Newport Grand. In fiscal year 2014, Newport Grand was authorized and issued approximately $5.4 million in promotional points to facility patrons.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Newport Grand for allowable marketing expenses at an amount not to exceed $840,000 multiplied by the Lottery's percentage of net terminal income (59.23% for fiscal year 2014). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred $560,000 in qualified marketing expenses (with marketing expenses to be defined by the Lottery).

R. I. Public Rail Corporation

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

Discretely Presented Component Units

R.I. Airport Corporation

The R.I. Airport Corporation (RIAC) currently has several projects underway that are part of the Green Airport Improvement Program. The lengthening of primary Runway 5-23 to a total of 8,700 feet will allow the airport to accommodate coast-to-coast and international flights, and will enhance the efficiency of the New England Regional Airport System. Included in the project is the construction of a taxiway extension, an Engineered Material Safety Arresting System (EMAS) Runway Safety Area, and an airport service road. Approximately $6.458 million was expended in fiscal year 2014 and construction is expected to be complete by December 2017.

In addition, RIAC is constructing a Deicer Management System. In fiscal year 2014, approximately $15.710 million was expended on the Deicer Management System. The project includes online monitoring and diversion of deicing stormwater to comply with the Rhode Island Pollutant Discharge Elimination System (RIPDES) permit issued by the Rhode Island Department of Environmental Management (RIDEM). The improvements prevent the discharge of deicing runoff to surface waters when the concentration exceeds the RIPDES permit limits.

As of June 30, 2014, RIAC is obligated for the completion of certain airport improvements under commitments of approximately $35 million, which are expected to be funded from current available resources and future operations.

R.I. Turnpike and Bridge Authority

During 2013, R.I. Turnpike and Bridge Authority entered into contracts totaling $40,900,000, for Phase II of the steel repairs and painting on the Claiborne Pell Bridge, which is expected to take two to three years to complete. As of June 30, 2014, remaining commitments on these contracts total $25,550,000.

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the RIRRC has been segregated into six distinct phases. Phases I, II and III were closed by the RIRRC in prior years, while Phase IV reached capacity during fiscal year 2012, with final capping completed during fiscal year 2014. In 2005, the RIRRC began landfilling in Phase V. As of June 30, 2014 the RIRRC has not begun landfilling in phase VI.

A liability for closure and post-closure care of $61,115,203 as of June 30, 2014 has been recorded in the statement of net position, as summarized by Phases below:

	Year ended June 30, 2014
Phase I	$ 9,552,725
Phase II and III	5,599,995
Phase IV	9,767,277
Phase V	36,195,206
	$ 61,115,203

Phase VI has been licensed by RIDEM, however is not open to receive waste as of June 30, 2014.

As of June 30, 2014, 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	$ 8,852,230	80.35%	2.2 years

As of June 30, 2014 the RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a $10,556,887 increase of the corresponding liability from $70,379,581 at June 30, 2013 to $80,936,468 at June 30, 2014 and was primarily attributable to improved leachate flow data and revised capping costs based on pricing from a recently executed contract.

Amounts provided for closure and post-closure care are based on current costs. These costs may be adjusted each year due to changes in the closure and post-closure care plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

Included in restricted position held in trust in the statements of net position as of June 30, 2014 is $41,525,803 placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. The 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.

The pollution remediation obligation for the year ended June 30, 2014 is as follows:

Balance, June 30, 2013	Additions	Reductions	Balance, June 30, 2014	Current Portion
$ 16,904,094	$ 2,917,171	$ 0	$ 19,821,265	$ 1,485,622

Superfund site:

In prior years, the EPA issued administrative orders requiring the 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, the RIRRC entered into a Consent Decree with the EPA concerning remedial actions taken by the 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 $27,000,000 for remedial purposes. The balance of the trust fund totaled $42,365,530 as of June 30, 2014.

In 2004, the RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The RIRRC has recorded a liability for future remediation costs of approximately $19,821,000 as of June 30, 2014.

Other pollution remediation obligations:

The RIRRC is the owner of several properties adjacent to its landfill operations. The RIRRC is obligated to remediate one of these parcels. The RIRRC has recorded a liability for future remediation costs of approximately $263,000 as of June 30, 2014.

Environmental concerns:

In August 1996, the RIRRC entered into a Consent Agreement (the Agreement) with RIDEM concerning action to be taken by the RIRRC regarding the restoration of certain wetlands. Projects included the relocation of Cedar Swamp Brook, creation of a three acre wetland, and the implementation of a soil and erosion plan. The Agreement also called for the establishment of an escrow account for wetlands replacement. Annual deposits of $100,000 were made by the RIRRC during fiscal years 1997 through 2002, as required by RIDEM. During 2004, RIDEM released from the escrow approximately $543,000 to the RIRRC. As of June 30, 2013 the escrow account totaled approximately $156,000. During fiscal year 2014, RIDEM approved the work completed by RIRRC and the final amount of $156,000 was released.

The RIRRC submitted a comprehensive plan to RIDEM which was approved by RIDEM in April 1998. The RIRRC had until 2001 to complete the restoration. Phase I of the Cedar Swamp Brook relocation was substantially completed by November 1998. The wetlands restoration work was completed in the spring of 1999 and was approved by RIDEM during fiscal year 2014.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under various contracts in the amount of $3,660,734 at June 30, 2014.

R.I. Industrial-Recreational Building Authority

At June 30, 2014, the Authority had insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by the Authority at June 30, 2014 are $14,930,000.

The Authority insured a bond issued by Rhode Island Industrial Facilities Corporation (RIIFC) on behalf of a private sector entity. During the year ended June 30, 2012 the private sector entity defaulted on its payments to the bond holder and the Authority assumed responsibility for making the debt payments. The payments are being made by first exhausting the Authority's available financial resources. The Authority must then request appropriations from the Rhode Island General Assembly for any loss in excess of the insured amount. At June 30, 2014, the Authority has determined that it is likely that it will incur a loss under the insured commitment. The Authority has estimated the range of potential loss to be between $2,242,000 and $5,886,000 and has determined the best estimate within this range to be $2,355,633. The Authority has accrued an insured commitment payable of $2,355,633 equal to the estimated loss at June 30, 2014. The current portion of the insured commitment payable was calculated by estimating the monthly payments due within one year on this bond.

Other Component Units

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

Note 13. Contingencies

Primary Government

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

Challenges to the 2009 and 2010 Pension Reform - A number of unions representing State employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the State and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date.

On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendant State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. On January 2, 2013, the Court ordered the parties to participate in mediation. As noted below, mediation has ended without a settlement agreement.

Challenges to the 2011 Pension Reform - In June 2012, certain unions, active and retired State employees and associations of retired State and municipal employees who maintain they are current beneficiaries of the ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 ("RIRSA") enacted by the General Assembly. The five cases are: Rhode Island Public Employees' Retirement Coalition v. Chafee, C.A. No. 12-3166; Bristol/Warren Regional School Employees, Local 581, AFSCME, Council 94 v. Chafee, C.A. No. 12-3167; Rhode Island Council 94, AFSCME, AFL-CIO, et al v. Chafee, C.A. No. 12-3168; City of Cranston Police Officers, International Brotherhood of Police Officers, Local 301, AFL, CIO v. Chafee, C.A. No. 12-3169 and Woonsocket Fire Fighters, IAFF Local 732, AFL-CIO v. Chafee, C.A. No. 12-3579. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the Rhode Island Public Employees' Retirement Coalition v. Chafee, C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuits.

On August 17, 2012, the defendants filed a motion to dismiss the Rhode Island Public Employees' Retirement Coalition v. Chafee case on the ground that Rhode Island's pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a State statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs' pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs' purported contracts derive from Rhode Island's pension legislation. A hearing on defendants' motions was held in December 2012.

On February 14, 2014, the parties (with the exception of City of Cranston, Police Officers, International Brotherhood of Police Officers Local 301 and Cranston Fire Fighters, IAFF Local 1363) executed a Settlement Agreement in each of those cases. Pursuant to the terms of the parties' agreement, a series of votes took place for the unions to proceed with the proposed settlement. In addition, the settlement was conditioned on enactment of the legislation by the General Assembly.

As a result of the voting and pursuant to the terms of the proposed settlement, the settlement process has ended. Under terms of the proposed settlement, if any one of the six groups voting voted to reject the proposal, the settlement process would terminate and the litigation would continue. Although more than seventy percent of the members eligible to vote did not reject the settlement, the smallest group, representing less than two percent of all eligible members, voted to reject the settlement. The Court was apprised of the vote. The mediation has ended without a settlement agreement.

Meanwhile, on April 3, 2014, fifty retired State workers and public school teachers filed an additional lawsuit objecting to the class action settlement, and seeking equitable relief, including but not limited to restoration of COLAs. Stated broadly the plaintiffs' claims are substantively similar to those raised in the underlying litigation, Rhode Island Public Employees Retirement Coalition v. Chafee. The State intends to vigorously contest the lawsuit.

On May 9, 2014, after the Superior Court was informed that the mediation was unsuccessful, the Court denied each of defendants' motions for more definite statements and motions to dismiss.

The six cases proceeded through litigation and, after the Court entered an order directing certain of the plaintiffs to join the municipal entities with which they allege they have a collective bargaining agreement, Cranston Firefighters, IAFF Local 1363, AFL-CIO, which had been a party to one of the original five lawsuits challenging RIRSA filed a separate lawsuit in Rhode Island Superior Court challenging RIRSA and withdrew from the original suit.

Finally, on September 8, 2014, an eighth case was commenced by the Rhode Island State Troopers Association and Rhode Island State Troopers Association ex rel. Kevin M. Grace and Ernest E. Adams in Rhode Island Superior Court challenging RIRSA.

On December 2, 2014, the judge presiding over the case in the Superior Court ruled for a trial by jury commencing April 2015.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability of the plans within the ERSRI and the State's actuarially determined contribution (ADC).

Other

With respect to other litigation, State officials are of the opinion that the lawsuits are not likely to result either individually or in the aggregate in final judgments against the State that would materially affect its financial position.

Tobacco Settlement Financing Corporation

According to the Master Settlement Agreement ("MSA"), for any year in which the Participating Manufacturers ("PMs") suffer a market share loss of more than two percent as compared to their collective market share in 1997, there is the potential of a Non-Participating Manufacturer Adjustment ("NPM Adjustment"), which would permit the tobacco manufacturers to reduce their MSA payments for that year. Whether such an adjustment is applicable depends on whether (1) an economic firm jointly selected by the Settling States and the PMs determines that the disadvantages experienced by the PMs as a result of the provisions of the MSA were a "significant factor" contributing to the market share loss ("Significant Factor Proceeding"); and (2) the State is found to not have diligently enforced its escrow statute. For calendar years 2003, 2004, 2005 and 2006, there have been four Significant Factor Proceedings in which the firm found in favor of the PMs. There will not be a Significant Factor Proceeding for calendar years 2007, 2008, 2009, 2010, 2011 and 2012.

From April 2005 through April 2014, many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to apply the NPM Adjustment. The Corporation's share of these disputed payments has yet to be determined for deposit year 2014.

There has been a long-standing dispute between the PMs and the MSA Settling States relating to NPM Adjustment Disputes, and up until December 2012, all MSA Settling States and the PMs were engaged in an arbitration proceeding regarding the issue of Diligent Enforcement for the calendar year 2003 ("2003 Dispute"). On November 3, 2011, the PMs decided not to contest Rhode Island's diligent enforcement for Year 2003; thus, for purposes of the NPM Adjustment, RI was considered diligent. In December 2012, the PMs reached a settlement agreement with certain MSA States & Territories ("Term Sheet States") in connection with certain claims relating to NPM Adjustment Disputes, including the 2003 Dispute. The general terms thereof were memorialized in a Term Sheet ("Term Sheet") with the PMs. In March of 2013, the Panel, which was convened for the 2003 Dispute, issued a Stipulated Partial Settlement and Award ("Award") that incorporated certain provisions of the Term Sheet. Also, the Award included specific instructions to the Independent Auditor directing it to implement the provisions provided therein, which it did in preparing final calculations for the 2013 MSA payments. Hearings were held for those contested States that did not join the term sheet, and final arbitration awards for those states were issued in September 2013. While the 2003 Arbitration has concluded, the 2004 Arbitration has not yet commenced.

Twenty-eight (28) MSA States and Territories ("NSS"), including Rhode Island, have not accepted the terms of the Term Sheet, so the NPM Adjustment disputes between the NSS and PMs remain unresolved. Future NPM Adjustments could be as large as or exceed the reported potential $1.2 billion calendar year 2003 NPM adjustment. The resolution of the substance of such disputes could take years. Moreover, there is no assurance that these funds will be collected by the Corporation in the future. Due to these uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the accompanying financial statements. The Corporation and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters. Depending on the outcome of future NPM adjustment arbitrations and any potential MSA litigation that may arise, the Corporation may not have adequate financial resources to service its debt obligations.

Lottery

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

The Lottery's gaming operations could be adversely impacted by enacted legislation in Massachusetts allowing three casinos and one slot parlor in that state. Massachusetts has divided the state into three regions and accepted license applications for three category 1 resort style casinos. In addition, a category 2 slots only license was awarded in February 2014. The Western Massachusetts (region B) category 1 license was awarded in June 2014 and the region A Greater Boston category 1 license was awarded in September 2014. The region C Southeastern Massachusetts category 1 license is anticipated to be awarded in August 2015. The region C Southeastern Massachusetts category 1 licenses were recently opened to new applicants. Depending on the resulting location of the facilities within Massachusetts, lottery revenues in Rhode Island could decrease.

The Narragansett Indian Tribe is suing for injunctive and declaratory relief seeking to have the 2011 and 2012 Casino Acts ("Acts") allowing table games at Twin River to be declared unconstitutional, as well as seeking relief enjoining operations at Twin River and Newport Grand, alleging that both entities act in a manner contrary to the constitution, i.e., they are not "state operated." The Supreme Court affirmed a finding by the Superior Court that the Narragansett Tribe had standing to raise the constitutionality issues. The Superior Court dismissed that portion of the complaint that seeks to have the Acts declared unconstitutional. The plaintiff's filed an appeal of that decision in the Rhode Island Supreme Court. The parties filed briefs with the Rhode Island Supreme Court with respect to that aspect of the case in November, 2014. The issue of constitutionality was then argued in the Supreme Court on December 4, 2014. At this time it is not known when the Supreme Court will issue a decision on that aspect of the case (The issue related to injunctive relief remains pending in the Superior Court). While the lawsuit does not seek monetary damages, the lawsuit does seek attorney fees which could be substantial. Moreover, since the lawsuit challenges the constitutionality of the Acts and seeks to enjoin the operation of table games and the general operations of Twin River and Newport Grand, if successful, the lawsuit could have a significant effect on Rhode Island's third largest annual source of revenue.

A significant portion of the Lottery's revenues are derived from video lottery gaming at two licensed video lottery facilities. Newport Grand, one of those video lottery facilities, is subject to certain financing agreement restrictions. In 2008, Newport Grand entered into a $25,000,000 financing agreement with two banks for expansion and renovation of its video lottery terminal facility. Prior events of default relative to failing to meet earnings levels amended the loan agreement, which required additional partner contributions, quarterly deposits and restricted dividend distributions. During fiscal year 2014, a subsequent loan amendment required continued deposits and a new loan covenant requirement.

Federal Grants

The State receives significant amounts of federal financial assistance under grant agreements which specify the purpose of the grant and conditions under which the funds may be used. Generally, these grants are subject to audit.

The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2013 was issued in March 2014. That report identified approximately $14.3 million in questioned costs relating to the primary government. In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies, and, in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2014 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

During fiscal 2014, the State began determining eligibility for the Medical Assistance Program through the Unified Health Infrastructure Project (UHIP) system. The UHIP system was designed to validate applicant data against an array of federal and state data sources as a key control over its underlying eligibility determinations. UHIP system interfaces, as designed, were not fully operational in fiscal 2014 due to implementation delays or technical issues encountered during phase 1 of the system implementation. The impact of these system issues on federal program compliance is not currently determinable.

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 to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget.

At June 30, 2014, the following debt was morally obligated by the State:

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

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) had $131,970,558 outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to $31,113,556 on June 30, 2014. 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. The RIHMFC has never been required to request such appropriations. Such reserve funds relate solely to select multi-family issues of the RIHMFC.

R.I. Commerce Corporation (RICC)

The State has recorded a liability of $82.7 million relating to its moral obligation to the 38 Studios bondholders under the Job Creation Guaranty Program at June 30, 2014. This amount represents the current estimate of the amount of probable loss by the State. Such amount, although recorded as a liability for financial statement purposes, is still subject to annual appropriation by the General Assembly. See Note 7H for more details.

Component Units

R.I. Higher Education Assistance Authority (RIHEAA)

On March 30, 2010, the President of the United States signed into law the Health Care and Education Reconciliation Act of 2010 (the Act), which included the Student Aid and Fiscal Responsibility Act (SAFRA). The Act made sweeping changes in student financial assistance programs, including a provision which eliminated loan originations under the Federal Family Education Loan (FFEL) Program effective July 1, 2010. As a result, new guaranteed student loans now originate under the Federal Direct Loan Program. RIHEAA’s role as a guaranty agency in the FFEL Program constituted its single largest activity, and approximately 85% of the Authority’s employees are allocated to the guaranty agency functions. The elimination of new loan originations has had a significant impact on the Authority’s ongoing operations.

The Authority intends to continue to provide services for loans currently in its portfolio, including claims payments and reinsurance transactions, default prevention and aversion activities, and collections of defaulted student loans. It is difficult to predict the time period over which such services would be required, and to what extent those responsibilities will continue to constitute a substantive activity for the Authority.

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

In December of 2013, the U.S. Congress passed the Bipartisan Budget Act of 2013. One of the provisions of the Act was to reduce the Guaranty Agency (GA) revenue derived from the rehabilitation of defaulted student loans by approximately 50%, effective July 1, 2014. Revenues from loan rehabilitations constitute the major source of income for most GAs, and this reduction will have major implications on the ability of GAs to operate profitably, especially as portfolio balances decline over time, RIHEAA's management and Board are involved in the ongoing process of evaluating the changes described above and options for future operations.

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

As of June 30, 2014, the RIHMFC may borrow up to a maximum of $90,000,000 under various revolving loan agreements expiring between July 2014 and August 2015. Borrowings under the lines of credit are payable on demand and are unsecured. The RIHMFC is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose the RIHMFC to credit risk in excess of the amounts recognized in the statements of net position. The 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, 2014 is $45,913,248.

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 14. Employer Pension Plans

A. Defined Benefit Plans

Plan Descriptions

The State, through the Employees' Retirement System (ERS), administers six defined benefit pension plans. Four of these plans - the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan, and the Judicial Retirement Benefits Trust (JRBT), the Rhode Island Judicial Retirement Fund Trust (RIJRFT), and the State Police Retirement Benefits Trust (SPRBT), which are single-employer defined benefit pension plans, cover most State employees. The State does not contribute to the Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan. The Teachers' Survivors Benefit Plan (TSB), a multiple-employer cost sharing plan, provides survivors benefits to teachers who do not participate in Social Security. The ERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees and teachers, which is subject to amendment by the general assembly, is established by Chapter 36-10 of the General Laws. The ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained by writing to the Employees' Retirement System, 50 Service Ave., Warwick, RI 02886.

Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the ERS are prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when incurred. Plan member contributions are recognized in the period in which the wages, subject to required contributions, are earned for the performance of duties for covered employment. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Methods Used to Value Investments

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

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. Short-term investments are generally carried at cost 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. The fair value of mutual fund investments reflects the published closing net asset value as reported by the fund manager.

Commingled funds consist of 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) of the respective fund based upon the fair value of the underlying securities or assets held in the fund. The determination of fair value for other commingled funds, which include hedge, private equity, and real estate funds is described in the succeeding paragraphs.

Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded.

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

Other investments that are not traded on a national security exchange (primarily private equity and real estate investments) are generally valued based on audited December 31 net asset values adjusted for (1) cash flows for the period January 1 to June 30 (which principally include additional investments and partnership distributions), and (2) significant changes in fair value as determined or estimated by the general partners as of June 30. The general partners estimate the fair value of the underlying investments held by the partnership periodically. Publicly traded investments held by the partnerships are valued based on quoted market prices. If not publicly traded, the fair value is determined by the general partner. Financial Accounting Standards Board, ASC Topic 820, *Fair Value Measurements and Disclosures,* requires private equity and real estate limited partnership general partners to value non-publicly traded assets at current fair value, taking into consideration the financial performance of the issuer, cash flow analysis, recent sales prices, market comparable transactions, a new round of financing, a change in economic conditions, and other pertinent information.

Private equity and real estate investments represented 6.6% and 3.1%, respectively, of the total reported fair value of all ERS investments at June 30, 2014. Of the underlying holdings within private equity investments, approximately 21% were valued based on quoted market prices. The remaining underlying assets were valued generally following the objectives outlined above. Because these fair values were not determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

Hedge funds are valued based on information provided by the fund manager and as verified by their respective third party administrator. Of the underlying holdings within the hedge funds approximately 69% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments) and 25% as Tier 2 inputs (other significant inputs, either directly or indirectly, at the measurement date such as a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets and liabilities in markets that are not active; c) observable inputs, other than quoted prices, for assets and liabilities; or d) inputs that are derived from or corroborated by observable market data by correlation or other means. The remaining underlying holdings within the hedge funds approximating 6% were valued based on Tier 3 inputs (unobservable inputs which are developed based on the best information available in the circumstances which might include the fund's own data).

Investment Expenses

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

Funding Policy and Annual Pension Cost

The fiscal year 2014 contribution rates for the Employees' Retirement System, the State Police Retirement Benefits Trust, and the Judicial Retirement Benefits Trust were based on the actuarial valuation of those plans performed as of June 30, 2011. The fiscal year 2014 Annual Required Contribution for the Judicial Retirement Fund Trust was based on the actuarial valuation of that plan performed as of June 30, 2012.

A summary of the State's annual pension cost (expressed in thousands) for the fiscal year ended June 30, 2014 and the actuarial assumptions and methods used in the actuarial valuation of the plans used to determine such pension cost is provided in the table below:

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust	RI Judicial Retirement Fund Trust
Contribution rate:				
State	23.05%	14.45%	27.28%	$1,695
Plan members - state employees	3.75%	8.75%	8.75% and 12.00%	8.75% and 12.00%
State contribution for teachers	8.03% to 8.42%			
Annual pension cost	$227,778	$3,331	$2,544	$1,654
Contributions made - state employees	$151,077	$3,331	$2,544	$0
Contribution made - teachers	$76,701			
Actuarial valuation date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2012
Actuarial cost method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Dollar
Equivalent Single Remaining Amortization Period	24 years	24 years	24 years	16 Years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:				
Investment rate of return	7.50%	7.50%	7.50%	4.00%
Projected salary increases	4.00% to 7.00%	4.00% to 12.00%	4.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%
Cost-of-living adjustments	The COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to is to be applied to the first $25,000 of benefits, indexed over time. The COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or 3 years after retirement. A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 15 years.			

Annual Pension Cost and Net Pension Assets and Obligations

For all defined benefit plans, except for the RI Judicial Retirement Fund Trust, the State contributed 100% of the annual pension cost. The net pension obligation relating to the RIJRFT is detailed in the table below (amounts expressed in thousands):

Annual Required Contribution	$1,695
Interest on net pension obligation	73
Adjustment to annual required contribution	(114)
Annual pension cost	1,654
Contributions made	-
Increase in net pension obligation	1,654
Net pension obligation, beginning of year	1,816
Net pension obligation, end of year	$3,470

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation (In Thousands)
Employees' Retirement System	6/30/12	233,834	100%	-
	6/30/13	207,319	100%	-
	6/30/14	227,778	100%	-
State Police Retirement Benefits Trust	6/30/12	5,333	100%	-
	6/30/13	2,103	100%	-
	6/30/14	3,331	100%	-
Judicial Retirement Benefits Trust	6/30/12	1,718	100%	-
	6/30/13	1,752	100%	-
	6/30/14	2,544	100%	-
RI Judicial Retirement Fund Trust	6/30/13	1,816	0%	1,816
	6/30/14	1,654	0%	3,470

The RI Judicial Retirement Fund Trust was established on July 1, 2012.

Funded Status and Funding Progress

The table below displays the funded status of each plan as of the most recent actuarial valuation date which was June 30, 2014 for all plans except the RIJRFT, the most recent actuarial valuation for which was as of June 30, 2013:

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
ERS						
State Employees	$ 2,449,125,421	$ 4,266,354,839	$ 1,817,229,418	57.41%	$ 675,204,750	269.14%
Teachers	3,742,152,714	6,276,589,639	2,534,436,925	59.62%	982,565,406	257.94%
SPRBT	104,781,384	109,621,747	4,840,363	95.58%	20,814,621	23.25%
JRBT	53,830,516	57,251,698	3,421,182	94.02%	9,309,572	36.75%
RIJRFT	152,910	16,908,455	16,755,545	0.90%	1,255,256	1334.83%

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

Additional information as of the June 30, 2014 actuarial valuation follows:

	ERS				
	State Employees	Teachers	SPRBT	JRBT	RIJBFT
Valuation Date	6/30/2014	6/30/2014	6/30/2014	6/30/2014	6/30/2013
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Dollar
Equivalent Single Remaining Amortization Period	21 years	21 years	21 years	21 years	15 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions Investment Rate of Return	7.50%	7.50%	7.50%	7.50%	4.00%
Projected Salary Increases	3.50% to 6.50%	3.50% to 13.50%	3.75% to 8.00%	3.50%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments	The COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - The COLA is to be applied to the first $25,000 of benefits, indexed over time. The COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or three years after retirement. A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 15 years.				

Note 1. Within the Entry Age Normal -the Individual Entry Age Actuarial Cost methodology is used.

B. 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 twenty percent (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 next following actuarial valuation to be performed. For fiscal year 2014 no contribution to the System was required in accordance with this provision of the General Laws.

The General Laws also require that for any fiscal year in which the State's actual general revenues exceed estimated amounts, the difference shall be paid to the ERS plan upon completion and release of the State's audited financial statements. The amount paid to the System in fiscal year 2014 related to the State's fiscal year 2013 actual general revenues, as adjusted, exceeding budgeted amounts by $169 thousand.

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 $415 thousand was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

For fiscal year 2014, the General Laws required various supplemental contributions to the ERS defined benefit pension plan as described above. These supplemental contributions are in addition to the annual required contribution amounts to ERS as determined by the actuary. Because ERS is a cost-sharing plan, fiduciary net position, including the effects of the supplemental contributions, is allocated between both state employee and teacher covered groups. Accordingly, no net pension asset has been reflected on the State's Statement of Net Position as it is not directly attributable to any one participating employer.

C. Defined Contribution Plan

The State of Rhode Island Defined Contribution Retirement Plan (the “Plan”) is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The Plan was established under Rhode Island General Law section 36-10.3-2 and was placed under the management of the Retirement Board. The Retirement Board is the Plan administrator and Plan trustee. The law authorizes the State Investment Commission to select the appropriate third-party administrator for the Plan and to adopt Plan, trust, and/or custodial documents subject to certain guidelines outlined in the statute. The State Investment Commission is responsible for implementing the investment policy of the Plan and selecting the investment options available to members. TIAA-CREF serves as record keeper for the Plan and Plan assets are held by J.P. Morgan as investment custodian.

Plan members – The plan covers members of the Employees’ Retirement System of Rhode Island (ERS), excluding legislators, correction officers and MERS general police and fire employees who participate in Social Security. For covered employees, participation in the defined contribution plan is mandatory. Judges and state police officers are also excluded from the Plan.

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 total amount contributed by the employer, including associated investment gains and losses, vests with the member and is non-forfeitable upon completion of three (3) years of contributory service. Service credit under ERS or MERS prior to July 1, 2012 is credited to the member for vesting purposes.

Member accounts – Each member’s account is credited with the member and employer’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.

Forfeitures – Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

Contributions – the plan’s benefits are funded by contributions from the participants and the employer, as specified in Rhode Island General Law 36-10.3-4 and 36-10.3-5. Eligible state employees and teachers and MERS general employees that participate in Social Security contribute 5% of the member’s compensation. Employers contribute to these member’s individual accounts an amount equal to 1% of the member’s compensation.

Teachers and MERS general employees not covered by social security must contribute 7% of their compensation; employers contribute to these member’s individual accounts an amount equal to 3% of the member’s compensation. MERS police and fire employees not covered by social security must contribute 3%; employers contribute to these member’s individual accounts an amount equal to 3% of the member’s compensation.

Investment options – Member and employer contributions may be invested in a variety of investment options broadly diversified with distinct risk and return characteristics. The investment options provide opportunities to diversify across the risk-return spectrum with a range of investment choices within varied asset classes.

The investment programs are managed by TIAA-CREF and have various investment strategies.

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

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 you attain age 70 ½ or terminate employment, if later. Members have the option to receive benefit payments in the form of a Single Life Annuity, Two Life Annuity, Lump Sum Benefit, or Installments. These payments are subject to any restrictions in the investment vehicles.

D. 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), who also serves as the FARP plan sponsor. The FARP took effect on December 15, 2013. TIAA-CREF 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 Exception described below, participation in the FARP is mandatory for these employees. Part-time, seasonal, or temporary employees hired prior to July 1, 2013, and 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 59 ½. 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 70 ½ or terminates employment, if later.

E. Other

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately $16,856,000 during the year ended June 30, 2014.

The Rhode Island Public Transit Authority has a funded pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 5 years of service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. At January 1, 2014, the most recent valuation date, the total actuarial accrued liability was $145,529,964 and the actuarial value of assets was $101,419,199. The Authority contributed 100% of its annual pension cost, totaling $7,328,561, for fiscal year 2014 and had a net pension obligation of $1,709,957 at June 30, 2014.

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 15. Other Post-Employment Benefits

A. Plan Descriptions

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

- Certain state employees and employees of the following component units or related organizations: Narragansett Bay Commission, RI Airport Corporation and RI Commerce Corporation
- Certain certified public school teachers
- Judges
- State police officers
- Legislators
- Certain employees of the Board of Education (BOE)

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

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

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

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the benefit structures. The report may be obtained by writing to the State Controller's Office, 1 Capitol Hill, Providence, RI 02908.

A summary of the principal provisions of the plans follows:

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

Note - Retired teachers can purchase coverage for themselves and dependents at the active or early retiree rate as applicable, until age 65, when they must enroll in a Medicare supplement plan.

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

B. Funding Policy, Funding Status and Funding Progress

The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Beginning in fiscal year 2011, the State and other participating employers were required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2014, the State and other participating employers paid $59,785,000 into the plans.

C. Annual OPEB Cost and Net OPEB Obligation

The participating employers recognized an expense equal to a) the annual required contribution of the employer (ARC), which was actuarially determined, plus b) interest on the net OPEB obligation at the beginning of the fiscal year, where applicable, less c) the ARC adjustment, where applicable (discounted present value of the OPEB liability at the beginning of the fiscal year). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

	State Employees	Teachers	Judicial	State Police	Legislators	BOE
Date of Actuarial Valuation	06/30/11	06/30/11	06/30/11	06/30/11	06/30/11	06/30/11
Annual required contribution as a percent of payroll	7.49%	N/A	0.12%	39.00%	0.00%	2.65%
Annual required contribution	$ 49,072	$ 2,797	$ 13	$ 7,839	$ 0	$ 3,095
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	0	422	0	0
Less: Adjustment to ARC	0	N/A	0	388	0	0
Annual OPEB cost	49,072	2,797	13	7,874	0	3,095
Participating State and/or other employer contributions	46,998	2,321	13	7,839	0	2,614
Credit For Portion of Residual Balance From Predecessor Fund	2,074	476	0	0	0	481
Increase in OPEB obligation	0	0	0	35	0	0
Net OPEB obligation at beginning of year	0	0	0	8,450	0	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 0	$ 8,485	$ 0	$ 0

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

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2012	44,235	100.00%	-
	2013	45,800	100.00%	-
	2014	49,072	100.00%	-
Teachers	2012	2,321	100.00%	-
	2013	2,321	100.00%	-
	2014	2,797	100.00%	-
Judicial	2012	810	96.53%	2,867
	2013	802	97.01%	2,891
	2014	13	100.00%	-
State Police	2012	5,920	98.66%	8,381
	2013	6,287	98.91%	8,450
	2014	7,874	99.56%	8,485
Legislators	2012	799	97.34%	2,137
	2013	0	N/A	-
	2014	0	N/A	-
BOE	2012	2,884	100.00%	-
	2013	3,106	100.00%	-
	2014	3,095	100.00%	-

The table below displays the funded status of each plan at June 30, 2013, the most recent actuarial valuation date (dollar amounts expressed in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded (Overfunded) AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	$ 39,527	$ 637,059	$ 597,532	6.2%	$ 671,762	88.9%
Teachers	3,230	12,569	9,339	25.7%	n/a	n/a
Judicial	2,151	1,054	(1,097)	204.1%	13,447	-8.2%
State Police	9,587	70,385	60,798	13.6%	17,748	342.6%
Legislators	2,202	1,549	(653)	142.2%	1,695	-38.5%
BOE	7,486	55,706	48,220	13.4%	113,375	42.5%

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

D. Actuarial Methods and Assumptions

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

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

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

The Annual Required Contributions for fiscal year 2014 were determined based on the June 30, 2011 valuations for all plans.

As of the June 30, 2011 actuarial valuation, the Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL for all plans, except teachers, is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2011 is 25 years. The UAAL for teachers is being amortized as a level dollar amount over an 8-year period from June 30, 2007 and the remaining amortization period as of June 30, 2011 is 4 years.

For the June 30, 2011 valuation the actuarial assumptions include a 5.0% discount rate, a health care cost trend assumption of 9% progressively declining to 4% after 10 years, and salary growth assumption rates ranging between 4% and 12%. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the most recent experience study for the Employees' Retirement System of Rhode Island as well as on anticipated experience changes in conjunction with the adopted retirement plan changes enacted through legislation.

The most recent actuarial valuations of the plans were performed as of June 30, 2013.

Several changes were made in OPEB specific actuarial assumptions and methods between the June 30, 2011 and June 30, 2013 valuations. Changes to the OPEB specific assumptions include a decrease in the wage inflation and long term health care cost inflation assumptions from 4% to 3.5%. In addition, the excise tax load expected to be imposed under the Patient Protection and Affordable Care Act on pre-65 liabilities was changed from 7.4% to 11%. Also, there was a change in actuarial method. The premium development methodology was changed to create a single premium for all groups.

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

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. Effective October 1, 2014 the State established health reimbursement accounts (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. In addition, certain changes in benefits offered under the program are effective in July 2014 and January 2015. The effect on the Actuarial Accrued Liability resulting from these changes is reflected in the valuation table on the preceding page.

The table on the following page summarizes the actuarial methods and assumptions used in the most recent actuarial valuation.

Summary of Actuarial Methods and Assumptions as of June 30, 2013 valuation

	Plan					
	State Employees	**Teachers**	**Judicial**	**State Police**	**Legislators**	**Board of Education**
Valuation Date	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013	June 30, 2013
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll	Level Percent of Payroll – Closed	Level Percent of Payroll	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	23 years closed	Determined by statutory contribution	30 years open	23 years closed	30 years open	23 years closed
Asset Valuation Method	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	3.50% to 6.50%	N/A	3.50%	3.50% to 11.5%	3.75% to 8.00%	3.50% to 6.50%
Valuation Health Care Cost Trend Rate	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023	9% in 2014, grading to 3.5% in 2023

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

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

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

Note 16. Deferred Compensation

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Department of Administration, pursuant to Chapter 36-13 of the General Laws, administers the plan. The Department of Administration contracts with private corporations to provide investment products related to the management of the deferred compensation plan. Plan distributions are normally available to employees at the later of age 59 or retirement and mandatory distributions must commence once the individual reaches age 70½. The plan also allows for distributions for qualifying events such as termination, death or "unforeseeable emergency."

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

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

Note 17. Risk Management

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

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of $100,000 per person and $300,000 per accident for personal injury and $20,000 for property damage. During fiscal year 2014, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. For coverage provided to active employees, the State retains the risk of loss. Retirees that are Medicare eligible may choose Medicare supplement coverage that is either premium based (State retains no risk of loss) or a self-insured plan option. Except for the premium based coverage provided to certain Medicare eligible retirees, the State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2014 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Internal Service Fund				
Unpaid claims	$ 15,436	$ 213,066	$ 212,174	$ 16,328

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.

Note 18. Other Information

A. Elimination Entries

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

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 3,972	$ 1,323	$ 5,295	$ (7,903)	$ (2,608)
Loans to other funds	70,200		70,200	(70,200)	
Total assets	$ 74,172	$ 1,323	$ 75,495	$ (78,103)	$ (2,608)
Liabilities					
Due to other funds	$ 7,220	$ 683	$ 7,903	$ (7,903)	$
Loans from other funds	62,840	7,360	70,200	(70,200)	
Total liabilities	$ 70,060	$ 8,043	$ 78,103	$ (78,103)	$
Program revenue					
General government	$	$ 288,489	$ 288,489	$ (288,489)	
Public safety		10,804	10,804	(10,804)	
Expenses					
General government		(288,728)	(288,728)	288,728	
Public safety		(10,565)	(10,565)	10,565	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Transfers in	$ 566,076	$	$ 566,076	$ (233,252)	$ 332,824
Transfers out	(231,717)	(1,535)	(233,252)	233,252	
Net transfers	$ 334,359	$ (1,535)	$ 332,824	$	$ 332,824

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 3,149	$	$ 3,149	$ (541)	$ 2,608
Total assets	$ 3,149	$	$ 3,149	$ (541)	$ 2,608
Liabilities					
Due to other funds	$ 541	$	$ 541	$ (541)	$
Total liabilities	$ 541	$	$ 541	$ (541)	$
Transfers					
Transfers in	$ 44,157	$	$ 44,157	$ (44,157)	$
Transfers out	(376,981)		(376,981)	44,157	(332,824)
Net transfers	$ (332,824)	$	$ (332,824)	$	$ (332,824)

B. Related Party Transactions

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. While maintenance responsibilities for the two bridges rest with the RITBA, ownership and title remains with the State.

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

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of $1.00. In the event RIAC does not have sufficient funds to make the required lease payments when due, the amount is payable in the next succeeding fiscal year and remains an obligation of RIAC until paid in full. The State has no rights to terminate the agreement as long as there are bonds and subordinate indebtedness outstanding.

The State has transferred land reclaimed from the Interstate 195 relocation project and the Washington Bridge project to the I-195 Redevelopment District Commission (I-195 RDC). The value of the land 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. Significant 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 $38,400,000. In connection with this issuance there were financing fees of approximately $1.494 million, which were paid principally by the State. This payment is included in the General Government's expenses in the State's financial statements.

The voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007, at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC and one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis, amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009.

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 percent of estimated general revenues. The remaining 3.0 percent is contributed to the Budget Reserve Account until such account equals 5.0 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

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

The State's budget documents may be accessed at the following website: http://www.budget.ri.gov/.

Budgetary Controls

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

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

D. Significant Transactions with Component Units

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

Significant transactions between primary government and component units

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Commerce Corporation	$ 14,948	Operating and capital assistance
University of Rhode Island	65,062	Operating assistance
Rhode Island College	38,930	Operating assistance
Community College of Rhode Island	44,703	Operating assistance
Central Falls School District	45,525	Operating assistance
R.I. Public Transit Authority	5,475	Operating assistance
IST		
R.I. Public Transit Authority	40,806	Operating assistance
Bond Capital		
University of Rhode Island	7,566	Construction, improvement or purchase of assets
Rhode Island College	6,243	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	14,052	Construction, improvement or purchase of assets
Rhode Island College	5,968	Construction, improvement or purchase of assets
Total Governmental Activities	$ 289,278	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2014:

- Assessed Fringe Benefits ($1,404,000)
- Central Utilities ($13,000)
- Central Mail ($270,000)
- State Telecommunications ($270,000)
- Records Center ($100,000)
- Capitol Police ($90,000)

The deficits will be eliminated through charges for services in fiscal year 2015.

F. Restatements – Net Position and Fund Balances

Restatements of June 30, 2013 net position/fund balances (expressed in thousands) are in the table below:

	Governmental Activities	Proprietary and Business-type Activities	Discretely Presented Component Units
Balances previously reported at June 30, 2013			
Net position	$ 1,842,302	$ (143,514)	$ 1,858,918
Fund balance			
Restatement due to:			
(1) *Implementation of GASB 65*	(13,183)	(2,111)	(22,753)
(2) *Change in financial reporting entity*			4,933
(3) *Correction of errors*	(1,405)		361
(4) *Adjustments to Carrying Value of Capital Assets*	(1,972)		
June 30, 2013 net position/fund balance, as restated	$ 1,825,742	$ (145,625)	$ 1,841,459

(1) The State implemented *GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities*. The implementation of this standard caused the restatement of the State's beginning

net position at July 1, 2013 primarily due to the immediate recognition of previously deferred bond issuance costs. See Note 1S for more details on this standard. Within the Business-type Activities, the RI Convention Center Authority, a major fund, restated beginning net position by $2.1 million. Within the discretely presented component units, the four major component units and the approximate amounts restated were as follows; University of Rhode Island ($10.5 million), R. I. Airport Corporation ($2.9 million), I-195 Redevelopment District Commission ($1.5 million), and R. I. Turnpike and Bridge Authority ($1.1 million).

(2) *Change in financial reporting entity* - The State added The Metropolitan Regional Career and Technical Center (The Met) as a component unit.

(3) Correction of errors – Tobacco Settlement Financing Corporation, a blended component unit, had previously calculated accreted interest as of the maturity date of the respective series of revenue bonds (June 01), rather than June 30th. The Rhode Island Public Transit Authority, a discretely presented component unit, had a correction to the amount of its accrued vacation liability.

(4) Adjustments to Carrying Value of Capital Assets – During fiscal year 2014, a net reduction of $1,972,514 was recorded as a prior period adjustment related to capital assets. Of this net amount a reduction of $3,250,163 was attributable to the adjustment of the carrying value of a software development project for costs that should not have been included in construction in progress in prior fiscal years. In addition, an increase of $1,277,649 was recorded in the carrying value of buildings due to the State's recognition in fiscal year 2014 of costs related to a State owned building constructed at The Met in a prior fiscal year.

Note 19. Subsequent Events

Primary Government

In November 2014 the State issued $208,240,000 of General Obligation Bonds. The Series B and C bonds in the amount of $46,125,000 mature in 2015 through 2034 and will be used for a variety of purposes including a new facility for the care of veterans, transportation infrastructure projects and affordable housing initiatives. The Series D bonds, in the amount of $162,115,000, refunded previous general obligation bonds.

In November 2014 the State issued $49,495,000 of Lease Participation Certificates. The proceeds will be used to fund energy conservation projects and technology initiatives. The Certificates mature in 2015 through 2029.

In November 2014 the voters of the State approved referenda to authorize the following general obligation bonds: (1) $125.0 million for a new College of Engineering building at the University of Rhode Island, (2) $30.0 million for grants to performance and cultural arts centers throughout the State, (3) $53.0 million for environmental and recreational projects, and (4) $35.0 million for Mass Transit Hub Infrastructure.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. On October 1, 2014, the State established a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program.

On July 15, 2014, Tobacco Settlement Financing Corporation (TSFC) approved resolutions authorizing the issuance of bonds not to exceed $630.0 million to 1) finance a payment to the state in an amount not less than $20.0 million; 2) to refund all of TSFC's outstanding tobacco settlement asset-backed bonds, Series 2002A; 3) to fund the open market purchase of certain maturities of TSFC's outstanding tobacco settlement asset-backed bonds, Series 2007 accepted for purchase by TSFC; 4) to make deposits to the debt service reserve account with respect to the Series 2014 bonds; and, 5) to pay related cost of issuance of the Series 2014 bonds. On August 4, 2014, a holder of Series 2002 and Series 2007 bonds filed a complaint in Rhode Island Superior Court contending that the proposed 2014 transaction would violate State law and provisions in the 2007 indenture. TSFC filed a response and counterclaim on August 25, 2014 arguing that State law enacted by the 2014 General Assembly specifically authorizes this transaction and that provisions of the

2007 indenture are being followed as required. On August 29, 2014, the plaintiff filed a motion to amend their original compliant to add the State and future buyers of the Series 2014 bonds as additional defendants in the lawsuit. TSFC filed a response opposing the plaintiff's motion to amend, as well as a motion for partial judgment on the pleading contending that the plaintiff is barred from bringing any action under the 2007 indenture until all the 2002A bonds are paid in full. On September 29, 2014, the Judge ruled in favor of the plaintiff and allowed the motion to amend the original complaint. The TSFC has filed a motion for summary judgment, for which oral arguments were heard on December 8, 2014.

Pursuant to legislation passed by the General Assembly in the 2014 session, on August 21, 2014 the R.I. Refunding Bond Authority (RIRBA), a blended component unit which had been dormant for several years, entered into a loan with a bank for approximately $23.5 million. The loan bears interest at an annual rate of 1.087% and is repayable in three annual payments, beginning on August 1, 2015 and ending on August 1, 2017.

Approximately $21.8 million of the loan proceeds were transferred to an escrow account and used in September 2014 to retire certain outstanding debt of the Depositors Economic Protection Corporation (DEPCO) which had previously been defeased. DEPCO was formerly a blended component unit that was liquidated in 2004. The investments held in the DEPCO escrow account were transferred to an escrow account established in the name of the RIRBA. These investments are pledged as collateral for the loan and will be used to pay principal and interest on the bank loan as they come due.

As a result of this transaction, after paying costs of issuance, the RIRBA transferred to the State approximately $1.5 million which will be used as a resource in fiscal year 2015.

Discretely Presented Component Units

On October 30, 2014 the Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) issued Series 65-T taxable Homeownership Opportunity Bonds (HOB) in the amount of $86,505,000. On October 31, 2014 these refunding bond proceeds were used to redeem $86,505,000 of HOB Series 49 and 50 bonds.

RIHMFC has been informed by the United States Department of Housing and Urban Development (HUD) that it may be required to reimburse HUD for certain funds that RIHMFC advanced under the federal Continuum of Care Program to the Urban League of Rhode Island in support of the Safe Haven program. Based upon the information available, RIHMFC does not believe that the final resolution of this matter will have a material impact on its operations, programs or financial condition.

HUD's Office of the Inspector General is conducting an ongoing review of the RIHMFC administration of the Home Investment Partnerships Program (HOME) for the period of March 1, 2010 through February 28, 2013. Based upon the information available, RIHMFC does not believe that the final resolution of this matter will have a material impact on its operations, programs or financial condition.

In November, 2014, the Rhode Island Turnpike and Bridge Authority refinanced its $30 million Series 2013A Bond Anticipation Note. The Series 2013A Bond Anticipation Note was paid off with the issuance of the Series 2014A/B Bond Anticipation Note with a principal amount of $60 million. $30 million paid off the Series 2013A Bond Anticipation Note and the balance of $30 million constituted proceeds to be used to fund additional capital projects that are in process.

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, 2014
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,109,155	$ 1,103,200	$ 1,115,513	$ 12,313
General Business Taxes:				
Business Corporations	141,300	117,100	114,215	(2,885)
Public Utilities Gross Earnings	94,900	108,000	101,382	(6,618)
Financial Institutions	4,300	13,500	16,611	3,111
Insurance Companies	98,816	106,000	102,357	(3,643)
Bank Deposits	2,500	2,400	2,472	72
Health Care Provider Assessment	42,611	41,800	42,131	331
Sales and Use Taxes:				
Sales and Use	887,202	907,000	916,083	9,083
Motor Vehicle	51,800	52,300	52,408	108
Motor Fuel	1,000	500	524	24
Cigarettes	130,700	139,100	139,462	362
Alcohol	18,173	17,600	18,252	652
Other Taxes:				
Inheritance and Gift	31,800	38,100	43,592	5,492
Racing and Athletics	1,200	1,200	1,177	(23)
Realty Transfer Tax	7,500	8,000	7,962	(38)
Total Taxes *(1)*	2,622,957	2,655,800	2,674,141	18,341
Departmental Revenue	348,708	359,161	360,678	1,517
Total Taxes and Departmental Revenue	2,971,665	3,014,961	3,034,819	19,858
Other Sources:				
Lottery	394,100	380,700	376,327	(4,373)
Unclaimed Property	9,700	11,900	12,724	824
Other Miscellaneous	5,545	8,480	6,392	(2,088)
Total Other Sources	409,345	401,080	395,443	(5,637)
Total General Revenues	3,381,010	3,416,041	3,430,261	14,221
Federal Revenues	2,337,828	2,522,694	2,345,942	(176,752)
Restricted Revenues	246,323	271,142	216,142	(55,000)
Other Revenues	66,002	65,234	59,334	(5,900)
Total Revenues *(2)*	6,031,163	6,275,111	6,051,679	(223,431)
Expenditures *(4)*:				
General government	699,866	765,754	686,282	79,472
Human services	3,292,477	3,412,937	3,325,539	87,398
Education	1,421,090	1,416,768	1,388,057	28,711
Public safety	495,101	516,767	479,997	36,770
Natural resources	101,374	99,242	76,118	23,124
Total Expenditures *(2)*	6,009,908	6,211,468	5,955,993	$ 255,475
Transfer of Excess Budget Reserve to RI Capital Fund			101,272	
Transfer of Fiscal 2013 Excess Revenue to Employees' Retirement System			169	
Total Expenditures and Transfers	$ 6,009,908	$ 6,211,468	6,057,434	
Change in Fund Balance			(5,755)	
Fund balance - beginning			401,134	
Fund balance - ending			$ 395,379	

(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, 2014
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures by Source:				
General Revenues	$ 3,359,755	$ 3,352,399	$ 3,336,423	$ 15,976
Federal Funds	2,337,827	2,522,694	2,347,940	174,754
Restricted Receipts	246,324	271,141	214,259	56,882
Other Funds	66,002	65,234	57,371	7,863
	$ 6,009,908	$ 6,211,468	$ 5,955,993	$ 255,475

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

Budgeted Surplus:		
Total Revenue - Final Budget	$ 6,275,111	
Total Expenditures - Final Budget	6,211,468	
Final Budget - Projected Surplus (3)		$ 63,643
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (223,432)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	255,475	
Surplus resulting from operations compared to final budget		$ 32,043
Total General Fund Surplus - Fiscal Year Ended June 30, 2014		$ 95,686
Transfer of Fiscal 2013 Excess Revenue to Employees' Retirement System		(169)
Transfer of Excess Budget Reserve to RICAP Fund		(101,272)
Net Change in General Fund - Fund Balance		$ (5,755)
Fund Balance, Beginning		401,134
Fund Balance, Ending		$ 395,379

Notes:

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

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

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.0% of estimated general revenue for the fiscal year ending June 30, 2014.

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

General government	$ 157,586
Education	30,427
	$ 188,013

(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, 2014
(Expressed in Thousands)

Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective

	Fund Balance Reported in the Financial Statements	Budgetary Perspective: Fund Balance Not Available for Appropriation in Fiscal 2015		Budgetary Perspective: Fund Balance Available for Appropriation in Fiscal 2015	
Restricted	$ 297,617	$ 297,617		$	
Committed	18,564	18,564			
Assigned	72,005	11,391	*(a)*	60,614	*(b)*
Unassigned	7,193			7,193	*(c)*
Total Fund Balance	$ 395,379	$ 327,572		$ 67,807	

(a) Assigned fund balance not available for appropriation in fiscal 2015 includes (1) centralized cost allocation surplus that requires offset through fiscal 2015 centralized charges and (2) general revenue appropriations carried forward by the Governor, Judiciary, and Legislature.

(b) Assigned fund balance available for appropriation in fiscal 2015 includes fiscal 2014 ending surplus amounts of $59.2 million appropriated as resources in the 2015 enacted budget, and fund balance amounts encumbered at June 30, 2014.

(c) 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, 2014
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 135,374	$ 153,538	$ 137,542	$ (15,996)
Departmental restricted revenue	8,010	6,869	7,172	303
Federal grants	311,762	355,028	284,736	(70,292)
Other revenues	300	375	54	(321)
Total revenues	455,446	515,810	429,504	(86,306)
Revenues and other Financing Sources (unbudgeted):				
Miscellaneous revenue			3,544	
Total revenues			433,048	
Other Financing Sources:				
Transfers from RI Capital Plan and Bond Capital Funds (State FHWA Match)			25,480	
Total Other Financing Sources			25,480	
Total Revenues and Other Financing Sources			458,528	
Expenditures (budgeted):				
Central Management				
Federal Funds	11,308	11,400	7,558	3,842
Gasoline Tax	1,456	1,694	1,233	461
Total - Central Management	12,764	13,094	8,791	4,303
Management and Budget				
Gasoline Tax	1,550	2,166	542	1,624
Total - Management and Budget	1,550	2,166	542	1,624
Infrastructure-Engineering-GARVEE/ Motor Fuel Tax Bonds				
Federal Funds	293,588	330,906	274,318	56,588
Federal Funds-Stimulus	6,866	12,722	2,582	10,140
Restricted Receipts	8,010	6,869	7,203	(334)
Gasoline Tax	53,062	53,138	53,138	
Land Sale Revenue	14,809	9,100	288	8,812
Total - Infrastructure - Engineering	376,335	412,735	337,529	75,206
Infrastructure - Maintenance				
Gasoline Tax	42,251	43,905	43,153	752
Non-Land Surplus Property	125	50		50
Outdoor Advertising	175	325		325
Total - Infrastructure - Maintenance	42,551	44,280	43,153	1,127
Total Expenditures (budgeted)	$ 433,200	$ 472,275	$ 390,015	$ 82,260
Expenditures and Financing Uses (unbudgeted):				
Infrastructure Expenditures - State Match funded by RI Capital Plan and Bond Capital Funds			32,141	
Infrastructure Expenditures - GARVEE			21,773	
Mission 360 Loan Program			459	
Transfers to General Fund - Gas Tax			37,413	
Total Expenditures and Financing Uses (unbudgeted)			91,786	
Total Expenditures and Other Financing Uses			481,801	
Net change in fund balance			(23,273)	
Fund balance, beginning			141,710	
Fund balance, ending			$ 118,437	

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Pension Trusts
June 30, 2014
(Expressed in Thousands)

Employees' Retirement System

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) - Entry Age - (b)			Unfunded AAL (UAAL) (b - a)		Funded Ratio (a / b)			Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	
06/30/2014	$	6,191,278	$	10,542,944		$	4,351,666		58.7%		$	1,657,770	262.5%	
06/30/2013		6,108,845		10,531,365	*		4,422,520	*	58.0%	*		1,627,644	271.7%	*
06/30/2012		6,167,491		10,670,343			4,502,851		57.8%			1,641,383	274.3%	

*- Amounts were restated as a result of changes in actuarial assumptions.

State Police Retirement Benefits Trust

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) - Entry Age - (b)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2014	$	104,781	$	109,622	$	4,840	95.6%	$	20,815	23.3%
06/30/2013		92,917		102,259		9,342	90.9%		19,904	46.9%
06/30/2012		84,294		94,032		9,738	89.6%		23,670	41.1%

Judicial Retirement Benefits Trust

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) - Entry Age - (b)			Unfunded AAL (UAAL) (b - a)		Funded Ratio (a / b)			Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)	
06/30/2014	$	53,831	$	57,252		$	3,421		94.0%		$	9,310	36.7%	
06/30/2013		47,641		54,430	*		6,789	*	87.5%	*		8,976	75.6%	*
06/30/2012		43,429		52,085			8,657		83.4%			8,823	98.1%	

*- Amounts were restated as a result of changes in actuarial assumptions.

Rhode Island Judicial Retirement Fund Trust

Actuarial Valuation Date		Actuarial Value of Assets (a)		Actuarial Accrued Liability (AAL) - Entry Age - (b)		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2013	$	153	$	16,908	$	16,755	0.9%	$	1,255	1335.1%
06/30/2012	**	-		16,387		16,387	0.0%		1,231	1331.2%

** Plan was effective July 1, 2012.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefits
June 30, 2014
(Expressed in Thousands)

State Employees Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2013	$ 39,527	$ 637,059	$ 597,532	6.2%	$ 671,762	88.9%
06/30/2011	11,545	728,207	716,662	1.6%	600,273	119.4%
06/30/2009	-	673,640	673,640	0.0%	574,569	117.2%

Teachers Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2013	$ 3,230	$ 12,569	$ 9,339	25.7%	NA	NA
06/30/2011	2,040	11,512	9,472	17.7%	NA	NA
06/30/2009	-	13,529	13,529	0.0%	NA	NA

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded)/ Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2013	$ 2,151	$ 1,054	$ (1,097)	204.1%	$ 13,447	-8.2%
06/30/2011	841	2,610	1,769	32.2%	10,813	16.4%
06/30/2009	-	8,665	8,665	0.0%	9,395	92.2%

State Police Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2013	$ 9,587	$ 70,385	$ 60,798	13.6%	$ 17,748	342.6%
06/30/2011	1,488	81,759	80,271	1.8%	17,384	461.8%
06/30/2009	-	67,079	67,079	0.0%	16,725	401.1%

Legislators Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	(Overfunded)/ Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2013	$ 2,202	$ 1,549	$ (653)	142.2%	$ 1,695	-38.5%
06/30/2011	1,442	1,443	1	99.9%	1,615	0.1%
06/30/2009	-	11,752	11,752	0.0%	1,612	729.0%

Board of Education Health Care Insurance Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2013	$ 7,486	$ 55,706	$ 48,220	13.4%	$ 113,375	42.5%
06/30/2011	3,189	53,751	50,562	5.9%	125,340	40.3%
06/30/2009	-	58,476	58,476	0.0%	106,665	54.8%

See Notes to Required Supplementary Information.

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 pages 124 through 126 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. 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 available on the State Controller's website, http://controller.admin.ri.gov/index.php.

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, 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 page 127 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.

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

Schedules of Funding Progress - Pensions

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations as of the dates indicated in the schedules. Information about actuarial assumptions used in latest valuations can be found in Note 14.

2. Schedules of Funding Progress

Changes affecting the June 30, 2014 actuarial valuation:

There were a number of changes in the actuarial assumptions used in the June 30, 2014 valuation for the Employees' Retirement System. A flat 25% per year retirement probability for members eligible for retirement was made. In addition, if in the first year a member is eligible for an unreduced retirement they have more than 25 years of service or at least age 65, the probability of retiring is adjusted to 50% for state employees and 35% for teachers. Also, future expectations for wage inflation were lowered.

Changes affecting the June 30, 2013 actuarial valuation:

There were no changes in the actuarial assumptions used in the June 30, 2013 valuations for the Employees' Retirement System and the Judicial Retirement Benefits Trust. For the State Police Retirement Benefits Trust assumptions were the same as those used in the prior valuation with the exception of the assumption related to overtime compensation which was changed to assume all members will work 400 hours of overtime during their final averaging period.

Changes affecting the June 30, 2012 actuarial valuation:

The assumptions for the Employees' Retirement System, Judicial Retirement Benefits Trust, and the State Police Retirement Benefits Trust are consistent with the 2011 valuation, with the exception of certain assumption changes that resulted from the enactment of the Rhode Island Retirement Security Act of 2011.

The method used to determine the actuarial value of assets is the five-year smoothed market method. A small adjustment was made to the method used to smooth investment gains and losses to allow gains and losses to offset each other immediately. This modification will reduce future volatility in the actuarial value of assets while ensuring that the actuarial value always trends directly towards the market value of assets. In addition, a minor modification to the retirement rate assumption was also made for the plans.

The assumptions used in the Rhode Island Judicial Retirement Fund Trust are consistent with those listed in the Judicial Retirement Benefits Trust; however, the investment return assumption used within this valuation is 4.00%. This rate was selected because the plan is not currently advance funded. Consistent with generally accepted accounting principles, a plan that is not prefunded should use a lower investment assumption than a prefunded plan. The investment return assumption should reflect the expected return on assets that will be used to pay benefits. This plan is for a closed group of individuals and the amortization payment has been calculated based on level-dollar amortization with a 16-year amortization period.

Schedules of Funding Progress - Other Postemployment Benefits

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2013, is included in Note 15.

2. Schedules of Funding Progress

Changes affecting the June 30, 2013 Actuarial Valuation:

Several changes were made in OPEB specific actuarial assumptions and methods between the June 30, 2011 and June 30, 2013 valuations. Changes to the OPEB specific assumptions include a decrease in the wage inflation and long term health care assumptions from 4% to 3.5%. In addition, the excise tax load expected to be imposed under the Patient Protection and Affordable Care Act on pre-65 liabilities was changed from 7.4% to 11%. Also, there was a change in actuarial method. The premium development methodology was changed to create a single premium for all groups.

Changes affecting the June 30, 2011 Actuarial Valuation:

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

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

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

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

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

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

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System’s plan covering state employees. The System’s actuary has updated the June 30, 2011 actuarial valuation to reflect the effect on the Actuarial Accrued Liability resulting from this change.

Changes affecting the June 30, 2009 Actuarial Valuation:

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

The following changes in actuarial assumptions were made between the June 30, 2007 and June 30, 2009 valuations. These changes include an increase in the investment return assumption from 3.566% to 5.00%, a change in the medical trend assumption from 10% decreasing to 4.5% in 7 years to 9% decreasing to 4.5% in 9 years except for the Board of Education Plan. For the Board of Education Plan, the medical trend assumption changed from 9% decreasing to 4.5% in ten years to 9% decreasing to 4% in ten years. In addition, the wage inflation assumption was changed to 0% for two years before reverting to 4.5% to reflect the current economic environment.

Schedule of Expenditures of Federal Awards

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

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2014

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
U.S. Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$	319,942
Inspection Grading and Standardization	10.162		4,736
Market Protection and Promotion	10.163		2,994
Specialty Crop Block Grant Program	10.169		150,366
Very Low to Moderate Income Housing Loans (See Note 2)	10.410		2,731,320
Rural Housing Preservation Grants	10.433		7,903
SNAP Cluster:			
Supplemental Nutrition Assistance Program	10.551		285,888,709
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		12,094,838
Child Nutrition Cluster:			
School Breakfast Program	10.553		9,275,781
National School Lunch Program (See Note 2)	10.555		33,035,052
Special Milk Program for Children	10.556		74,177
Summer Food Service Program for Children (See Note 2)	10.559		1,007,878
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557		23,942,682
Child and Adult Care Food Program	10.558		8,393,066
State Administrative Expenses for Child Nutrition	10.560		912,951
Food Distribution Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568		178,782
Emergency Food Assistance Program (Food Commodities) (See Note 2)	10.569		1,776,453
WIC Farmers' Market Nutrition Program (FMNP)	10.572		97,492
Team Nutrition Grants	10.574		12,033
Senior Farmers Market Nutrition Program	10.576		30,982
Child Nutrition Discretionary Grants Limited Availability	10.579		1,598
Fresh Fruit and Vegetable Program	10.582		1,811,649
Cooperative Forestry Assistance	10.664		513,901
Forest Legacy Program	10.676		48,767
Total U.S. Department of Agriculture		$	382,314,052
U.S. Department of Commerce			
Personal Census Search	11.006	$	14
Economic Development - Support for Planning Organizations	11.302		25,013
Economic Development Cluster:			
Investments for Public Works and Economic Development Facilities	11.300		1,460,438
Economic Adjustment Assistance (See Note 2)	11.307		10,546,191
Interjurisdictional Fisheries Act of 1986	11.407		21,688
Coastal Zone Management Administration Awards	11.419		1,352,014
Coastal Zone Management Estuarine Research Reserves	11.420		808,230
Climate and Atmospheric Research	11.431		64,982
Marine Fisheries Initiative	11.433		554,535
Habitat Conservation	11.463		79,974
ARRA - Habitat Conservation	11.463		551,588
Unallied Science Program	11.472		26
Coastal Services Center	11.473		16,060
Atlantic Coastal Fisheries Cooperative Management Act	11.474		249,208
NOAA Programs for Disaster Relief Appropriations Act - Non-Construction and Construction	11.483		61,586
State and Local Implementation Grant Program	11.549		46,272
ARRA - State Broadband Data and Development Grant Program	11.558		796,625
Total U.S. Department of Commerce		$	16,634,444
U.S. Department of Defense			
Procurement Technical Assistance for Business Firms	12.002	$	419,849
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		391,754
Effective Absentee Systems for Elections 2.0	12.219		16,040

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Basic and Applied Scientific Research	12.300		5,780
National Guard Military Operations and Maintenance (O&M) Projects	12.401		12,626,904
Other Department of Defense Awards (See Note 8)	12.000		(130,054)
Total U.S. Department of Defense		$	13,330,273
U.S. Department of Housing and Urban Development			
Mortgage Insurance - Homes (See Note 2)	14.117	$	47,572,635
Qualified Participating Entities (QPE) Risk Sharing (See Note 2)	14.189		12,765,000
Section 8 Project-Based Cluster:			
Section 8 Housing Assistance Payments Program	14.195		145,767,439
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856		503,094
CDBG - State-Administered CDBG Cluster:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii (See Note 2)	14.228		5,577,029
ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.255		-
Emergency Solutions Grant Program	14.231		525,766
Supportive Housing Program	14.235		4,036,223
Shelter Plus Care	14.238		1,266,469
HOME Investment Partnerships Program (See Note 2)	14.239		2,415,945
Housing Opportunities for Persons with AIDS	14.241		423,913
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257		-
Neighborhood Stabilization Program	14.264		94,369
Fair Housing Assistance Program - State and Local	14.401		143,448
Sustainable Communities Regional Planning Grant Program	14.703		908,081
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871		14,683,044
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		444,862
Total U.S. Department of Housing and Urban Development		$	237,127,317
U.S. Department of the Interior			
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	15.605	$	4,658,238
Wildlife Restoration and Basic Hunter Education	15.611		1,953,660
Fish and Wildlife Management Assistance	15.608		62,563
Cooperative Endangered Species Conservation Fund	15.615		56,393
Clean Vessel Act Program	15.616		66,243
Sportfishing and Boating Safety Act	15.622		32,307
State Wildlife Grants	15.634		620,651
Endangered Species Conservation – Recovery Implementation Funds	15.657		29,235
Historic Preservation Fund Grants-In-Aid	15.904		522,725
Outdoor Recreation - Acquisition, Development and Planning	15.916		131,881
Save America's Treasures	15.929		175
Total U.S. Department of the Interior		$	8,134,071
U.S. Department of Justice			
Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program	16.203	$	39,210
Juvenile Accountability Block Grants	16.523		129,276
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		359,298
Missing Children's Assistance	16.543		326,363
State Justice Statistics Program for Statistical Analysis Centers	16.550		51,277
National Criminal History Improvement Program (NCHIP)	16.554		50,322
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		266,554
Crime Victim Assistance	16.575		1,686,938
Crime Victim Compensation	16.576		577,686

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Edward Byrne Memorial Formula Grant Program	16.579		50,636
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		77,423
Drug Court Discretionary Grant Program	16.585		129,058
Violence Against Women Formula Grants	16.588		1,107,190
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		366,352
Residential Substance Abuse Treatment for State Prisoners	16.593		60,408
State Criminal Alien Assistance Program	16.606		810,713
Project Safe Neighborhoods	16.609		49,365
Enforcing Underage Drinking Laws Program	16.727		204,333
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		922,665
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803		228,842
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		52,983
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745		25,099
Congressionally Recommended Awards	16.753		14,950
Court Appointed Special Advocates	16.756		1
Second Chance Act Reentry Initiative	16.812		279,072
John R. Justice Prosecutors and Defenders Incentive Act	16.816		50,615
Total U.S. Department of Justice		$	7,916,629
U.S. Department of Labor			
Labor Force Statistics	17.002	$	747,730
Compensation and Working Conditions	17.005		18,439
Employment Service Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207		3,577,758
Disabled Veterans' Outreach Program (DVOP)	17.801		346,167
Local Veterans' Employment Representative Program	17.804		199,880
Unemployment Insurance (See Note 5)	17.225		270,590,438
ARRA - Unemployment Insurance (See Note 5)	17.225		280,356
Senior Community Service Employment Program	17.235		473,409
Trade Adjustment Assistance	17.245		1,705,513
WIA Cluster:			
WIA Adult Program	17.258		3,078,301
WIA Youth Activities	17.259		3,047,075
WIA Incentive Grants - Section 503 Grants to States	17.267		121,738
WIA Dislocated Worker Formula Grants	17.278		4,303,091
WIA Pilots, Demonstrations, and Research Projects	17.261		145,117
Workforce Investment Act (WIA) National Emergency Grants	17.277		951,902
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282		1,329,357
Workforce Innovation Fund	17.283		932,740
Consultation Agreements	17.504		461,545
Total U.S. Department of Labor		$	292,310,556
U.S. Department of State			
Criminal Justice Systems	19.703	$	7,435
Total U.S. Department of State		$	7,435
U.S. Department of Transportation			
Airport Improvement Program	20.106	$	16,762,199
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205		269,413,862
ARRA - Highway Planning and Construction	20.205		(1,245,069)
National Motor Carrier Safety	20.218		1,133,892

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Performance and Registration Information Systems Management	20.231		(103)
Commercial Driver's License Program Improvement Grant	20.232		176,431
ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	20.319		3,826,584
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants	20.500		935,608
Federal Transit - Formula Grants	20.507		27,322,330
ARRA - Federal Transit - Formula Grants	20.507		284,800
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505		441,172
Formula Grants for Rural Areas	20.509		701,997
Transit Services Programs Cluster:			
Job Access and Reverse Commute Program	20.516		572,688
New Freedom Program	20.521		344,658
Alternatives Analysis	20.522		15,358
Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523		4,751
Highway Safety Cluster:			
State and Community Highway Safety	20.600		3,758,579
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		786,189
Occupant Protection Incentive Grants	20.602		80,978
Safety Belt Performance Grants	20.609		345,520
State Traffic Safety Information System Improvement Grants	20.610		452,698
Incentive Grant Program to Increase Motorcyclist Safety	20.612		156,800
Child Safety and Child Booster Seats Incentive Grants	20.613		222,694
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		2,119,915
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614		38,796
National Priority Safety Program	20.616		961,207
Pipeline Safety Program State Base Grants	20.700		101,000
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		50,714
Payments for Small Community Air Service Development	20.930		102,928
Total U.S. Department of Transportation		$	329,869,176
Equal Employment Opportunity Commission			
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	$	207,272
Total Equal Employment Opportunity Commission		$	207,272
General Services Administration			
Donation of Federal Surplus Personal Property (See Note 2)	39.003	$	109,269
Total General Services Administration		$	109,269
National Foundation on the Arts and the Humanities			
Promotion of the Arts - Partnership Agreements	45.025	$	686,230
State Library Program	45.310		1,090,383
National Leadership Grants	45.312		48,730
Total National Foundation on the Arts and the Humanities		$	1,825,343
National Science Foundation			
Mathematical and Physical Sciences	47.049	$	23,976
Education and Human Resources	47.076		228,662
Office of Experimental Program to Stimulate Competitive Research	47.081		13,605
Total National Science Foundation		$	266,243
U.S. Department of Veterans Affairs			
Veterans State Nursing Home Care	64.015	$	8,495,409
Veterans Housing Guaranteed and Insured Loans (See Note 2)	64.114		448,438
All-Volunteer Force Educational Assistance	64.124		121,998
State Cemetery Grants	64.203		1,090,896
Total U.S. Department of Veterans Affairs		$	10,156,741

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2014

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Environmental Protection Agency			
Air Pollution Control Program Support	66.001	$	730,123
State Indoor Radon Grants	66.032		114,226
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		335,876
State Clean Diesel Grant Program	66.040		88,044
State Public Water System Supervision	66.432		641,976
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Water Quality Management Planning	66.454		76,895
National Estuary Program	66.456		46,129
Capitalization Grants for Clean Water State Revolving Funds	66.458		3,982,965
Beach Monitoring and Notification Program Implementation Grants	66.472		213,358
Water Protection Grants to the States	66.474		179,992
Performance Partnership Grants	66.605		4,868,927
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		221,253
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		180,943
Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements	66.802		629,722
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		381,326
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		900,032
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		162,381
State and Tribal Response Program Grants	66.817		963,660
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		126,744
Total Environmental Protection Agency		$	14,844,572
U. S. Nuclear Regulatory Commission			
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	$	4,334
Total U.S. Nuclear Regulatory Commission		$	4,334
U.S. Department of Energy			
State Energy Program	81.041	$	(360,772)
ARRA - State Energy Program	81.041		5,584,638
Weatherization Assistance for Low-Income Persons	81.042		221,657
ARRA - Weatherization Assistance for Low-Income Persons	81.042		140,817
Renewable Energy Research and Development	81.087		4,216
University Nuclear Science and Reactor Support	81.114		1
State Energy Program Special Projects	81.119		262,211
Nuclear Energy Research, Development and Demonstration	81.121		5,000
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		176,422
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		190,047
Total U.S. Department of Energy		$	6,224,237
U.S. Department of Education			
Adult Education - Basic Grants to States	84.002	$	2,150,250
Student Financial Assistance Cluster: (See Note 6)			
Federal Supplemental Educational Opportunity Grants	84.007		2,563,879
Federal Work - Study Program	84.033		1,970,039
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038		14,875,607
Federal Pell Grant Program	84.063		58,197,149
Federal Direct Student Loans (See Note 2)	84.268		146,177,247
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		7,000
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010		47,848,949
Title 1 State Agency Program for Neglected and Delinquent Children and Youth	84.013		581,111
Special Education Cluster:			
Special Education - Grants to States	84.027		43,278,019

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Special Education - Preschool Grants	84.173		1,468,679
Federal Family Education Loans	84.032		94
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032		978,298,618
TRIO Cluster:			
TRIO - Student Support Services	84.042		555,058
TRIO-Talent Search	84.044		420,153
TRIO - Upward Bound	84.047		597,850
TRIO-Educational Opportunity Centers	84.066		758,991
Career and Technical Education - Basic Grants to States	84.048		5,591,585
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		16,494,609
National Institute on Disability and Rehabilitation Research	84.133		5,379
Independent Living - State Grants	84.169		316,806
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177		154,181
Special Education - Grants for Infants and Families	84.181		1,296,231
Safe and Drug-Free Schools and Communities - State Grants	84.186		(3)
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187		297,243
Education of Homeless Children and Youth Cluster:			
Education for Homeless Children and Youth	84.196		209,466
Fund for the Improvement of Education	84.215		(20)
Assistive Technology	84.224		381,098
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		17,308
Charter Schools	84.282		913,111
Twenty-First Century Community Learning Centers	84.287		5,624,444
Special Education - State Personnel Development	84.323		684,772
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		55,689
Special Education - Educational Technology Media, and Materials for Individuals with Disabilities	84.327		(140)
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330		73,252
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331		(9)
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		3,373,289
English Language Acquisition State Grants	84.365		2,360,390
Mathematics and Science Partnerships	84.366		451,571
Improving Teacher Quality State Grants	84.367		10,463,266
Grants for State Assessments and Related Activities	84.369		2,956,494
Statewide Longitudinal Data Systems	84.372		877,697
School Improvement Grants Cluster:			
School Improvement Grants	84.377		2,220,634
ARRA - School Improvement Grants	84.388		645,967
College Access Challenge Grant Program	84.378		1,810,366
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants	84.395		20,031,185
Investing in Innovation (i3) Fund	84.411		1,176,021
ARRA - Race to the Top – Early Learning Challenge	84.412		8,776,388
Other Department of Education Awards	08-0068		120,817
Total U.S. Department of Education		$	1,387,127,779
U.S. Department of Health and Human Services			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	$	62,531
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		28,399
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042		74,243
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043		90,735
Aging Cluster:			

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	2,352,301
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	2,692,831
Nutrition Services Incentive Program	93.053	426,912
Special Programs for the Aging-Title IV - and Title II - Discretionary Projects	93.048	358,163
National Family Caregiver Support, Title III, Part E	93.052	668,515
Public Health Emergency Preparedness	93.069	5,630,596
Medicare Enrollment Assistance Program	93.071	40,026
Lifespan Respite Care Program	93.072	113,814
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079	249,277
Guardianship Assistance	93.090	465,719
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092	327,851
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094	281,739
Food and Drug Administration - Research	93.103	1,331,213
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	9,512
Maternal and Child Health Federal Consolidated Programs	93.110	315,418
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	283,223
Emergency Medical Services for Children	93.127	132,966
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130	114,731
Injury Prevention and Control Research and State and Community Based Programs	93.136	492,319
Projects for Assistance in Transition from Homelessness (PATH)	93.150	297,565
Grants to States for Loan Repayment Program	93.165	111,250
Disabilities Prevention	93.184	327,995
Family Planning - Services	93.217	1,161,976
Consolidated Knowledge Development and Application (KD&A) Program	93.230	(317,599)
Grants to States to Support Oral Health Workforce Activities	93.236	12,007
Mental Health Research Grants	93.242	(5)
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	3,050,178
Universal Newborn Hearing Screening	93.251	261,479
Immunization Cooperative Agreements (See Note 2)	93.268	12,470,431
Adult Viral Hepatitis Prevention and Control	93.270	137,819
Substance Abuse and Mental Health Services - Access to Recovery	93.275	3,270,621
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5,748,550
ARRA -Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.712	174,020
Minority Health and Health Disparities Research	93.307	280,225
State Health Insurance Assistance Program	93.324	227,289
Student Financial Assistance Cluster: (See Note 6)		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342	1,947,251
Nursing Student Loans (See Note 2)	93.364	1,622,030
Cancer Detection and Diagnosis Research	93.394	37,281
Health Careers Opportunity Program	93.416	349,214
Food Safety and Security Monitoring Project	93.448	226,848
Affordable Care Act (ACA) Nursing Assistant and Home Health Aide Program	93.503	3,463,512
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	334,483
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	93.506	370,713
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	1,152,724
Affordable Care Act (ACA) – Consumer Assistance Program Grants	93.519	64,525
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	48,466,810
Promoting Safe and Stable Families	93.556	833,267
Temporary Assistance for Needy Families	93.558	77,738,554

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Child Support Enforcement	93.563	8,773,239
Child Support Enforcement Research	93.564	51
Refugee and Entrant Assistance - State Administered Programs	93.566	212,109
Low-Income Home Energy Assistance	93.568	19,856,075
Community Services Block Grant	93.569	3,758,370
CCDF Cluster:		
Child Care and Development Block Grant	93.575	16,723,491
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	10,101,825
Refugee and Entrant Assistance - Discretionary Grants	93.576	168,063
State Court Improvement Program	93.586	347,773
Grants to States for Access and Visitation Programs	93.597	72,095
Chafee Education and Training Vouchers Program (ETV)	93.599	200,888
Head Start	93.600	139,631
The Affordable Care Act Medicaid Adult Quality Grants	93.609	356,414
Voting Access for Individuals with Disabilities - Grants to States	93.617	45,420
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	1,424,126
Developmental Disabilities - Basic Support and Advocacy Grants	93.630	410
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	535,123
Children's Justice Grants to States	93.643	98,629
Stephanie Tubbs Jones Child Welfare Services Program	93.645	714,481
Adoption Opportunities	93.652	639,580
Foster Care - Title IV-E	93.658	15,393,324
ARRA - Foster Care - Title IV-E	93.658	63
Adoption Assistance	93.659	7,398,401
Social Services Block Grant	93.667	14,015,660
Child Abuse and Neglect State Grants	93.669	373,078
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671	809,329
Chafee Foster Care Independence Program	93.674	629,182
ARRA - Head Start	93.708	72,895
ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	596
ARRA – Health Information Technology and Public Health	93.729	2,876
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by the Prevention and Public Health Fund (PPHF)	93.733	325,358
Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs – financed by 2012 Prevention and Public Health Funds (PPHF-2012)	93.734	236,788
Children's Health Insurance Program (See Note 4)	93.767	39,915,484
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	896,330
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	2,926,161
Medical Assistance Program (See Note 4)	93.778	1,290,212,937
Money Follows the Person Rebalancing Demonstration	93.791	1,644,979
Child Health and Human Development Extramural Research	93.865	100,699
National Bioterrorism Hospital Preparedness Program	93.889	1,769,000
Grants to States for Operation of Offices of Rural Health	93.913	162,703
HIV Care Formula Grants (See Note 4)	93.917	12,640,739
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	39,311
HIV Prevention Activities - Health Department Based	93.940	2,298,698
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	1,215,177
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	167,930
Assistance Programs for Chronic Disease Prevention and Control	93.945	1,511,200
Block Grants for Community Mental Health Services	93.958	1,535,280

Federal Grantor / Program Title	CFDA or Contract Number		Total Expenditures
Block Grants for Prevention and Treatment of Substance Abuse	93.959		7,478,266
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		490,733
Preventive Health and Health Services Block Grant	93.991		306,344
Maternal and Child Health Services Block Grant to the States	93.994		3,810,543
NHSC Search Program	230200432017C		10,392
Total U.S. Department of Health and Human Services		$	1,652,922,296
Corporation for National and Community Service			
Foster Grandparent/Senior Companion Cluster:			
Senior Companion Program	94.016	$	363,423
Total Corporation for National and Community Service		$	363,423
Social Security Administration			
Disability Insurance/SSI Cluster:			
Social Security - Disability Insurance	96.001	$	7,947,687
Social Security - Research and Demonstration	96.007		618,254
Total Social Security Administration		$	8,565,941
U.S. Department of Homeland Security			
State and Local Homeland Security National Training Program	97.005	$	764
Non-Profit Security Program	97.008		(19,864)
Boating Safety Financial Assistance	97.012		1,018,538
Community Assistance Program - State Support Services Element (CAP-SSSE)	97.023		67,157
Flood Mitigation Assistance	97.029		13
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		7,481,679
Hazard Mitigation Grant	97.039		355,826
National Dam Safety Program	97.041		63,447
Emergency Management Performance Grants	97.042		2,620,371
State Fire Training Systems Grants	97.043		19,802
Cooperating Technical Partners	97.045		(542)
Pre-Disaster Mitigation	97.047		95,709
Emergency Operations Center	97.052		906,653
Interoperable Emergency Communications	97.055		1,541
Port Security Grant Program	97.056		87,651
Port Security Research and Development Grant	97.060		285,483
Homeland Security Advanced Research Projects Agency	97.065		10,815
Homeland Security Grant Program	97.067		4,765,079
National Explosives Detection Canine Team Program	97.072		181,000
Rail and Transit Security Grant Program	97.075		703,424
Buffer Zone Protection Program (BZPP)	97.078		5,907
Driver's License Security Grant Program	97.089		389,573
Law Enforcement Officer Reimbursement Agreement Program	97.090		87,267
Advanced Surveillance Program (ASP)	97.118		333,275
Total U.S. Department of Homeland Security		$	19,460,568
Agency for International Development			
Global Development Alliance	98.011	$	248
Total for Agency for International Development		$	248
Research and Development Cluster:			
U.S. Department of Agriculture			
Agricultural Research - Basic and Applied Research	10.001	$	104,500
Plant and Animal Disease, Pest Control, and Animal Care	10.025		30,626
Grants for Agricultural Research, Special Research Grants	10.200		218,110
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		2,056,479
Animal Health and Disease Research	10.207		1,148

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Sustainable Agriculture Research and Education	10.215	74,665
Biotechnology Risk Assessment Research	10.219	37,137
Integrated Programs	10.303	215,839
Homeland Security - Agricultural	10.304	15,880
International Science and Education Grants	10.305	1,176
Organic Agriculture Research and Extension Initiative	10.307	98,533
Agriculture and Food Research Initiative (AFRI)	10.310	334,341
ARRA- Trade Adjustment Assistance for Farmers Training Coordination Program (TAAF)	10.315	26,812
Crop Insurance Education in Targeted States	10.458	179,389
Cooperative Extension Service	10.500	1,738,079
Forestry Research	10.652	685
Forest Health Protection	10.680	33,363
Soil and Water Conservation	10.902	126,471
Soil Survey	10.903	42,202
Environmental Quality Incentives Program	10.912	8,065
Farm and Ranch Lands Protection Program	10.913	69,124
Wildlife Habitat Incentive Program	10.914	(34)
Technical Agricultural Assistance	10.960	30,034
U.S. Department of Commerce		
Ocean Exploration	11.011	246,863
Integrated Ocean Observing System (IOOS)	11.012	200,789
Sea Grant Support	11.417	2,735,182
Coastal Zone Management Administration Awards	11.419	17,635
Coastal Zone Management Estuarine Research Reserves	11.420	20,661
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	5,153
Climate and Atmospheric Research	11.431	84,414
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	12
Regional Fishery Management Councils	11.441	19
Cooperative Science and Education Program	11.455	14,240
Weather and Air Quality Research	11.459	48,128
Special Oceanic and Atmospheric Projects	11.460	274,080
Meteorologic and Hydrologic Modernization Development	11.467	108,149
Applied Meteorological Research	11.468	207,391
Congressionally-Identified Awards and Projects	11.469	42,050
Unallied Science Program	11.472	8,707
Atlantic Coastal Fisheries Cooperative Management Act	11.474	7,818
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478	136,439
Congressionally-Identified Projects	11.617	6,750
Other Research and Development - Department of Commerce	11.000	185,925
U.S. Department of Defense		
Collaborative Research and Development	12.114	640,221
Basic and Applied Scientific Research	12.300	2,832,084
Basic Scientific Research -Combating Weapons of Mass Destruction	12.351	418,949
Military Medical Research and Development	12.420	241,762
Basic Scientific Research	12.431	148,026
The Language Flagship Grants to Institutions of Higher Education	12.550	376,983
Air Force Defense Research Sciences Program	12.800	206,897
Research and Technology Development	12.910	(141)
Other Research and Development - Department of Defense	12.000	491,498
U.S. Department of the Interior		
Bureau of Ocean Energy Management (BOEM) Environmental Studies Program	15.423	733,076
Coastal Impact Assistance Program (CIAP)	15.426	39,441
Sport Fish Restoration Program	15.605	9,541

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Fish and Wildlife Management Assistance	15.608	23,774
Coastal Program	15.630	25
State Wildlife Grants	15.634	7,217
Assistance to State Water Resources Research Institutes	15.805	59,328
U.S. Geological Survey - Research and Data Collection	15.808	33,967
National Land Remote Sensing - Education Outreach and Research	15.815	23,400
Natural Resource Stewardship	15.944	7,981
Cooperative Research and Training Programs – Resources of the National Park System	15.945	633,917
Other Research and Development - Department of the Interior	15.000	424,764
U.S. Department of Justice		
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	190,489
Juvenile Mentoring Program	16.726	41,315
U.S. Department of State		
Educational Exchange - University Lecturers (Professors) and Research Scholars	19.401	10,220
U.S. Department of Transportation		
Highway Research and Development Program	20.200	16,824
University Transportation Centers Program	20.701	107,514
National Aeronautics and Space Administration		
Science	43.001	206,215
Other Research and Development - National Aeronautics and Space Administration	43.000	159,973
Institute of Museum and Library Services		
National Leadership Grants	45.312	52,855
National Science Foundation		
Engineering Grants	47.041	866,118
Mathematical and Physical Sciences	47.049	50,191
Geosciences	47.050	7,265,608
Computer and Information Science and Engineering	47.070	400,904
Biological Sciences	47.074	1,065,331
Social, Behavioral, and Economic Sciences	47.075	4,814
Education and Human Resources	47.076	1,943,270
Polar Programs	47.078	977,275
Office of International and Integrative Activities	47.079	347,874
Office of Experimental Program to Stimulate Competitive Research	47.081	4,011,953
ARRA - Trans-NSF Recovery Act Research Support	47.082	188,962
Other Research and Development - National Science Foundation	47.000	393,021
ARRA - Other Research and Development	47.000	24
Small Business Administration		
Small Business Development Centers	59.037	39,503
Department of Veterans Affairs		
Grants to States for Construction of State Home Facilities	64.005	18,789
Veterans Rehabilitation - Alcohol and Drug Dependence	64.019	9,904
Environmental Protection Agency		
Climate Showcase Communities Grant Program	66.041	2,110
National Estuary Program	66.456	12,243
Great Lakes Program	66.469	175,375
Surveys, Studies, Investigations and Special Purpose Grants within the Office of Research and Development	66.510	(234)
Science To Achieve Results (STAR) Fellowship Program	66.514	(7)
P3 Award - National Student Design Competition for Sustainability	66.516	8,679
Research, Development, Monitoring, Public Education, Training, Demonstrations, and Studies	66.716	5,000
Environmental Education Grants	66.951	2,185
Other Research and Development - Environmental Protection Agency	66.000	33,757

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
U. S. Nuclear Regulatory Commission		
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	38,065
U.S. Department of Energy		
State Energy Program	81.041	30,809
Office of Science Financial Assistance Program	81.049	951,399
ARRA - Office of Science Financial Assistance Program	81.049	125,405
Conservation Research and Development	81.086	(1,510)
Renewable Energy Research and Development	81.087	587,141
ARRA - Renewable Energy Research and Development	81.087	16,697
Defense Nuclear Nonproliferation Research	81.113	539,351
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	41,653
Advanced Research and Projects Agency – Energy	81.135	74,444
Other Research and Development - Department of Energy	81.000	93,863
U.S. Department of Education		
Magnet Schools Assistance	84.165	11,049
Javits Fellowships	84.170	49,902
Education Research, Development and Dissemination	84.305	3,224
Research in Special Education	84.324	222,192
ARRA - Race to the Top – Early Learning Challenge	84.412	6,233
U.S. Department of Health and Human Services		
Food and Drug Administration - Research	93.103	4,460
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	79,992
Environmental Health	93.113	70,889
Research and Training in Complementary and Alternative Medicine	93.213	32,672
Mental Health Research Grants	93.242	194,605
Advanced Nursing Education Grant Program	93.247	248,422
Alcohol Research Programs	93.273	206,988
Drug Abuse and Addiction Research Programs	93.279	1,579,539
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	160,785
Trans-NIH Research Support	93.310	195,591
Advanced Nursing Education Traineeships	93.358	363,538
Nursing Research	93.361	165,817
National Center for Research Resources	93.389	3,322,158
Academic Research Enhancement Award	93.390	63,860
Cancer Cause and Prevention Research	93.393	72,689
Cancer Detection and Diagnosis Research	93.394	391,684
Cancer Biology Research	93.396	347,486
The Affordable Care Act Medicaid Adult Quality Grants	93.609	10,734
Health Care Innovation Awards (HCIA)	93.610	2,772,421
Developmental Disabilities Basic Support and Advocacy Grants	93.630	446,462
ARRA - Trans - NIH Recovery Act Research Support	93.701	21,957
Blood Diseases and Resources Research	93.839	299,998
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	291,276
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	27,066
Allergy, Immunology and Transplantation Research	93.855	4,849,180
Biomedical Research and Research Training	93.859	1,618,042
Child Health and Human Development Extramural Research	93.865	986,646
Aging Research	93.866	151,545
Research, Prevention, and Education Programs on Lyme Disease in the United States	93.942	301,520
PPHF - 2012 Geriatric Education Centers	93.969	448,486
International Research and Research Training	93.989	107,398
U.S. Department of Homeland Security		

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Centers for Homeland Security	97.061		1,182,557
Competitive Training Grants	97.068		1,813
Agency for International Development			
USAID Foreign Assistance for Programs Overseas	98.001		5,537,922
Total Research and Development Cluster		$	65,099,908
Other Expenditures of Federal Awards (See Note 8)	N/A	$	183,387
Total Expenditures of Federal Awards		$	4,455,005,515

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

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

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

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

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

NOTE 2. NON-MONETARY ASSISTANCE

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

CFDA Number	Loan, Loan Guarantee and Insurance Programs	Expenditures of Federal Awards Year Ended June 30, 2014	Non-monetary Assistance June 30, 2014
10.410	Very Low to Moderate Income Housing Loans	$ 2,731,320	$ 2,731,320
11.307	Economic Adjustment Assistance	10,546,191	10,305,881
14.117	Mortgage Insurance – Homes	47,572,635	47,572,635
14.189	Qualified Participating Entities (QPE) Risk Sharing	12,765,000	12,765,000
14.239	HOME Investment Partnerships Program	2,415,945	2,415,945
64.114	Veterans Housing Guaranteed and Insured Loans	448,438	448,438
84.032	Federal Family Education Loans (Guaranty Agency)	978,298,618	977,053,861
84.038	Federal Perkins Loan Program – Federal Capital Contributions	14,875,607	14,875,607
84.268	Federal Direct Student Loans	146,177,247	146,177,247
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	1,947,251	1,947,251
93.364	Nursing Student Loans	1,622,030	1,622,030
	Other Non-Monetary Assistance		
10.555	National School Lunch Program	33,035,052	3,666,811
10.559	Summer Food Service Program for Children	1,007,878	3,993
10.569	Emergency Food Assistance Program (Food Commodities)	1,776,453	1,776,453
39.003	Donation of Federal Surplus Personal Property	109,269	109,269
93.268	Immunization Cooperative Agreements	12,470,431	10,813,268
	Total Non-Cash Assistance		$1,234,285,009

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

Loan, Loan Guarantee and Insurance Programs

- The following guaranteed/insured mortgage loan programs are reported at the value of loans originated or purchased during the fiscal year: Very Low to Moderate Income Housing Loans (CFDA 10.410); Mortgage Insurance-Homes (CFDA 14.117); Qualified Participating Entities (QPE) Risk Sharing (CFDA 14.189); and Veterans Housing and Guaranteed Loans (64.114).

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

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

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

NOTE 2. NON-MONETARY ASSISTANCE (continued)

- Federal Perkins Loan Program – Federal Capital Contributions (CFDA 84.038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) - reported at the balance of loans outstanding at June 30, 2014.

Other Non-Monetary Assistance

- National School Lunch Program (CFDA 10.555), Summer Food Service Program for Children (CFDA 10.559) and Emergency Food Assistance Program (Food Commodities) (CFDA 10.569) – reported at the fair market value of food distributed.

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

- Immunization 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.

NOTE 3. FEDERAL AWARDS RECEIVED FROM PASS-THROUGH ENTITIES

The majority of expenditures of federal awards reflected in the schedule are from awards made directly by the federal government to the State and its component units. An immaterial amount of funds have been passed-through from other entities to component units of the State totaling approximately $11.8 million. Of this amount, $7.4 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. There was $4.0 million passed through the Rhode Island Clean Water Finance Agency, a related organization to the State, to a component unit. The remaining amount, approximately $406,000, has not been identified as to the pass-through entity.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 2014:

Program	CFDA Number	Rebate Amount
Medical Assistance Program	93.778	$ 28,772,160
Children's Health Insurance Program (CHIP)	93.767	$ 542,400
HIV Care Formula Grants (Ryan White)	93.917	$ 7,279,372
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	$ 5,714,684

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance, CHIP, and WIC) 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 2014. Rebates received under the HIV Care Grant 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 $199.9 million funded from the State's account in the federal Unemployment Trust Fund, $48.6 million loaned to the State's account in the federal Unemployment Trust Fund, $22.1 million funded by federal grants and $0.3 million in ARRA 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 $227.4 million.

NOTE 7. BUILD AMERICA BONDS INTEREST SUBSIDY

In accordance with guidance included in the OMB Compliance Supplement, federal interest subsidies received by the State under the Build America Bonds programs are not included in the Schedule of Expenditures of Federal Awards. The State received $1,870,830 in interest subsidy payments during fiscal year 2014, which were reported as federal revenue in the State's financial statements.

NOTE 8. EXPENDITURES OF OTHER AWARDS

Some expenditures of federal awards included in the Schedule are not specifically identified by Catalog of Federal Domestic Assistance number. When the federal funding agency is known, these amounts are included in the Schedule along with federal awards for that federal grantor agency (e.g., 12.000). In some instances, a federal contract award number is available and 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 Catalog of Federal Domestic Assistance number.

Auditor's Reports

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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, 2014, 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 18, 2014. 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 2% 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 63% of the assets and deferred outflows and 2% of the revenues of the business-type activities;

- the HealthSource RI Trust, an agency fund, and the Ocean State Investment Pool, an external investment trust, which represents less than 1% of the assets and 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 responses, 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 to be material weaknesses: Findings 2014-004, 2014-005, 2014-007, 2014-008, 2014-011, 2014-013, 2014-014, 2014-015 and 2014-017. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses: Findings 2014-019, 2014-020 and 2014-021.

A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies: Findings 2014-001, 2014-002, 2014-003, 2014-006, 2014-009, 2014-010, 2014-012, 2014-016 and 2014-018. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies: Findings 2014-022, 2014-023 and 2014-024.

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 matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2014-025.

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

State's Response to Findings

The State's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The State's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on the responses.

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 result 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 18, 2014

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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 OMB CIRCULAR A-133

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 Circular A-133 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, 2014.

With respect to certain major programs, we did not audit the compliance of the State with the requirements described in the preceding sentence. These major federal programs had combined expenditures of federal awards representing 37% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2014. Those audits were performed by other auditors whose reports on compliance with requirements applicable to each major federal program were furnished to us, and this report, insofar as it relates to those programs that were audited by other auditors, is based solely on the reports of the other auditors.

The State's major federal programs are identified in the Section I - *Summary of Auditor's Results* of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit, and the reports of the other auditors, provide a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the State's compliance.

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

Basis for Qualified Opinions on the Highway Planning and Construction Cluster, Nutrition Cluster, Special Education Cluster, and ARRA – State Fiscal Stabilization Fund – Race to the Top Incentive Grants

As described in Findings 2014-037 and 2014-055 in the accompanying schedule of findings and questioned costs, the State did not comply with the requirements regarding the following:

Finding #	CFDA #	Program (Cluster) Name	Compliance Requirement
2014-037	20.205	Highway Planning and Construction Cluster	Special Tests and Provisions – Utility Accommodation Policy
2014-055	10.553 10.555 10.556 10.559	Nutrition Cluster	Subrecipient Monitoring
2014-055	84.027 84.173	Special Education Cluster	Subrecipient Monitoring
2014-055	84.395	ARRA – State Fiscal Stabilization Fund – Race to the Top Incentive Grants	Subrecipient Monitoring

Compliance with such requirements is necessary, in our opinion, for the State to comply with the requirements applicable to those programs.

Qualified Opinion on Highway Planning and Construction 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 Highway Planning and Construction Cluster for the year ended June 30, 2014.

Qualified Opinion on Nutrition 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 Nutrition Cluster for the year ended June 30, 2014.

Qualified Opinion on Special Education 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 Special Education Cluster for the year ended June 30, 2014.

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

Qualified Opinion on ARRA - State Fiscal Stabilization Fund – Race to the Top Incentive Grants

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 ARRA - State Fiscal Stabilization Fund – Race to the Top Incentive Grants for the year ended June 30, 2014.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, 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, 2014.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Findings 2014-031, 2014-034 and 2014-074. Our opinion on each major federal program is not modified with respect to these matters.

The State's responses to the noncompliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and immediately follow each finding. 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.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration, and the other auditors' consideration 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, and the other auditors, identified 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. A *material weakness in internal control over*

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

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, and the other auditors, consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings 2014-027, 2014-035, 2014-036, 2014-037, 2014-051, 2014-052, 2014-053, 2014-054, 2014-055, 2014-056, 2014-057, 2014-060, 2014-061, 2014-063, 2014-065, 2014-066, 2014-067, 2014-068, 2014-069, 2014-071, 2014-072, 2014-073 and 2014-076 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, and the other auditors, consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings 2014-026, 2014-028, 2014-029, 2014-030, 2014-032, 2014-033, 2014-038, 2014-039, 2014-040, 2014-041, 2014-042, 2014-043, 2014-044, 2014-045, 2014-046, 2014-047, 2014-048, 2014-049, 2014-050, 2014-058, 2014-059, 2014-062, 2014-064, 2014-070, 2014-075 and 2014-077 to be significant deficiencies.

The State's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and immediately follow each finding. 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dennis E. Hoyle, CPA
Auditor General

March 27, 2015

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 opinion

Opinion Unit	**Opinion**
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 an Unmodified opinion for all major programs except for the following programs in which it expressed a qualified opinion:

Program	**CFDA #**
Nutrition Cluster	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
Highway Planning and Construction Cluster	20.205
Special Education Cluster	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
ARRA - State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants	84.395

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

7) Major programs are listed in the table below.

Major Programs

Program Title:	***CFDA Number***
Supplemental Nutrition Assistance Program (SNAP) Cluster:	
Supplemental Nutrition Assistance Program (SNAP)	10.551
State Administrative Matching Grants for the SNAP Program	10.561
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Mortgage Insurance – Homes	14.117
Section 8 Project-Based Cluster:	
Section 8 Housing Assistance Payments Program – Special Allocations	14.195
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
Section 8 Housing Choice Vouchers	14.871
Unemployment Insurance	17.225
Airport Improvement Program	20.106
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants	84.007
Federal 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
Federal Family Education Loans (Guaranty Agency)	84.032
Special Education Cluster:	
Special Education – Grants to States (IDEA Part B)	84.027
Special Education – Preschool Grants (IDEA Preschool)	84.173
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126
ARRA - State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants	84.395
ARRA - Race to the Top – Early Learning Challenge	84.412
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525

Major Programs ***Program Title:***	***CFDA Number***
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 and Development Fund	93.596
Foster Care - Title IV-E	93.658
Social Services Block Grant	93.667
Children's Health Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777
Medical Assistance Program	93.778
Research and Development Cluster	Various

8) The dollar threshold used to distinguish between Type A and Type B programs was $13,365,016.

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

Finding 2014-001 ***(significant deficiency- repeat finding)***

STRATEGIC AND BUSINESS CONTINUITY PLANNING FOR CRITICAL FINANCIAL COMPUTER SYSTEMS

The State lacks a strategic plan to (1) complete its implementation of a comprehensive Enterprise Resource Planning (ERP) financial system, which began in 2001, 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.

The Rhode Island Financial and Accounting Network System (RIFANS) is used to meet the State's accounting and financial reporting responsibilities. RIFANS, utilizing the Oracle E-Business Suite software, was intended as a comprehensive, integrated ERP system for the State. The intent of an ERP system is to optimize integration thereby enhancing efficiency.

The State purchased multiple modules within the Oracle E-Business Suite software but has not implemented certain modules (e.g., human resources, grants and projects, accounts receivable, and human resources benefits). Completion of the system has stalled over the years due to (1) lack of committed financial resources, (2) skepticism and uncertainty that the Oracle modules are the desired solution, and (3) inability to attract and retain Oracle trained personnel to maintain/implement existing or additional system functionalities.

Because the ERP system is incomplete, important functionalities are currently met either through legacy systems or through multiple departmental processes without the intended integration and efficiencies. This results in business continuity risk, decreased efficiency and effectiveness, and control weaknesses.

The State's information technology environment is complex due to the scope and interrelationship of the multiple systems operating within State government. Additionally, there is a wide range in the "ages" of the technology employed – some critical systems utilize outdated technology which makes these operations vulnerable from a business continuity and systems security perspective. Certain of these legacy systems utilize software that is no longer supported and the availability of skilled personnel to work on the systems is limited. In other instances, the State has not timely implemented software upgrades which may limit vendor support and exposes the application to other vulnerabilities.

The State's payroll system is a key example of a critical computer system that results in business continuity risk. The payroll system processes payroll for over 14,000 employees totaling more than $965 million in fiscal 2014 and meets the provisions of 100 separate collective bargaining agreements as well as contributions to health and pension benefit plans and other required withholdings. The payroll system utilizes outdated technology and is maintained by a very small group of employees. It still utilizes a legacy account structure that was replaced upon implementation of RIFANS. External support for the system, if required, would largely be unavailable. Documentation of the system has not been maintained consistent with current IT standards further challenging consideration of external support or development of a replacement system.

Implementing a new payroll system that meets current information technology standards would be a significant challenge and undertaking; however, planning for that eventuality is necessary. Payroll processing alone is a critical functionality that should be better integrated into the ERP system. Further, conversion to a modern platform is needed to allow other integrated functionalities to progress such as grants and project management and cost allocation.

While RIFANS is largely effective and reliable for the functionalities that are operational, there is substantial need and opportunity for further efficiencies to be accomplished through completion of the

ERP system. Inefficiencies result when departments pursue individual solutions to their needs, where a comprehensive ERP solution could yield a uniform, more efficient, and overall cost-effective solution. For example, the Executive Office of Health and Human Services is engaging a consultant to develop a cost allocation plan and process just for its Medicaid program operations. There are numerous cost allocation systems and vendor supported solutions throughout State government none of which is uniform or integrated into centralized accounting system.

Various subsidiary accounting systems (largely departmental cost allocation systems) which process material classes of expenditures have not been converted to the RIFANS account structure and continue to use an old account structure that was replaced in July 2001. Consequently, account conversion tables must be continually maintained which increases the risk that data may be misposted in the accounting system. This adds unnecessary complexity to the overall internal control structure and requires that certain employees remain knowledgeable about and even create new accounts (to match new activities or programs within RIFANS). These legacy systems also present business continuity risk since, like the payroll accounting system, they utilize outdated technology, are largely undocumented, and are maintained by a very small staff without backup and limited opportunities for external support.

Because both the financial and technical personnel resources necessary to complete the ERP system as originally envisioned are scarce, the State has been understandably reluctant to proceed. Further, the challenge in attracting qualified technical employees to support or assist in the implementation of new IT projects has the State considering outsourcing to meet these needs. The potential loss of integration and weakened controls that could result if various functionalities are outsourced and are not resident within the ERP system must be adequately considered.

Despite the acknowledged challenges in advancing or completing the ERP system, the importance of these functionalities to overall State operations requires continued attention. Significant costs are likely to be incurred replacing or improving the individual departmental systems, many of which are unsupported, utilize outdated legacy structures, and lack the benefits of widely available technology. These costs must be evaluated against comprehensive, uniform ERP solutions.

A comprehensive strategic plan, consistent with the vision of an integrated ERP system, should be prepared. The strategic vision for the ERP system and other mission critical financial systems must resolve the continuing skepticism and uncertainty regarding whether completion of the ERP system by implementing additional Oracle modules is the desired solution. Regardless, the plan must ensure that the desired integration aspects of the ERP system can be met.

Many of the ERP functionalities pending implementation are interdependent. Consequently, implementing these functionalities is challenging and requires a coordinated timeline. Further, due to the significant scope of the remaining components, adequate resources must be identified and committed to the tasks.

<u>RECOMMENDATIONS</u>

2014-001a Develop and implement a comprehensive strategic plan to address the completion of the State's ERP system and the business continuity risk presented by critical legacy financial systems.

2014-001b Ensure that the strategic plan identifies the amount of resources (both State and/or contracted personnel) needed to either a) support a fully-integrated State ERP system or b) transition to and monitor systems or functions outsourced by the State.

2014-001c Establish a timeline to migrate all systems currently using the legacy account structure that was replaced in 2001 to the RIFANS account structure.

Corrective action plan / auditee views:

The Division of Information Technology (DoIT) in conjunction with the Office of Digital Excellence (ODE) is working to develop a comprehensive strategic plan for all critical business applications, including legacy financial systems. The plan will address the hierarchy of the systems, business continuity and disaster recovery plans, and the long-term approach to remediate findings for each major application. DoIT and ODE will also be working with the respective agencies and departments to determine the outstanding requirements and business needs over the next six months in preparation for a potential capital submission to address ongoing funding shortfalls.

Anticipated Completion Date:	*September 30, 2015*
Contact Person:	*Thom Guertin, Chief Digital Officer* *Phone: 401.222.2280*

Finding 2014-002 **(*significant deficiency - repeat finding*)**

SEGREGATION OF DUTIES WITHIN FUNCTIONS PERFORMED BY THE OFFICE OF THE GENERAL TREASURER

Appropriate controls over cash receipts and disbursements require segregation of duties. Specifically, the authorization and recording of transactions should be performed by individuals totally separate from those with responsibility for the actual disbursement and receipt of cash and subsequent reconciliation of bank and book balances. The Office of the General Treasurer's RIFANS system access allows certain employees to initiate and approve accounting transactions while also having responsibility for performing bank account reconciliations and initiating check printing and funds transfers from State bank accounts. During fiscal 2014, numerous journal entries recording receipts, adjustments, and allocations, were initiated and departmentally approved by Treasury personnel. Certain of these functions are less segregated than they should be resulting in weakened controls over the State's cash receipts and disbursements.

While the State has implemented various compensating controls to mitigate this risk, optimal financial control would fully segregate an organization's treasury and accounting functions to safeguard against asset misappropriation. Treasury should have responsibility for disbursing cash and executing funds transfer but have no responsibility for initiating or approving accounting entries. Segregation of duties could be enhanced through relocation of the revenue/receipt accounting transaction function from the General Treasurer's Office to the Office of Accounts and Control.

RECOMMENDATION

2014-002 Reorganize accounting responsibilities performed by the Office of the General Treasurer to ensure proper segregation of duties. Consider moving all functions relating to initiating, approving and recording transactions to the Office of Accounts and Control.

Corrective action plan / auditee views:

The lack of a state-wide deployment and system limitations in the state's RIFANS ERP system have necessitated that the Office of the General Treasurer perform certain accounting *transactions to meet stringent timelines for funds transfers and also to ensure the timely recording of transactions generated by subsidiary accounting systems within other state agencies.*

The Office of the General Treasurer fully supports the completion of the RIFANS ERP system. However, Management disagrees with the Auditors recommendation to reorganize responsibilities. In light of the practical and systemic constraints, Management has made substantial effort to ensure that appropriate compensating controls are in place to mitigate the risk imposed by system limitations inherent to the state's RIFANS ERP system.

Moving the initiation and approval of certain entries to the Controller's office (or to constituent agencies) may have substantial negative impacts on control and financial reporting. These impacts include but are not limited to a substantial increase in the number of reconciling variances (as the timely and accurate recording of entries by staff unfamiliar with the reconciliation process may not occur) and a dramatic delay in the completion of monthly bank account reconciliations.

The Office of the General Treasurer, in consultation with the Controller's office will review the current workflows and business practices to improve segregation where possible and to ensure compensating controls are as robust as possible given the systemic constraints.

Anticipated Completion Date: *Ongoing*

Contact Person: *Patrick Marr*
Chief Operating Officer / Deputy Treasurer
Phone: 401.462.7664

Auditor's response:

We acknowledge that RIFANS system limitations have resulted in the Office of the General Treasurer having access to initiate and approve transactions in the accounting system. However, segregation of duties related to both treasury and accounting functions is a critical internal control component designed to prevent potential asset misappropriation from going undetected.

Finding 2014-003 ***(significant deficiency – new finding)***

COMPREHENSIVE GENERAL LEDGER CONTROLS OVER RECEIVABLES

The State can 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 is susceptible to omission. Accounting and monitoring controls over the State's receivables in aggregate are limited.

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. Controls are enhanced when there are effective general ledger controls over all receivable balances with periodic reconciliation to detail subsidiary accounts receivable systems. Additions and reductions (payments) 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.

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 and post information to the general ledger. Because receipts/revenue are now recorded directly to the general ledger, access to initiate and approve general ledger transactions is broader than would otherwise be required.

The Office of Accounts and Control is beginning a pilot implementation of the existing revenue/receivables module that is part of the Oracle E-Business Suite software with the aim of determining whether that module could be effective in enhancing controls over receivables. Other options may also need to be considered, specifically as part of the completion of the State's ERP system (as more fully discussed in Finding 2014-001) to enhance the State's controls over receivables, in aggregate, given the complicated and decentralized nature of revenue collection points throughout the State.

<u>RECOMMENDATION</u>

2014-003 Evaluate the effectiveness of the pilot Oracle E-Business Suite revenue/receivables module implementation and assess the need to explore other ERP integrated system options to enhance statewide general ledger controls over receivables.

<u>Corrective action plan / auditee views</u>:

The Controller's office (office) disagrees with the significant deficiency classification of this finding and the recommendation.

The classification of this new Fiscal 2014 finding as a significant deficiency in internal control over financial reporting is misleading to the reader. The reader should note that the auditors did not propose a financial reporting adjustment in this area as a result of existing controls. Certainly, there is always an opportunity to review and enhance accounting processes when manual tasks are involved; however, that fact alone should not lead to a significant deficiency classification in an audit report.

Considering the complex structure and myriad of systems that exist within a governmental environment, the auditor's recommendation is based more on conceptual theory than a practical solution. For example, the majority of net receivable balances are derived from the Division of Taxation (division) which currently tracks receivables at a detailed level in a separate system. Furthermore, the division is in the midst of a new integrated tax system project that will significantly enhance functionality in this area. Allocating resources to explore other ERP options (as stated in the recommendation) to exist between the new integrated tax system and the State's general ledger would be ill advised as it will create redundant and inefficient processes. Accordingly, the office is working with the division to post receivable balances periodically to the State's general ledger to improve tracking. Due to the enhanced processing capability of the *integrated taxation system, it is a relatively straightforward change that does not require significant resources to implement.*

It is also important to note that the office was already evaluating the possible use of the Oracle receivables module prior to this new finding. The office is working to identify non-tax related receivable types that may be recorded within this module without creating redundant processes.

Anticipated Completion Date: *N/A*

Contact Person: *Marc Leonetti, State Controller*
Phone: 401.222.2271

Auditor's response:

This finding (and corresponding classification) is based on our consideration of the design of comprehensive general ledger controls over all receivables included within the financial statements. Controls are enhanced when new receivables and collection of receivables are recorded as transactions occur rather than through adjustment to match external subsidiary balances.

Finding 2014-004 ***(material weakness - repeat finding)***

CONTROLS OVER FEDERAL PROGRAM FINANCIAL ACTIVITY

The State needs to improve controls over recording federal revenue to ensure (1) amounts are consistent with the limitations of grant awards from the federal government and (2) claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system. Further, statewide accounting functionalities within the ERP system should be implemented to support time reporting/payroll, grants management, and cost allocation – all functionalities that are integral to controls over and the management of federal programs.

Federal programs represented 39% of fiscal 2014 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.

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

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

The Office of Accounts and Control requires completion of a *Federal Grants Information Schedule* (FGIS) by the administering departments and agencies. The goal of the FGIS is to reconcile RIFANS program activity with amounts drawn and claimed on federal reports. The FGIS process is ultimately limited in its overall effectiveness to improve controls over federal revenue recognition. Presently, there is no statewide control measure to ensure that grant expenditures do not exceed available award authority.

Federal Grants Management and Cost Allocation

The State's incomplete ERP system - RIFANS - 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 systems - most of which are duplicative and utilize old and sometimes unsupported technology.

In general, each department within State government captures time and effort information, distributes costs to programs, and manages its federal grants in its own unique way. None of these processes or systems operates similarly, shares a common control structure or is integrated into RIFANS.

Time and effort data collected within an integrated system could be used to automatically distribute costs to various programs and activities. Because these functionalities are lacking in RIFANS, a high volume of manual accounting entries, supported by data derived from various departmental cost allocation processes and departmental systems, is required to distribute direct and indirect costs to various programs and activities. These manual accounting entries are adequately controlled from an authorization and access perspective but are not uniformly or sufficiently controlled from a sourcing or supporting documentation perspective.

The lack of full integration of these system functions results in delays in federal reimbursement as well as potentially impacts the timeliness and accuracy of reporting these program expenditures in RIFANS. The necessary journal entries required by State agencies to adjust indirect costs to federal programs can lag as much as one or two quarters during the fiscal year while independent time reporting and cost allocation processes get completed.

The State's Office of Management and Budget (OMB) and the Office of Accounts and Control should coordinate statewide accounting and monitoring processes to enhance controls over federal program financial activity for financial reporting purposes but also to ensure compliance with federal program requirements.

RECOMMENDATIONS

2014-004a Improve functionality with the statewide ERP system to facilitate federal grant administration (grants management, cash management, and cost allocation).

2014-004b Build statewide processes over federal grant administration within the Office of Management and Budget to supplement accounting controls within the RIFANS accounting system.

Corrective action plan / auditee views:

2014-004a - In the last legislative session, the General Assembly approved the allocation of a share of anticipated receipts from a debt refinancing to the Information Technology Investment Fund to provide resources to support IT projects. The Governor's 2016 Budget proposes $3.0 million for this purpose. Given the level of funding, projects will have to be prioritized. Other *resources in future years should allow additional projects to be completed, but over a longer time frame than originally anticipated.*

2014-004b - The OMB's Grants Management Office has made significant progress over the last two years with regard to federal grants administration.

To enhance management of federal funds statewide, OMB's Office of Grants Management instituted a systematic collection of federal award data from all State agencies into a Federal Award Catalog and State agencies update the catalog quarterly. As of July 1, 2015, agencies are required to report expenditures against awards and agencies were required to include a standardized federal award funding report as part of the FY2016 budget submission. The Office also works closely with the Budget Office and Accounts and Controls on federal funding issues.

In SFY2015, the Grants Management Office organized a training series on the new OMB Uniform Grant Guidance. The series is designed to improve all aspects of grants management including compliance with the new OMB Uniform grant Guidance.

The OMB's Grants Management Office will continue its effort to standardize, streamline, and improve the federal award business process. As part of this work, the Office will continue to provide training, technical assistance, and resources to agencies on grants administration.

Anticipated Completion Date: *Ongoing*

Contact Person: *Laurie Petrone – Director*
Office of Federal Grants Administration
Phone: 401.574.8423

Finding 2014-005 ***(material weakness - repeat finding)***

MEDICAL ASSISTANCE PROGRAM – PROGRAM OVERSIGHT AND MONITORING

The Executive Office of Health and Human Services (EOHHS) is responsible for the administration and oversight of the State's Medicaid program (and related State Children's Health Insurance Program which is operated as an expansion of the Medicaid program). Medicaid is the single largest programmatic activity of the State with more than $2.3 billion in annual expenditures representing 38% of the State's General Fund expenditures for fiscal 2014.

EOHHS employs a fiscal agent and various other contractors to perform various program operations. This interplay of employees, consultants and vendors adds to the complexity of the control structure for the Medicaid program. EOHHS can enhance and formalize its overall monitoring of key controls over program operations to ensure contracted functions are performed as intended and to ensure compliance with State and federal laws and regulations. Federal regulations require non-federal entities to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

We noted significant control deficiencies relating to the effective administration and monitoring of the following critical aspects of the program:

- *Implementation of the federal Affordable Care Act (ACA) and Unified Health Infrastructure Project (UHIP)* – the State's implementation of ACA, including the new UHIP computer system used to determine Medicaid eligibility, significantly modified the control environment over Medicaid eligibility determinations. Various vendors and consultants were engaged to develop and implement the new eligibility determination system and other new external parties (contracted contact call center) were involved in the eligibility determination process. We found that key data interfaces used to validate applicant self-attested data were not operational during fiscal 2014 thereby significantly weakening system controls over eligibility determinations.

- *Contracted program functions* – EOHHS, as the single State Medicaid agency, uses numerous consultants and contractors within the operation and administration of the Medicaid Program. However, EOHHS's program oversight and monitoring responsibilities remain as the agency ultimately responsible for the administration of the program. EOHHS is responsible for the consideration and documentation of internal controls over significant program operations (i.e., program eligibility, contract compliance, and provider payments, as examples). Due to the size and complexity of the Medicaid program, the State should formalize its monitoring procedures relating to operations performed by contractors to ensure that all significant control risks are being mitigated through those procedures. Examples of significant program operations that were not adequately monitored in fiscal 2014 included: a) claiming to the State Children's Health Insurance Program which is almost entirely determined through processes performed by consultants; and b) various settlements with managed care organizations (PCP Bump and Risk/Gain Share) delegated to EOHHS's managed care consultants. In both examples, EOHHS did not perform any additional procedures to validate the accuracy of these expenditures claimed to federal programs.

- *Program operations administered by other State departments and agencies* – A significant volume of services are paid through Medicaid for (1) children in the State's custody, (2) developmentally disabled adults, and (3) various CNOM programs (costs not otherwise matchable under Medicaid) operated by the Department of Children, Youth, and Families (DCYF), the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH), and other State agencies. Significant control weaknesses have been identified over these program areas.

- *Controls over Eligibility* – EOHHS's inability to conduct timely Medicaid Eligibility Quality Control (MEQC) reviews has weakened controls over recipient eligibility.

- *Surveillance Utilization Review Services (SURS)* - We observed that inadequate staffing at the fiscal agent's SURS unit had caused many Level III cases, those with the potential to involve fraud and/or abuse, to remain unresolved for extended periods.

- *Comprehensive Information Technology Systems Security Reviews* – The Medicaid program operates through major information technology applications (MMIS, UHIP and INRHODES) that are supported/operated by vendors. These applications must be consistently monitored from a systems security perspective to ensure adherence to security objectives and to meet federal program requirements.

EOHHS should formalize specific monitoring procedures to ensure proper oversight and control over program expenditures that approximated $2.3 billion in fiscal 2014. A formalization of its monitoring procedures should include identification of specific program activities determined significant to the related federal programs (Medicaid and SCHIP) as a whole and how defined monitoring and oversight procedures are designed to reduce the risk of program noncompliance going undetected in those areas.

<u>RECOMMENDATION</u>

2014-005 Enhance and formalize monitoring procedures over significant Medicaid and SCHIP program activities particularly those functions delegated to consultants and vendors to ensure performance and program compliance.

Corrective action plan / auditee views:

EOHHS has taken significant steps over the last two years in order to improve its ability to administer and oversee the State's Medicaid Program. Among these are the developments of three new offices within EOHHS: the Office of Program Integrity; Office of Policy and Innovation; and in 2014, the Office of Operations. These new areas will have specific focus on the Medicaid Program as well as overall health and human services programs. EOHHS will address the critical program areas cited in the following ways:

Implementation of the Affordable Care Act (ACA) and Unified Infrastructure Project (UHIP) – When the issue was identified in June 2014, we took immediate steps to resolve the issue by correcting the interface issue and sending notices to the people who MAY have received MAGI Medicaid incorrectly. The Remediation steps are below:

- *Code fixes were implemented to resolve the income interpretation logic and made available in the system on June 09, 2014 and June 16, 2014. DLT refresh was also initiated at this time. This prevented any further individuals from getting impacted by the issue.*

- *Remediation of individuals impacted by this issue followed a Multi-phase process. The goal was to allow individuals to provide supporting documentation and only terminate from Medicaid on failure to provide the information. A key decision made during on-going meetings was to effectuate changes prospectively due to the large population impacted and manual effort required by Health Plans to determine if claims were filed and paid.*

    - *Phase 1: Notify individuals to submit supporting documents that verify current income. Eligibility Status of individuals was changed to "Medicaid Pending" and they were requested to provide additional documentation to support reported Current Income (via the Additional Documentation Required notice). Notices were mailed to individuals from 7/11/2014-7/25/2014.*

    - *Phase 2: Terminate as required. Individuals who failed to provide the requested documentation within the 15 day period were sent a 'Medicaid Termination Notice' and terminated effective 08/31/2014.*

    - *Individuals in incorrect Aid Categories had application re-submitted from the system to move them in the correct Aid Category.*

    - *SWICA Data Access Strategy: DLT refreshes its State Wage Income Collection Agency (SWICA) data on a quarterly basis in its data base. Once data is refreshed by DLT, it is available to UHIP in real-time. To access income information about an individual in UHIP, a Database call is made from UHIP using the SSN and the income is returned by DLT.*

Contracted Program Functions – In spring 2014, the Office of Policy and Innovation, Management Information Services Administrator hired two chiefs to be responsible for the oversight of the fiscal agent contract and the systems integrator vendor hired to build and implement the new eligibility system. The Management Information Services Unit now has six state FTEs as well as one consultant hired through the MPA list.

The Medicaid Program has traditionally been responsible for the oversight and monitoring of contracts with managed care organizations. While this oversight and monitoring is supported by contracted personnel, ultimate responsibility lies with state staff.

<u>Program operations administered by other State departments and agencies</u> – EOHHS has undertaken a review of the inter-agency service Agreements with each agency and will use the exercise to strengthen these agreements with other State departments and agencies. The newly appointed Deputy Secretary for Operations will be involved in ensuring that these agreements are fully implemented and will work with the other agencies to ensure compliance. The Deputy Secretary has already conducted several meetings on this subject and is in the process of reviewing all of the interagency agreements with the OHHS staff. The next step in this process is to meet with the other agencies to continue the dialogue that has occurred up to this point in order to strengthen these agreements. The development and work of the EOHHS Office of Program Integrity has greatly enhanced EOHHS ability to monitor other Departments' compliance with State and Federal requirements and that division will be reporting to the Deputy Secretary any and all issues that may affect compliance.

<u>Controls Over Eligibility</u> – Beginning with Federal Fiscal Year 2014, CMS notified states that the MEQC and the Payment Error Rate Measurement (PERM) eligibility reviews would be combined into the Eligibility Pilot Program (EPP) for Federal Fiscal Years 2014 – 2016. CMS reasoned that the method of determining Medicaid eligibility changed to Modified Adjusted Gross Income (MAGI) on October 1, 2013 and therefore the traditional eligibility audits no longer were adequate. CMS will issue new guidance covering eligibility audits for Federal Fiscal Year 2017 forward.

The MEQC unit is conducting the EPP reviews, beginning with eligibility determinations made beginning October 1, 2013. For the eligibility pilots, each state is required to submit sampling plans to CMS for approval for rounds 1 & 2, draw the samples, perform the reviews, and report the results to CMS. For round 3 eligibility reviews, MEQC and EOHHS will be working with CMS' Eligibility Support Contractor (ESC) during the audit process.

<u>Surveillance Utilization Review Services (SURS)</u> - The SURS team has made significant improvements towards addressing the backlog of Level III cases showing a 37 percent improvement. At the end of 2013 there were 69 Level III reviews pending. SURS closed 26 of those in 2014. Additionally, in November of 2015, SURS hired another nurse auditor who is actively reviewing cases and training on the MMIS. The addition of this position is expected to reduce the backlog significantly and to keep new cases current.

<u>Comprehensive Information Technology Systems Security Review:</u>

<u>MMIS</u> - The MMIS system underwent a comprehensive SOC audit regarding its security systems between the period of July 1, 2013 and June 30, 2014. No issues were identified as a result of this review. Medicaid Management Information System (MMIS) oversight and security activities follow guidelines outlined in 45 CFR 95.621. The State and its fiscal agent, HP Enterprise Services (HPES), conduct ongoing activities to ensure the security and privacy of the information housed in the MMIS.

Notable MMIS controls are:

- *<u>System Modification</u> - All modifications to MMIS have a statement of work (SOW) and Business Design Document (BDD) associated with the project. Each element requires a sign off by the stakeholder before the project can move forward. Upon completion and before moving to production a walkthrough is conducted to demonstrate the results of testing and to demonstrate the modification works as designed. The walkthrough requires another sign off by the stakeholder.*

- *Quarterly Contract Monitoring - Quarterly contract monitoring meetings are held with the State to review system performance and various metrics from the preceding quarter.*

- *Disaster Recovery & Business Continuity Plan - These plans are reviewed annually, or as needed, by the State with HPES. The Disaster Recovery Plan is tested annually.*

- *Medicaid Account Privacy and Security Policies and Procedure Manual - The HPES security policies contained in the manual include, Security Management Process – Risk Analysis, Risk Management, Sanction Policy, Information System review, Workforce Security, Information Access Management, Security Awareness & Training Programs, Security Incident Procedures, Contingency Plan – Data Backup, Technical Safeguards, and Privacy.*

- *Annual SOC Audit (Formerly SAS 70 Type II) - Conducted annually by Ernst & Young, the SOC audit covers the nine (9) major topic areas. Audits in 2013 and 2014 did not contain any findings by Ernst & Young.*

- *Security Meeting - The security team meets quarterly to discuss and review any incidents in the previous quarter. If needed, corrective action plans are initiated to correct deficiencies.*

- *Project Meetings - Weekly project meetings are held with the State and HPES staff to discuss the status of all ongoing projects.*

- *Reporting - Annually HPES assembles all documentation for statements of work, business design documents, walkthroughs, quarterly meetings, Disaster Recovery Plan, System Security Plan, SOC audit report, etc. for review by the State and the Auditor General as part of the contract oversight and monitoring activities.*

Unified Health Infrastructure Project (UHIP) - The Rhode Island UHIP (Unified Health Infrastructure Project) application's security measures follows the strict guidelines imposed by CMS and the IRS, based on NIST (National Institute of Standards and Technology) 800-53 standards and the IRS Publication 1075. Using the federal standards, Rhode Island has implemented protection in the security control areas such as physical access, configuration management, audits, contingency plans, technical security, incident response, maintenance, media controls, physical security, security planning, risk management, network/communications security. The security of the UHIP site has been directed by the State of Rhode Island with much of the work carried out by Deloitte Consulting, the system integrator chosen by the state for the integrated MAGI Medicaid and Exchange public web portal and the Administration portal. UHIP has certain federal requirements that mandate constant monitoring.

Among the many monitoring program documents employed are:

- *Security Plan – CMS requires this plan that describes the system's security in its entirety. This extensive document outlines all security responsibility and controls. It is the main document for security controls and has been approved by CMS.*

- *Security Team – This multi-agency and technical stakeholder team meets once per week in order to review milestones for compliance with state and federal law along with up to date best practices for system security.*

- *Plan of Action and Milestones (POA&M) – This quarterly report is sent to CMS to report on scheduled milestone and how potential weaknesses are being addressed by the State.*

- *Privacy Impact Assessment (PIA) – This report describes how all data is stored and controlled relating to the privacy of citizens. CMS reviews this report and comments on security suggestions and system updates.*

- *IRS Safeguard Procedures Report (SPR) – This report explains compliance with all IRS mandated 1075 Requirements. This was sent to the IRS upon system start-up and was followed up with an audit in July of 2014 and had findings, separated into delivery timelines of three, six, nine, and twelve months from the time of the visit. Rhode Island, through its Chief Security Officer and other personnel, has been addressing the findings and will continue to work on the required changes to meet the IRS deadlines. The IRS has been monitoring Rhode Island's compliance with its regulations.*

Anticipated Completion Date: *On going*

Contact Person: *Wayne Hannon, Deputy Secretary - Administration*
Phone: 401.462.6005

Auditor's response:

While we acknowledge the actions outlined in EOHHS's corrective action plan, our finding focuses on the need for comprehensive consideration of how specific monitoring procedures are utilized and could be better integrated to mitigate the risks of noncompliance in critical program areas. Certain control activities may be delegated to contractors; however, validation of the performance of those activities remains with EOHHS and should be included within the recommended comprehensive monitoring plan.

Finding 2014-006 *(significant deficiency - new finding)*

CONTROLS OVER ADVANCES TO MEDICAID PROVIDERS

Medicaid provider payments are typically made after the underlying provider claims are processed through the Medicaid Management Information Systems (MMIS). In certain instances, an advance payment may be made for estimated amounts prior to formal claims adjudication. The advances should be tracked and recorded within the MMIS as prepayments (or provider receivables) to be offset against actual claims activity.

The Executive Office of Health and Human Services (EOHHS) authorized two advances approximating $2.6 million to a hospital provider for fiscal 2014 services rendered but unbilled. The advances reimbursed the provider for neonatal intensive care unit services for newborns whose Medicaid eligibility processing was delayed in fiscal 2014.

EOHHS intended to recoup these provider advances when the newborn eligibility issue was resolved thereby allowing the claims to process. In order to defer immediate recoupment of the advance from other payments to the provider, the advances were not recorded within the MMIS as advance payments or provider receivables. This resulted in the advance (receivable) being omitted from amounts reported at fiscal year-end for accrual within the State's financial statements.

EOHHS must enhance controls over provider advances to ensure that all such payments are accurately reflected in the MMIS. Procedures should be modified to automatically record advances through a system default but allow the timing of recoupment to be modified as necessary. This would ensure that all advances are appropriately reflected both within the MMIS and the State's financial statements.

RECOMMENDATION

2014-006 Ensure all Medicaid provider advances are recorded by modifying MMIS system default accounting procedures.

Corrective action plan / auditee views:

Although the circumstances surrounding the two advances cited were very unique, EOHHS agrees with the auditors finding and recommendation. The State's fiscal agent, HP Enterprise Services has now instituted improved procedures to manually record and track all advance payments including actual and prospective recoupments. The capability of this function to be handled in the MMIS does not currently exist.

EOHHS recognizes the advantage of an automated process and will investigate the technical and financial feasibility of making system modifications to the MMIS to enable the automatic recording and managing of all advances and recoupment schedules.

Anticipated Completion Date: *Completed*

Contact Person: *Wayne Hannon, Deputy Secretary - Administration*
Phone: 401.462.6005

Finding 2014-007 ***(material weakness - repeat finding)***

COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES

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 the sensitive data accumulated within State operations remains safe and secure with access appropriately controlled.

The oversight and management of the State's information security program relies upon the implementation of DoIT's comprehensive information systems security plan that was finalized during fiscal 2006. The information systems security plan consists of detailed policies, procedures, standards, and guidelines that are designed to safeguard all of the information contained within the State's critical systems. As observed by an internal review performed by the Bureau of Audits, many of these policies require updating to current standards and other critical areas of the IT security plan need to be addressed which necessitate new policies.

The State has still not ensured that all of its critical information systems are compliant with these formalized policies and procedures. Due to the number, type, and complexity of systems within state government, the task is challenging and has not been adequately staffed. Consequently, a risk-based approach should be implemented where those systems deemed most critical or most at risk are prioritized for assessment.

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

Lastly, the State should make appropriate use of external system assessments and reviews whenever available. In many instances, State systems are operated by external parties or interface with external processing entities. These entities often provide Service Organization Controls (SOC) reports which typically include identification and testing of key controls within the application or organization. A number of these reports are available and should be accumulated and reviewed within DoIT as part of a risk-based approach to assessing and ensuring IT security compliance. This may assist in broadening the coverage of the State's many systems in light of the minimal resources allocated to this function.

The State must evaluate each mission critical information system's compliance with formalized system security standards. This process will identify those mission critical systems that represent significant information system security risks within its operations. Once completed, the State should prepare a corrective action plan that prioritizes significant security risks identified and ensures that all security deficiencies are addressed in a timely manner.

RECOMMENDATIONS

2014-007a Update existing policies and implement new policies where required to ensure DoIT's IT security policies and procedures conform to current standards and address all critical systems security vulnerabilities.

2014-007b Complete an initial assessment of compliance with systems security standards for the State's mission critical systems.

2014-007c Consider contracting for the performance of IT security compliance reviews and accumulate and make use of available Service Organization Control reports, whenever available, to extend IT security monitoring of critical systems.

2014-007d Prepare a corrective action plan that prioritizes significant system security risks with the goal of achieving compliance of all significant State systems with DoIT's formalized system security standards.

2014-007e Require systems security certification procedures to be performed by DoIT prior to any significantly modified application systems becoming operational.

Corrective action plan / auditee views:

2014- 007a - DOIT is currently re-writing many of its current policies and also introducing new policies to address current standards. Over twenty re-written and new policies are currently under review by legal and other staff and once approved will be re-distributed.

Anticipated Completion Date: *December 31, 2015*

2014-007b - The Department of Administration under the direction of the Chief Information Security Officer (CISO) will continue to work on the initial assessment of compliance with system security standards for the State's mission critical systems.

Anticipated Completion Date: *Ongoing*

2014-007c - DOIT will be adding additional MPA 230 security roles in the next MPA 230 RFP. These roles will allow for DoIT to procure additional security staff and also procure staff on fixed price deliverables to perform such audits. Funding would still have to be secured to proceed with having external organizations perform security audits.

Anticipated Completion Date: *Ongoing*

2014-007d – The Bureau of Audits performed an audit of internal procedures in this area. As a result of this audit, there are many recommendations that DOIT will be addressing and will incorporate as part of its internal security review.

Anticipated Completion Date: *TBD*

2014-007e - Currently, all new projects come through the PRC (Project Review Committee). Any new project that gets approved must provide the Chief Information Security Officer (CISO) a written security plan for review and approval.

Anticipated Completion Date: *Ongoing*

Contact Person: *Kurt Huhn, Chief Information Security Officer*
Phone: 401.462.9292

Finding 2014-008 ***(material weakness - repeat finding)***

INFORMATION TECHNOLOGY (IT) SYSTEMS - PROGRAM CHANGE CONTROLS

The State does not follow uniform enterprise-wide program change control procedures for the various IT applications operating within State government. Program change controls are a critical IT control component to ensure that authorized changes are appropriately made to programs with testing and acceptance before being placed in production. Additionally, program change control procedures prevent and detect unauthorized program modifications from being made.

Almost all custom developed computer applications require changes or updates during their production lifecycle. These customized, home-grown applications require a robust formalized change management system in order to properly control changes made to them.

The Division of Information Technology (DoIT) has issued two departmental policy statements that deal directly with program change management controls. Policy #01-02, *IT Applications Development Requirements Approval*, states that "programmer managers must ensure any request for application development be documented in writing, tracked, understood and approved prior to putting any new or changes to existing applications into production". In related Policy #01-03, *IT Enhancements Move to Production Approval*, DoIT requires that "programming teams must take care to ensure best practices regarding product quality have been utilized prior to putting any new (or changes to existing) systems into production".

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

The change management process should be standardized so that all movement of code, changes made, testing, acceptance, and implementation provide management with a tracking history. This leads to consistent outcomes, efficient use of resources and enhanced integrity of the application systems which flow through the process. Automated tools vastly help control this process and make the process consistent, predictable, repeatable and aids in the reduction of "human error" in the process.

In response to prior audit recommendations made since fiscal 2007, DoIT has attempted to implement software designed to better maintain and control application system changes. The products selected were never properly configured and implemented to fully utilize their control features. Instead of making the program change process more efficient and productive, the process became cumbersome and time-consuming which led to noncompliance and circumvention of DoIT's change control policy and procedural guidance.

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

DoIT should implement a standardized formal enterprise program change control process for the application systems it supports. To assist this process, DoIT should evaluate enterprise software solutions to complement their program change process. Procedural guidance should be developed that provides detailing correct use of change management software and mandated internal control practices and procedures, thus ensuring a documented, monitored, and repeatable process.

<u>RECOMMENDATIONS</u>

2014-008a Reassess the use of a standard software package to determine the appropriate combination of operational, procedural and/or technical adjustments required to use the package in a manner that results in adequate program change control for the entire enterprise.

2014-008b Design, develop, formalize and implement procedural guidance manuals detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.

<u>Corrective action plan / auditee views</u>:

2014-008a - Due to resource constraints, we have been unable to improve the current change management process. DOIT will be coordinating this effort with DLT and DOT as both agencies are also looking at a new change management process. DOIT will determine if another change management process, Revision Control System (RCS), currently used at another department, can be used to replace the current environment.

<u>Anticipated Completion Date:</u> *June 30, 2016*

2014-008b - This finding will be addressed when a new change management process is selected.

<u>Anticipated Completion Date</u>: *TBD*

Contact Person: *Alan Dias, Assistant Director of IT*
Phone: 401.222.6091

Finding 2014-009 ***(significant deficiency- repeat finding)***

MONITORING RIFANS ACCESS PRIVILEGES AND AGENCY APPROVAL HIERARCHIES

Authorizing and monitoring access to RIFANS, the State's centralized accounting system, is a key control over financial reporting. We observed 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. The State's current lack of monitoring of user and administrator access represents a collective weakness in internal control over financial reporting.

RIFANS "Super Users"

Activities of individuals with system administrator or "super user" roles are logged but not reported and reviewed. 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.

The State could improve controls over system administrator access by either a) developing reports that specifically report on their system access and daily activities within the system and/or b) developing reports that detail when changes are made to critical data within RIFANS.

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. Maintaining off-line documentation of the hierarchies is manually intensive and only provides limited effectiveness in providing an audit trail of additions, deletions, and changes in authorization that are routinely made to RIFANS system access.

In addition, Accounts and Control authorizes changes to system access but the changes are effected by authorized individuals in the Division of Information Technology that have the system access to modify or expand RIFANS access. The resulting changes are not monitored to ensure they were established consistent with Accounts and Control's approval or that other unauthorized changes were not made.

A robust reporting functionality is needed to facilitate timely review of changes in RIFANS user access and to also provide documentation of the designed and approved access structure which underlies the State accounting system control structure and objectives.

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 the Office of Accounts and Control in certain circumstances. The Office of Accounts and Control's monitoring of delegated RIFANS access authority is limited by the lack of a system reporting functionality. Consequently, monitoring is ineffective in determining whether any delegation of authority is consistent with policy or if the delegation is more than temporary.

RECOMMENDATIONS

2014-009a Review activities of privileged users (system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate.

2014-009b Improve controls over RIFANS access by developing the reporting functionality necessary to allow for periodic monitoring of user access for instances of unauthorized changes to user access and/or noncompliance with policies relating to delegated user access.

Corrective action plan / auditee views:

2014-009a - DOIT consulted with an outside database administrator (DBA) for input on how to address this recommendation. The DBA recommended one of the following two procedures in Oracle 12 database to monitor certain system activities:

- *Standard Auditing. Standard auditing provides basic auditing features for Oracle 12 system activities.*

- *Fine-Grained Auditing (FGA). This type of auditing provides very granular auditing of system activities.*

Based on conversations with our DBA, the State will proceed with option 1, standard auditing. Auditing will be enabled for certain tables when updates, deletions, insertions and queries are performed against those tables. We feel this will address audit 2014-009a. We will ask for an increase in MPA 230 hours to have the outside MPA 230 DBA vendor implement this feature and work on the specifications.

Anticipated Completion Date: *October 31, 2015*

2014-009b - Part of the auditing recommended in 2014-009a includes notifications to certain personnel when certain functions are performed. The DBA has indicated this is possible. We will send out an email or other type of system notification when a change to a table or query is executed. The specifications will be developed with DOIT, Accounts and Control and the DBA. DOIT will ask for increased MPA 230 funding to implement this function.

Anticipated Completion Date: *October 31, 2015*

Contact Person: *Alan Dias, Assistant Director of IT*
Phone: 401.222.6091

Finding 2014-010 ***(significant deficiency - new finding)***

DEPARTMENT OF REVENUE – CONTROLS OVER CERTAIN TAXES RECEIVABLE

The Division of Taxation should strengthen controls over certain taxes receivable balances that are maintained separately from the mainframe computer systems used for the larger tax categories. We found an erroneous tax receivable balance reported at June 30, 2014 - the taxpayer had paid the balance several years prior. The systems and procedures for these smaller tax categories are inadequate to ensure the accuracy of reported receivable balances. Tax payments are recorded when received but also require a separate recording to reduce the tax receivable balance for that taxpayer. In the instance found during our audit, the payment was recorded when received; however, the tax receivable balance was not reduced for the payment made.

Controls need to be enhanced to ensure the taxes receivable are accurately reported for operational and financial reporting purposes. The Division of Taxation is currently implementing a new computer system which is intended to improve controls particularly over these smaller non-mainframe tax categories.

RECOMMENDATION

2014-010 Improve controls over the non-mainframe tax receivable systems to ensure accurate reporting of tax receivable balances.

Corrective action plan / auditee views:

The Division of Taxation questions the materiality of this finding given the volume of total receivables and the context of conversion of the non-mainframe tax databases to the new integrated tax system. The Division manages over 70,000 tax receivable balances and collects over $3.0 billion annually, a finding outlining one incorrect balance resulting in an adjustment of less than $200,000 seems immaterial.

The Division of Taxation is in the process of implementing an integrated tax system (STAARS) which will retire all of the non-mainframe tax databases. In July 2014, the Division of Taxation successfully implemented Release 1 which included 36 different non-mainframe taxes. As of February 27, 2014 all non-mainframe receivable, excluding cigarette receivables, have been converted to STAARS. The remaining cigarette tax receivables will be converted to STAARS by April 30, 2015.

Anticipated Completion Date: *April 30, 2015*

Contact Person: *David Sullivan, Tax Administrator*
Phone: 401.574.8922

Auditor's response:

While the known misstatement detected by our audit procedures is not individually material, the error highlighted a control weakness over all non-mainframe taxes receivable which is the focus of the finding. We acknowledge that the Division's new STAARS system should address this weakness.

Finding 2014-011 ***(material weakness - repeat finding)***

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

Electronic transmission of tax payments and tax information for uploading to the Division of Taxation's (Taxation) systems represents the majority of taxes collected and data received by Taxation. Ensuring the security and integrity of this data from transmission through posting to taxpayer records is critical.

The vast majority of the State's tax revenues are received electronically (through either ACH debit/credit or lock-box receipts). Funds are deposited automatically into the State's bank accounts, which causes the State's financial institutions to send electronic payment confirmation data files to Taxation (these electronic files contain abbreviated tax payment data, such as, taxpayer identification number, payment amount, tax type, and tax period). Through a lockbox arrangement with a financial institution, other returns and payments that are mailed to Taxation are processed and converted to electronic data files. Other initiatives have increased the receipt of data in electronic form.

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

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

To ensure that the proper level of data protection is in place, Taxation, working with the Division of Information Technology (DoIT), performed a "data classification" review of these files during FY 2014. DoIT has policies requiring that all State data being captured, maintained, and reported by any agency or department be "data categorized" based upon three levels of availability and four levels of confidentiality (DoIT policy *# 05-02 – Data Categorization*). As a result of the "data classification" review, Taxation classified the data as "sensitive", therefore, requiring it to be encrypted using 256 bit or higher encryption strength. However, although Taxation has performed the "data classification" review, it does not currently have a mechanism to encrypt the data automatically (Taxation is in the process of implementing a new system that is designed to encrypt data automatically).

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

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

RECOMMENDATIONS

2014-011a Implement a mechanism to encrypt data classified as "sensitive" automatically consistent with DoIT Perform a "data classification" review consistent with DoIT policy # *05-02 – Data Categorization*.

2014-011b Secure all electronic files containing taxpayer information residing on the Division of Taxation's network to ensure data integrity.

2014-011c Control all electronic files that contain taxpayer information by requiring the file format to be secure and configured to the computer system in order to allow automatic transmission without any manual intervention.

2014-011d Develop monitoring and reporting procedures to ensure the proper upload of data files.

Corrective action plan / auditee views:

2014-011a - In January 2014, the Division of Taxation requested information regarding how the Division can meet the encrypted data requirement. The Division of Taxation will continue to work with the Division of Information Technology to complete this task.

Anticipated Completion Date: *June 30, 2015*

Contact Person: *David Sullivan, Tax Administrator*
Phone: 401.574.8922

2014-011b - Currently all files received by the Division of Taxation are received in encrypted format. The Division is in the process of encrypted all achieved (prior year EFT files) files on the internal servers.

Anticipated Completion Date: *June 30, 2015*

Contact Person: *Dan Clemence*
Phone: 401.574.8732

2014-011c - In the new Division of Taxation system (STAARS) all electronic files will be processed through an encrypted file on our FTP server. Then it will be loaded into STAARS and all adjustment will be made after it is loaded into STAARS. However, certain payment types (Fed Wire) do not allow the Division complete control over what is sent, therefore the Division may have to manual adjust file prior to load to STAARS. The Division of Taxation will be collaborating with the primary and secondary financial institutions to enhance coordination regarding file layouts and unique processing requirements.

Anticipated Completion Date: *July 2016*

Contact Person: *Dan Clemence*
Phone: 401.574.8732

2014-011d - The Division of Taxation has the ability to report on the total EFT payments received by the bank and the total amount to be processed by STAARS and the Mainframe system. During the STAARS reconciliation process, the Division is able to verify the total amount deposited and process from EFT in STAARS by running specific reports to confirm the information needed.

Anticipated Completion Date: *July 2014*

Contact Person: *David Sullivan, Tax Administrator*
Phone: 401.574.8922

Finding 2014-012 ***(significant deficiency - repeat finding)***

DEPARTMENT OF REVENUE – PERSONAL INCOME TAX - W-3 RECONCILIATIONS

Employers are required to file an annual W-3 reconciliation return comparing withholding payments due to actual amounts paid to the Division of Taxation (Taxation). While some employers file paper W-3 reconciliation returns, in most instances the reconciliation is calculated electronically by Taxation's mainframe system from the W-2 files submitted by employers and the record of employer withholding deposits.

There has been a significant backlog in posting/processing W-3 reconciliation returns. W-3 reconciliation returns for tax year 2013 were due February 28, 2014. During fiscal 2014, W-3 paper returns for tax years through 2013 were posted to the mainframe system. However, as of June 30, 2014, the system-generated W-3 reconciliation returns for tax years 2011, 2012, and 2013 had not yet been posted. The backlog in posting W-3 reconciliation returns delays identifying potential overpayments and underpayments of employer withholding taxes.

RECOMMENDATION

2014-012 Process W-3 reconciliation returns timely to identify any underpayment of employer withholding taxes.

Corrective action plan / auditee views:

Effective January 2015, the Division of Taxation reassigned the function to review W-3 reconciliation returns to the Office Audit and Discovery unit. This unit will create automated processes to review and validate W-3 returns. The until will work on reviewing tax year 2011 returns before April 2015 and process 2012 and 2013 returns over the next 6 months.

Anticipated Completion Date: *April 2015*

Contact Person: *David Sullivan, Tax Administrator*
Phone: 401.574.8922

Finding 2014-013 ***(material weakness - repeat finding)***

DEPARTMENT OF REVENUE – RECONCILIATION OF TAXATION RECEIPTS TO RIFANS

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

RECOMMENDATION

2014-013 Develop the reporting capability to facilitate reconciliation of receipts reported by Taxation's systems with RIFANS.

Corrective action plan / auditee views:

One of the major priorities of the Division of Taxation is the timely depositing of payments received. All payments received by Taxation are posted to various systems subsequent to their deposit. Currently the Division of Taxation has over 70 databases used to record payments and other taxpayer transactions (the mainframe system contains only 15 of these databases). As part of the Fiscal Year 2013 budget request, the Division of Taxation requested funding for an integrated tax system. This system will, among other things, overhaul the front end accounting systems and deposit systems. The system will also allow for real time posting of payments and transactions to taxpayer accounts, therefore any deposit made will be recorded in a more efficient manner. The release 1 implementation in July 2014 has; i) established better controls for non-mainframe tax types, ii) provided enhanced controls over non-mainframe taxes and iii) eliminated the need to enter the deposit in multiple databases. The Division is also implementing transitional processes to enhance controls; however, all issues will be resolved when the integrated tax system is fully implemented in September 2016.

Anticipated Completion Date: *Release I-July 2014 (fully implemented September 2016)*

Contact Person: *David Sullivan, Tax Administrator*
Phone: 401.574.8922

Finding 2014-014 ***(material weakness - repeat finding)***

DEPARTMENT OF REVENUE – PERSONAL INCOME TAX - CONFIDENTIAL COMMUNICATION

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

Finding 2014-015 ***(material weakness - repeat finding)***

FINANCIAL REPORTING – INTERMODAL SURFACE TRANSPORTATION FUND – USE OF RI DEPARTMENT OF TRANSPORTATION (RIDOT) FMS AND RIFANS ACCOUNTING SYSTEMS

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

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

- RIDOT FMS and RIFANS each utilize separate and distinct account structures, which necessitates mapping to "crosswalk" the two charts of accounts. During our testing we identified a weakness over controls of the crosswalk; specifically all FMS accounts are not mapped to respective RIFANS accounts.

- Since no direct interface exists between the two systems, transmission files are utilized to transfer expenditure data between the RIDOT FMS and RIFANS to disburse vendor payments. Timing differences exist and have to be identified as part of the reconciliation process.

- RIDOT establishes and maintains purchase order balances on a detailed line item basis for the entire project duration; purchase order balances in RIFANS are in summary form and only for the amount expected to be expended during that fiscal year.

- Expenditures are recorded in the RIDOT FMS after disbursement in RIFANS; expenditures are recorded in RIFANS when entered and approved for payment.

- RIDOT FMS tracks activity at the project level as this is the level at which funding sources (e.g., federal, state and other) are determined and infrastructure or maintenance categorizations are made. RIFANS accumulates activity at the major program level (e.g., interstate highways).

In essence, the RIDOT FMS contains detailed project-level data which loses its project character when transmitted to RIFANS. However, the project-level data is needed for certain financial reporting purposes. When the project-level RIDOT FMS data is used, it must be reconciled and adjusted to conform to RIFANS accounting conventions. Various supplemental manual and reconciliation processes have been implemented to provide the information needed for financial reporting.

Due to the use of two separate accounting systems, RIDOT has implemented a process of reconciling RIDOT FMS to RIFANS on a monthly basis, as a control, to ensure both systems accurately reflect RIDOT activity. Specific areas of the reconciliation process have been automated but the cause for differences must be manually identified and corrected in the appropriate system. In fiscal 2014, the report used by RIDOT in the reconciliation process does not properly map all natural accounts between the two systems. This causes offsetting differences to exist in the reconciliation. Even though these differences are explainable, the control established to ensure the two systems are in sync is not working as originally intended.

An analysis should be performed to determine whether continued use of the two accounting systems in the current configuration is the best way to accomplish financial reporting for the IST Fund. Options include better aligning the design and configuration of the two systems or alternatively using the RIDOT FMS for financial reporting purposes rather than RIFANS. Recognizing that a significant investment has already been made and that further integration of the two systems would require additional investment, RIDOT should establish short-term and long-term goals for a more efficient process to yield reliable information in support of timely financial reporting.

RECOMMENDATIONS

2014-015a Reevaluate the continued operation of two separate accounting systems to support financial reporting for the IST Fund. Establish short and long-term goals to ensure reliable information is available to support timely financial reporting.

2014-015b Ensure the reconciliation process includes fund balance accounts. At a minimum, ensure the control over the reconciliation of FMS to RIFANS is operating as intended by modifying the coding reconciliation report to properly map the natural accounts between the systems.

2014-015c Improve controls over the FMS to RIFANS crosswalk by periodically comparing all FMS accounts to the crosswalk and ensuring all FMS accounts have an associated RIFANS account.

Corrective action plan / auditee views:

2014-015a - The Department will reevaluate the continued operation of two separate accounting systems to support financial reporting for the IST fund.

This will include an evaluation of the benefits and risks associated with each potential operational option (i.e., (a) maintaining the status quo; (b) enhancing the design and configuration of the two systems for better efficiency; (c) using FMS for financial reporting purposes; or (d) modifying RIFANS to accommodate RIDOT's project accounting needs, including upgrading the RIFANS purchasing module, implementing an integrated timekeeping system, and activating the RIFANS modules for Accounts Receivable and Grants.

It must also be emphasized that implementing any of the above-mentioned options, other than the status quo, will require a substantial dedication of staff resources (i.e., RIDOT Financial Management Office, State Controller's Office, DOIT, etc.), a significant investment of State funds, which are currently unavailable because of budgetary constraints, and a commitment that this initiative will be a top priority for the duration of the project..

Anticipated Completion Date: *To be determined*

2014-015b - The former reconciliation report cannot be replicated until RIDOT's FMS system is upgraded to Oracle version 12.4. At that point, FMS will be operating on the same Oracle release as RIFANS. Only recently was funding identified to begin this update, which is scheduled to be completed by June 30, 2016. Notwithstanding this issue, the Department has continued to reconcile on a monthly basis using a manual process.

Anticipated Completion Date: *June 30, 2016*

2014-015c - This condition was caused by retainage holding accounts with accounting strings that were not mapped. On a go-forward basis, RIDOT will review all retainage holding accounts to ensure that all accounting strings are accurate and mapped.

Anticipated Completion Date: *June 30, 2015*

Contact Person: *Robert Farley, Chief Financial Officer*
401.222.6590

Finding 2014-016 *(significant deficiency - repeat finding)*

INTERMODAL SURFACE TRANSPORTATION FUND - FINANCIAL REPORTING

The Intermodal Surface Transportation (IST) Fund, a special revenue fund, includes financial reporting for transportation related activities of the State, including highway construction programs, 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 in addition to the funds received from the sale of excess land to the I-195 Redevelopment District Commission.

Controls over the Preparation of Financial Statements

Controls can be improved over the preparation of financial statements to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles as follows:

- The RIFANS hierarchy approvals for journal entries was not operating correctly during fiscal 2014. Although RIDOT instituted compensating controls by routing journals prepared by one individual to another for approval, the RIFANS control procedures, when operating appropriately, are more reliable and effective to prevent any one individual from initiating and approving a journal entry that could materially affect the financial statements.

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

- There are several instances of transfers being incorrectly classified as payables and receivables for financial statement purposes when those transfers of funds should have been reported as either due to / due from other funds.

RECOMMENDATIONS

2014-016a Improve controls over financial reporting by updating the RIFANS hierarchy to include RIDOT in all journals posted to the IST Fund and lower the dollar threshold requiring journal entries to be reviewed and approved to an amount that could not materially misstate the financial statements. Ensure RIFANS is requiring review and approval of journal entries in accordance with established hierarchies.

2014-016b Analyze each activity and/or funding source within the IST Fund to ensure activity is accurately recorded and to improve controls over the categorization and reporting of fund balance components. Perform the analysis periodically throughout the fiscal year.

2014-016c Improve controls over financial reporting to ensure transfers between funds are properly recorded in the State's accounting system and financial statements.

Corrective action plan / auditee views:

2014-016a - Updating the RIFANS hierarchy is solely the purview of the Controller's Office, who historically have not been in favor of establishing this process, primarily because it would require RIDOT to approve journal entries and allocations that are not related to the IST Fund.

Anticipated Completion Date: *To be determined*

2014-016b - Financial Management has reformed this process and has dedicated significant staff resources towards resolving this recommendation. The one remaining hurdle is the primary FHWA federal account, which has an extremely high volume of activity.

Anticipated Completion Date: *December 31, 2015*

2014-016c - RIDOT will improve controls to ensure that the correct Natural account is used when posting GARVEE Gas Tax receipts.

Anticipated Completion Date: *N/A*

Contact Person: *Robert Farley, Chief Financial Officer*
401.222.6590

Finding 2014-017 ***(material weakness - repeat finding)***

TRANSPORTATION INFRASTRUCTURE REPORTING

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

Process to Accumulate Infrastructure Outlays

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

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

We noted misstatements relating to the infrastructure balances initially reported for fiscal 2014. Certain completed projects totaling $13.8 million were still included in construction in progress at June 30, 2014. Although corrected through audit adjustment, these misstatements indicate that controls should be improved to capitalize all infrastructure expenditures and more accurately identify when infrastructure assets are placed in service.

RIDOT was also not consistent in applying estimated internal design costs to overall project costs, which resulted in a potential misstatement of $178,893. We also identified 97 projects totaling $1.3 million excluded from RIDOT's infrastructure determination process.

Explore an Automated Approach to the Accumulation of Capitalized Infrastructure Outlays

The control deficiencies noted here are significantly interrelated to the issues detailed in Finding 2014-001 which describes the use of two incompatible accounting systems to prepare financial statements for the IST Fund. Due to the use of the two systems, accumulation of infrastructure outlays meeting the State's capitalization criteria is performed independent of both systems. Data is drawn from both systems into massive spreadsheets which eventually yield the amounts needed for financial reporting purposes. The design of RIDOT's FMS envisioned that system providing capital asset (infrastructure) financial reporting information; however, the use of the two systems in the current configuration leads to the inefficient and error-prone spreadsheet approach.

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

Asset Impairments

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

RECOMMENDATIONS

2014-017a Develop controls over the identification of project expenditures (to include construction costs, design costs, internal payroll, subtotaling of project expenditures, categorization of projects and reconciling between RIDOT FMS and RIFANS) to be recorded as infrastructure investment in the State's financial statements.

2014-017b Improve controls and the methodology for determining when infrastructure assets are placed in service.

2014-017c Explore ways that capitalized infrastructure outlays could be accumulated through an automated systems approach rather than the inefficient and error-prone spreadsheet approach currently used.

2014-017d Develop and document controls, policies and procedures to ensure inclusion of internal construction payroll costs in infrastructure investment in the State's financial statements.

2014-017e Evaluate and document the consideration of whether any of the State's transportation infrastructure has been impaired consistent with the criteria outlined in generally accepted accounting principles applicable to governmental entities.

Corrective Action / Auditee Views

2014-017a - Financial Management will continue to improve controls over the identification of project expenditures to be recorded as infrastructure investment in the State's financial statements.

Anticipated Completion Date: *Ongoing*

2014-017b - For FY 2014, Financial Management utilized the date of substantial completion identified on RIDOT's "Substantial Completion and Request for Partial Acceptance / Final Inspection" form as the basis for determining when infrastructure assets are placed into service. This methodology has been agreed upon by both RIDOT and the Auditor General's Office.

RIDOT recognizes that, from time to time, traffic can already be utilizing infrastructure assets prior to the date of substantial completion identified on RIDOT's "Substantial Completion and Request for Partial Acceptance / Final Inspection" form. However, the department believes that utilizing this form provides both consistency and documentation of the date that infrastructure assets are substantially complete, as opposed to a more manually-intensive, and potentially more subjective, approach that would require tracking the date that the motoring public was first able to utilize the asset.

Additionally, Financial Management will ensure that expenditures related to CIP and capitalization are more accurately categorized during the preparation of infrastructure accounting entries.

2014-017c - The Department does not dispute the auditors' contention that a properly-aligned, automated systems approach would be a more efficient way to account for infrastructure assets. An internal RIDOT Asset Management Council meets regularly to continue implementing the department's comprehensive Asset Management initiative, including assessing information technology needs. One of the Council's standing subcommittees is charged with evaluating infrastructure accounting issues, and will evaluate an automated systems approach.

Anticipated Completion Date: *To be determined.*

2014-017d - The Department will enhance procedures to ensure inclusion of all project costs for the recording of transportation infrastructure investment in the State's financial statements.

Anticipated Completion Date: *N/A*

2014-017e - This issue is currently being evaluated and has been discussed with the Department's Asset Management consultant. The resolution of this recommendation will require a high level of collaboration and coordination between Financial Management and various department units.

Anticipated Completion Date: *To be determined.*

Contact Person: *Robert Farley, Chief Financial Officer*
401.222.6590

Finding 2014-018 ***(significant deficiency - repeat finding)***

INTERMODAL SURFACE TRANSPORTATION FUND – CONTROLS OVER KEY DATA FILES

Controls should be enhanced to ensure that data integrity is maintained over key data files used to process vendor payments and to draw federal funds for the Intermodal Surface Transportation (IST) Fund.

Progress Payment Data Files

Progress payment data moves from the Project Management Portal (PMP) to RIDOT's Financial Management System (FMS) and ultimately RIFANS (the State's accounting system) for vendor payments. Data elements are sometimes manually altered after being transmitted from the PMP but prior to posting to the FMS accounting system.

While the need to manually verify and modify data was explained, the lack of adequate compensating controls increases the risk of inaccurate payments and unauthorized changes. In addition, RIDOT has a policy prohibiting certain actions (e.g., approving and releasing holds of self-initiated progress payments); however, the system does not prevent such actions.

A review of the entire file transfer process, from progress payment file creation in PMP to invoice creation in FMS to vendor disbursement in RIFANS, should be performed to identify critical points where automated controls should be implemented to eliminate all manual involvement.

Federal Billing

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

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

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

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

RIDOT should improve its controls and processes over the FMS and the drawdown file to ensure accuracy and completeness of data transmitted to the FMIS.

RECOMMENDATIONS

2014-018a Review the progress payment file transfer process to identify critical points where automated controls could be implemented to eliminate the need for manual intervention.

2014-018b Create and implement appropriate approval hierarchies. Automatically identify RIFANS/FMS payment discrepancies for review.

2014-018c Improve controls over the RIDOT federal billing process to include transferring files without modification.

2014-018d Modify the Financial Management System to allow for multiple funding source award numbers (FSAN) to be linked to one Federal Aid Project.

Corrective action plan / auditee views:

2014-018a - Discussions and analysis will continue regarding the potential implementation of automated controls in lieu of the manual intervention currently required in certain situations. Manual intervention can occur for a variety of reasons, and budgetary constraints are a limiting factor for the Department's ability to automate the process.

Since September 2011, as a compensating control, the Financial Management Office's Accounts Payable Unit has kept a log, including (a) "before and after" screen shots showing the change that was made; (b) sign-offs from both the processer and supervisor; and (c) a notation on the log indicating why the file needed to be changed.

Anticipated Completion Date: *To be determined*

Contact Person: *Loren Doyle, Administrator for Financial Management*
Phone: 401.222.6590

2014-018b - During the FMS system upgrade to Oracle Release 12.4, the issue of implementing Approval Hierarchies will be evaluated. Also, existing reports have been modified to determine discrepancies in invoice payment amounts between FMS and RIFANS.

Anticipated Completion Date: *June 30, 2016*

Contact Person: *Thomas Lewandowski, Agency IT Manager*
Phone: 401.222.6935

2014-018c - This issue has been discussed at length with Tom Lewandowski of DOIT and he has informed Financial Management that this cannot be accomplished with the current FMS system.

Anticipated Completion Date: *To be determined*

Contact Person: *John Megrdichian,*
Administrator for Financial Management
401.222.2496

2014-018d - This issue has been discussed at length with Tom Lewandowski of DOIT and he has informed Financial Management that this cannot be accomplished with the current FMS system.

Anticipated Completion Date: *To be determined*

Contact Person: *John Megrdichian,*
Administrator for Financial Management
401.222.2496

Finding 2014-019 ***(material weakness - new finding)***

METROPOLITAN REGIONAL CAREER AND TECHNICAL CENTER (THE MET) – INTERNAL CONTROLS

Criteria: Internal controls should be in place to provide reasonable assurance that general ledger accounts are properly reconciled on a timely basis.

Condition: During the performance of our audits of the Met's financial statements, we noted the following:

a. The monthly reconciliations of cash accounts during the 2014 fiscal year were not performed timely. Bank reconciliations of all bank accounts were provided to us after we requested them in June 2014. We became aware that certain of the reconciliations had not been reviewed prior to our receipts and as a result contained errors.

b. The Met had difficulty in providing a detailed accounts payable schedule due to limitations in its financial management system. The detailed payable schedule as of June 30, 2014 was $5,000 less than the balance in the general ledger.

Cause: Management failed to enforce policies and procedures to ensure internal controls are functioning properly in relation to the conditions listed above.

Effect: Failure to perform reconciliations of significant accounts in a timely and accurate manner is a deficiency in the operation of controls. Specifically:

a. Failure to reconcile cash accounts to bank statements on a timely basis could potentially result in errors or defalcations not being discovered timely. In addition, management is unable to efficiently monitor the Met's cash on hand.

b. Failure to reconcile the accounts payable reflected on the general ledger to the detail schedule affects the liquidity analysis and is a failure in financial reporting.

RECOMMENDATION

2014-019 Policies and procedures should be development and implemented by the Met's management to ensure that appropriate internal controls are enforced.

Corrective action plan / auditee views:

a. The Met has implemented a process where which monthly reconciliations are performed by the Bookkeeper once bank statements for the prior month have been received. The Met will now also require that monthly reconciliations be signed off by both the Chief Accountant and Business Manager in order to insure timeliness and accuracy. Additionally, a staffing change was made in the Bookkeepers position.

b. The Met is seeking to procure a new Financial Accounting and Management system and has worked in tandem with Rhode Island Department of Education and other municipal school districts to select the most appropriate and qualified vendor, through the State of Rhode Island's competitive procurement process which, can meet all required accounting standards *and internal control requirements. It is anticipated that this new system will be fully implemented and operational during the 2016 fiscal year. Until then, The Met has created a query report within the current Financial Account and Management system, SunGard, to track accounts payable.*

Anticipated Completion Date: *Ongoing*

Contact Person: *Lucas Lussier*
401.752.2600

Finding 2014-020 ***(material weakness - repeat finding)***

CENTRAL FALLS SCHOOL DISTRICT – SEGREGATION OF DUTIES

Criteria: Segregation of duties is an instrumental component to having an effective system of internal controls. Proper segregation of duties decreases the District's risk of intentional or unintentional misuse or misappropriation of District assets. Duties and responsibilities should be assigned to personnel so that no one person is responsible for all aspects of a financial transaction. In addition, monthly reconciliations should be signed as reviewed and approved by someone independent of the preparation process.

Condition: During our audit we noted that there is a lack of segregation of duties being performed by personnel in the finance department. We noted instances where finance personnel responsible for reconciling monthly bank accounts were also responsible for collecting and depositing receipts, preparing billing for certain benefits, and maintaining the general ledger. We also noted that certain personnel had the ability to generate and post journal entries to the general ledger accounting system without first obtaining an approval of those entries.

Cause: Lack of adequate staffing and/or failure to properly establish a formalized system of internal controls over the segregation of duties.

Effect: Increase in the risk of intentional or unintentional misstatements occurring and going undetected by management.

RECOMMENDATION

2014-020 We recommend that the District establish a committee to review the current staffing of the finance department as well as the roles and responsibilities of all finance personnel. We further recommend that this committee be charged with developing formal policies and procedures governing the roles and responsibilities for all members of the finance department. The roles and responsibilities should focus on maintaining adequate segregation of duties and also rotation of those duties on a periodic basis so that all employees are properly cross trained. In addition, the policies should require that all bank reconciliations be reviewed and signed as approved on a monthly basis by the finance director or another management official if the reconciliations are being completed by the finance director.

Corrective action plan / auditee views:

Due to continued turnover, the District has not been able to develop and implement new internal controls. The District will establish a committee to review the current staffing of the finance department and to review the duties of all finance staff inclusive of the Finance Director. Once *this is completed, duties will be reassigned amongst the staff members as necessary to better segregate duties. More staffing changes may occur based on the internal control requirements. The committee will develop formal policies and procedures governing the roles and responsibilities for all members of the finance department. The Finance Director will complete deposits while the Staff Accountant performs bank reconciliations, the staff accountant will complete all journal entries while the Finance Director approves them, and finally, the Finance Director will sign off on all bank reconciliations.*

Anticipated Completion Date:	*Ongoing*
Contact Person:	*Maggie Baker, Business Director* *401.727.7700*

Finding 2014-021 ***(material weakness - new finding)***

CENTRAL FALLS SCHOOL DISTRICT – JOURNAL ENTRIES

Criteria: Adjusting journal entries should be approved by a designated member of management and contain descriptions and supporting documentation.

Condition: During our review of the general journal entries we noted that entries often lack proper approval by a responsible employee. All journal entries should be accompanied by full explanations and reference to adequate supporting data and contain a signature of proper approval by someone other than the person responsible for preparing and posting the entry.

Cause: Lack of sufficient internal controls over the review and approval process.

Effect: Increase in the potential for unauthorized or fraudulent transactions being posted to the General Ledger. The District has the responsibility to safeguard its assets from loss or misuse.

RECOMMENDATION

2014-021 We recommend that the District implement internal controls and policies and procedures for the posting of journal entries to the District's general ledger. We recommend the individual journal entries be approved by the Finance Director and/or another management official prior to posting and approval be documented on paper copy of entries filed in journal entry binders. We also recommend journal entries contain supporting documentation as well as affected account descriptions and purpose of entry. This will ensure a complete trail for transactions posted to the general ledger and ultimately the District's financial statements. In addition, we recommend that on a periodic basis a journal entry report be generated from the general ledger and that the report be provided to the Board of Trustees for review and approval. This approved report should be signed and maintained with the minutes to the Board meeting as evidence of the procedure being performed.

Corrective action plan / auditee views:

As part of the new internal controls, the Staff Accountant will prepare all journal entries and the Finance Director will approve all journal entries. Proper backup will also be attached to all journal entries for a complete audit trail. The District will review the option of providing journal entries to the Board of Trustees for review and approval.

Anticipated Completion Date: *Ongoing*

Contact Person: *Maggie Baker, Business Director*
401.727.7700

Finding 2014-022 *(significant deficiency - new finding)*

CENTRAL FALLS SCHOOL DISTRICT – COMPLETE GENERAL LEDGER

Criteria: The general ledger accounting records of the District should contain and report all assets, liabilities, fund balance, and the financial activity of the District.

Condition: During our audit testing we became aware of several bank accounts which were not reported in the general ledger accounting records of the District. Although the balances in these accounts were immaterial, the District should have adequate procedures in place to ensure that all accounts are properly reflected in the general ledger accounting records.

Cause: This was due to lack of management oversight and failure to ensure the completeness of the general ledger accounting records.

Effect: Incomplete accounting records could result in the misstatement of financial position and results of operations. In addition, lack of accountability and controls over these accounts increases the risk of intentional or unintentional misappropriation of funds.

RECOMMENDATION

2014-022 We recommend that the District establish policies and procedures to ensure that all financial activity is properly reported in the general ledger accounting records. All periodic bank statements should be reconciled to the general ledger accounting records and signed by someone independent of the person preparing the reconciliation as evidence that the procedures were performed. Any bank or investment statement that is received by the District but which cannot be traced to the general ledger should be provided to the Superintendent of Schools for review.

Corrective action plan / auditee views:

The District is in the process of adding all of the cash accounts to the general ledger. The District will also be developing new policies and procedures to ensure that any new District bank accounts are immediately added to the general ledger and to address steps to take when bank statements are received but do not tie back to the general ledger. As for the reconciliation process, the Staff Accountant will perform the reconciliation while the Finance Director will sign off on the reconciliation.

Anticipated Completion Date: *Ongoing*

Contact Person: *Maggie Baker, Business Director*
401.727.7700

Finding 2014-023 ***(significant deficiency - new finding)***

CENTRAL FALLS SCHOOL DISTRICT – CUT OFF PROCEDURES

Criteria: Establishment of adequate cut-off procedures is necessary to ensure the reporting of activity and balances are recorded in the proper period. The proper reporting of activity will help to ensure that management is making financial decisions based on the appropriate facts.

Condition: During our audit we noted instances where the District did not properly report receipts and receivables as of June 30, 2014.

Cause: Finance personnel were reporting the Medicaid revenue on the cash basis of accounting and as a result, the District's internal financial reports did not include a receivable for the quarterly administrative component of the Medicaid funding. In addition, the District did not have a policy or procedure for recording the revenue collected by a third party for retiree medical coverage. This activity was maintained in a separate cash account and was only recorded periodically when a check was disbursed to the District's General Fund.

Effect: Understatement of the financial position and activity of the District. Although the Medicaid billing is reported as a deferred inflow of resources on the Fund Statements, and therefore does not impact the operating results of the District, it does impact the financial position and activity of the Government-wide Statements of the District.

RECOMMENDATION

2014-023 We recommend that management review the current policies and procedures for recording the financial activity to ensure that all financial activity is recorded in a timely manner and in the proper period. Procedures should be implemented to ensure that all revenue, expenditures, and expenditure reimbursement activity is reported in the proper period.

Corrective action plan / auditee views:

The Finance Director will develop policies and procedures for recording financial activity in the proper period. All cash receipts and disbursements subsequent to year-end will be closely reviewed by the Finance Director to ensure that all transactions are recorded in the proper accounting period.

Anticipated Completion Date: *Ongoing*

Contact Person: *Maggie Baker, Business Director*
401.727.7700

Finding 2014-024 ***(significant deficiency - repeat finding)***

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 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 currently 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

2014-024 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.

Corrective action plan / auditee views:

The District engaged a third party to inventory all capital assets. Due to staff turnover, the data was not able to be incorporated into Infinite Visions before year-end. When this information is imported, we will use Infinite Visions exclusively for all capital asset activity in the District. All District assets will then be reviewed on a quarterly basis to account for asset additions and deletions, along with the recording of all necessary depreciation expense.

Anticipated Completion Date: *Ongoing*

Contact Person: *Maggie Baker, Business Director*
401.727.7700

Finding 2014-025 ***(material noncompliance - repeat finding)***

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

During the fiscal year ended June 30, 2014, the Convention Center Authority was unable to fund the Operating Reserve and Renewal and Replacement components of its restrictive covenants pursuant to the bond indentures.

Corrective action plan / auditee views:

The Authority will fund the Operating Reserve and Renewal Replacement components noted above provided there is sufficient cash flow.

Contact Person: *James McCarvill, Executive Director*
Rhode Island Convention Center Authority
Phone: 401.351.4295

Table of Findings by Federal Program

Program Title	CFDA	Applicable Findings
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	2014-029
State Administrative Matching Grants for the SNAP Program	10.561	2014-027, 2014-028
Child Nutrition Cluster:		
School Breakfast Program	10.553	2014-030, 2014-055
National School Lunch Program	10.555	2014-030, 2014-055
Special Milk Program for Children	10.556	2014-030, 2014-055
Summer Food Service Program for Children	10.559	2014-030, 2014-055
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	None
Supportive Housing Program	14.235	2014-031
Mortgage Insurance – Homes	14.117	None
Section 8 Project-Based Cluster:		
Section 8 Housing Assistance Payments Program – Special Allocations	14.195	None
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	None
Section 8 Housing Choice Vouchers	14.871	None
Unemployment Insurance	17.225	2014-032, 2014-033, 2014-034
Airport Improvement Program	20.106	None
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	2014-026, 2014-035, 2014-036, 2014-037, 2014-038
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	2014-039, 2014-040, 2014-041, 2014-042, 2014-043, 2014-044
Federal Transit – Formula Grants	20.507	2014-039, 2014-040, 2014-041, 2014-042, 2014-043, 2014-044
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	2014-049, 2014-050
Federal Work-Study Program	84.033	2014-045, 2014-049, 2014-050
Federal Perkins Loan Program – Federal Capital Contributions	84.038	2014-049, 2014-050
Federal Pell Grant Program	84.063	2014-049, 2014-050
Federal Direct Student Loans	84.268	2014-046, 2014-047, 2014-048, 2014-049, 2014-050
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	None
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	None
Nursing Student Loans	93.364	None
Federal Family Education Loans (Guaranty Agency)	84.032	None
Special Education Cluster:		
Special Education – Grants to States (IDEA Part B)	84.027	2014-055
Special Education – Preschool Grants (IDEA Preschool)	84.173	2014-055
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	2014-051, 2014-052, 2014-053, 2014-054
ARRA - State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants	84.395	2014-055
ARRA - Race to the Top – Early Learning Challenge	84.412	2014-056
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	2014-026, 2014-057

Program Title	**CFDA**	**Applicable Findings**
Temporary Assistance for Needy Families	93.558	2014-026, 2014-058, 2014-059, 2014-060, 2014-061, 2014-062
Low-Income Home Energy Assistance	93.568	2014-063
CCDF Cluster:		
Child Care and Development Block Grant	93.575	2014-026, 2014-058, 2014-064
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2014-026, 2014-058, 2014-064
Foster Care - Title IV-E	93.658	2014-065, 2014-066
Social Services Block Grant	93.667	2014-026, 2014-061
Children's Health Insurance Program	93.767	2014-026, 2014-060, 2014-067, 2014-068, 2014-069, 2014-070
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	None
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	None
Medical Assistance Program	93.778	2014-026, 2014-060, 2014-065, 2014-066, 2014-067, 2014-068, 2014-070, 2014-071, 2014-072, 2014-073, 2014-074, 2014-075, 2014-076, 2014-077
Research and Development Cluster	Various	None

Finding 2014-026 ***(significant deficiency – repeat finding)***

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT – REPORTING REQUIREMENTS

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

During fiscal 2014, the State's Office of Management and Budget took various measures to enhance compliance with the FFATA reporting requirements including issuance of a statewide policy on July 1, 2014 and training held in June and July 2014. Going forward, these policies and tools should enhance compliance with FFATA required reporting. Since these initiatives were largely implemented at the beginning of fiscal 2015, we found that during fiscal 2014, certain departments administering major programs in fiscal 2014 could enhance procedures to meet these requirements.

FFATA reporting is performed by the State agency responsible for the administration of each federal program. We evaluated compliance for the eleven (11) major programs (administered by the primary government) where FFATA reporting requirements were applicable. Major programs reviewed for material compliance were categorized as follows at June 30, 2014:

1) Four (4) programs successfully reported subaward data during fiscal 2014 or attempted a "good faith effort" to comply; and

2) Three (3) programs, Temporary Assistance for Needy Families (TANF), Child Care Cluster, and Social Services Block Grant were found to have reported some, but not all of their sub awards during fiscal 2014.

3) Four (4) programs, Highway Planning and Construction, Medical Assistance, Children's Health Insurance Program, and State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges were found not to have made a reasonable effort to comply with FFATA reporting requirements during fiscal 2014.

The State can continue to enhance compliance with FFATA reporting requirements by monitoring whether departments and agencies are adhering to the State OMB policy directive and continuing periodic training efforts. The following initiatives could be coordinated statewide within OMB:

- An inventory of all federal programs where transparency reporting is applicable, identifying the agency or department responsible for compliance;

- Identification of the specific data elements required to be reported to the FSRS, including whether reporting of awardee executive compensation is applicable; and

- Communications with the federal grantor clarifying the applicability of FFATA reporting requirements specific to their program.

Questioned Costs: None

RECOMMENDATION

2014-026 Continue efforts to enhance compliance with FFATA reporting through statewide monitoring and periodic training for state agencies.

Corrective Action Plan / Auditee Views:

The Grants Management Office in the Office of Management and Budget will continue to work with state agencies to ensure that agencies systematically identify sub-awards and report sub-awards in accordance with FFATA requirements.

Anticipated Completion Date: *Ongoing*

Contact Person: *Laurie Petrone - Director, Grants Management*
Office of Management and Budget
Phone: 401.574.8423

Finding 2014-027 ***(material weakness – repeat finding)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
State Administrative Matching Grants for the SNAP - CFDA 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years 2012-2013, 2013-2014
Federal Award Numbers: 2013IS251444, 2014IS251444
Administered by: Department of Human Services (DHS)

DOCUMENTATION OF IN-KIND MATCHING EXPENDITURES

The Department of Human Services can improve monitoring of its subrecipient, the University of Rhode (URI), which has been contracted to provide Supplemental Nutrition Assistance Program (SNAP) outreach services. As reported by the University's auditors, URI did not obtain sufficient documentation of third-party in-kind matching expenditures.

The Department of Human Services contracted with the University of Rhode Island to provide Supplemental Nutrition Assistance Program (SNAP) outreach services during fiscal year 2014. We found that DHS did not obtain sufficient documentation from the University of Rhode Island to support the amounts of in-kind match claimed for their SNAP Outreach program.

The fiscal 2014 audit of the University of Rhode Island, a component unit of the State, included an audit finding regarding the documentation of in-kind matching expenditures for the SNAP cluster sub-award to the University. A similar finding was reported by URI's auditor for fiscal 2013. DHS did not issue a required management decision regarding the finding reported by its subrecipient but has been in contact with the University regarding the noncompliance reported.

The finding reported by the University's auditor follows:

> The University contracted with the state's Department of Human Services to provide Supplemental Nutrition Assistance Program (SNAP) outreach services during fiscal year 2014. The contract states that the matching expenditures were to be provided,

principally, by third party entities, which had partnered with the University. As is allowed under the terms of the program, the payroll of the third party entities was used to meet the matching requirement of the grant.

Although the matching expenditures appear reasonable in comparison to the budget, the University did not receive payroll records from thirty-one third party vendors totaling $390,995 to support the matching requirement.

According to 7 CFR Section 277.4(d):

All cash or in-kind contributions except as provided in paragraph (e) of this section shall be allowable as part of the State Agency's share of program costs when such contributions:

1) Are verifiable;
2) Are not contributed for another Federally-assisted program, unless authorized by Federal legislation;
3) Are necessary and reasonable for accomplishment of project objectives;
4) Are charges that would be allowable under this part;
5) Are not paid by the Federal Government under another assistance agreement unless authorized under the other agreement and its subject laws and regulations; and
6) Are in the approved budget.

The cause of this condition has been attributed to the University not having a proper policy and oversight to ensure that the documentation for in-kind third party contributions is collected and reviewed for accuracy and completeness.

Questioned Costs: $390,995

RECOMMENDATION

2014-027a We recommend that management of the University implement policies and procedures to ensure that proper information is collected and reviewed.

Corrective Action Plan/ auditee views – University of Rhode Island:

We agree the procedures surrounding the monitoring of cost share expenditures should be enhanced. The University's Policy #97-01 "Cost Sharing" states "it is the department/principal investigator's responsibility that the committed amount of cost sharing is met and that the actual amount of cost sharing is documented."

As stated in the 2013 response, during the past year, the Principal Investigator improved procedures by obtaining quarterly confirmations of the annual match commitment. The cost share commitment was met for the 2014 program year. As the subawardee, the University will continue to work with the prime recipient (State of Rhode Island Department of Human Services) to enhance the third party cost share documentation.

Anticipated Completion Date: *October 1, 2014*

Contact Person: *Sharon Bell, Controller*
University of Rhode Island
Phone: 401.874.2378

DHS should enhance its subrecipient monitoring of URI to ensure compliance with documentation of actual in-kind matching requirements. DHS should also issue required management decisions when subrecipient audit reports include findings.

On March 17, 2015, the US Department of Agriculture, Food and Nutrition Service (FNS) released the results of a review they performed in September 2014. FNS found that "expenses in the Outreach Program from seven non-profit organizations were found to be unallowable in FY 2014". The FNS report identified questioned costs totaling $108,950.

RECOMMENDATION

2014-027b Enhance monitoring of the University of Rhode Island, a subrecipient, engaged to perform SNAP outreach services to ensure compliance with documentation of actual in-kind matching requirements. Issue required management decisions when subrecipient audit reports include findings.

Corrective Action Plan/ auditee views – Department of Human Services:

2014-027b – The Department of Human Services has recently hired an Assistant Administrator to be dedicated to assist the Associate Director and Administrator with the administration of SNAP. The department recognizes the need to enhance the monitoring of in-kind match reporting and will now have increased capacity to monitor it. The department will be proactive in issuing required management decisions when subrecipient audit reports include findings.

Anticipated Completion Date: *June 2015*

Contact Person: *M. Christine Ruggieri, SNAP Administrator*
Phone: 401.462.2256

Finding 2014-028 *(significant deficiency – new finding)*

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
State Administrative Matching Grants for the SNAP - CFDA 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years 2012-2013, 2013-2014
Federal Award Numbers: 2013IS251444, 2014IS251444
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING

DHS can improve its controls over federal reporting to ensure that SNAP program expenditures are reported in the appropriate period and for the applicable grant award.

DHS reports their general SNAP program expenditures on the FNS-778, which details expenditures by various categories and also reports expenditure totals on the SF 425 *Federal Financial Report*. Nutrition Education grant expenditures are reported on a separate SF-425 report.

DHS contracts with the University of Rhode Island (URI) to provide services under the Nutrition Education Grant. In May 2014, $29,196 was paid to URI for services rendered in September 2013 (FFY 2013). Since the 2013 Nutrition Education grant had been reported as fully expended in March 2014, the amount was not reported as expended in FFY 2013, but was inadvertently included in the general SNAP expenditures for the quarter ended June 30, 2014. The expenditures were not reported for the appropriate time period or for the applicable grant.

For the FFY 2014 grant award, actual expenditures reported in the State accounting system at June 30, 2014 exceeded the grant award of $399,981 by $65,012. DHS reported expenditures of only $397,280 so as not to exceed the grant award amount. These expenditures were not reported on the subsequent quarter ended September 30, 2014.

Questioned Costs: None

RECOMMENDATIONS

2014–028a Improve controls to ensure expenditures are reported in the appropriate period and are applied to the applicable grant award. Determine if previously submitted reports require amendment.

2014–028b Request the subgrantee (URI) report all of their expenditures to DHS prior to the closeout of the grant. Ensure that current expenditures do not exceed the grant award.

DHS also contracts with URI for services under its SNAP Outreach program. Required matching expenditures are met through in-kind expenditures by third-party entities. For reporting purposes, DHS estimates the required in-kind matching expenditures and includes such amounts in its cost allocation system. Due to the organization of the cost allocation system, the balance of expenditures remaining after deducting total Nutrition Outreach expenditures are reported as general SNAP administrative expenditures. Due to an error in the amount input to the cost allocation system, other SNAP administrative costs were understated by $86,849. Controls over federal reporting could be enhanced by further segregating accounts and cost centers within the cost allocation system.

Questioned Costs: None

RECOMMENDATIONS

2014–028c Amend the June 30, 2014 federal financial report to correct expenditures not previously reported.

2014–028d Consider additional cost centers or accounts to simplify SNAP expenditure reporting.

Corrective Action Plan/ auditee views:

2014-028a - The Office of Financial Management staff is improving controls to ensure expenditures are reported in the appropriate period and are applied to the appropriate grant award. Each quarter, expenditures from the accounting system will be reconciled to the federal reports to confirm that no amendments are required.

2014-028b - The Department is improving communication with subgrantees to ensure proper expenditures are reported prior to close-out of the grant and that they do not exceed the grant award.

2014-028c - The Office of Financial Management is currently working on amending the final report to include the omitted expenditures

2014-028d – The Office of Financial Management will consider additional cost centers or accounts to simplify reporting for the SNAP program.

Anticipated Completion Date: *June 2015*

Contact Person: *Leticia Mejia, Administrator, Financial Management*
Phone: 401.462.6551

Finding 2014-029 ***(significant deficiency – new finding)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
Supplemental Nutrition Assistance Program – CFDA 10.551
Federal Award Agency – Department of Agriculture
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Number: Not Applicable
Administered by: Department of Human Services (DHS)

SPECIAL REPORTING – FNS-46

The Department of Human Services can improve controls over the preparation of the FNS-46 SNAP *Issuance Reconciliation Repor*t by using data and reports generated directly from the Department's INRHODES computer system.

The FNS-46 SNAP *Issuance Reconciliation Repor*t is prepared monthly and submitted to the Food and Nutrition Service. It reconciles SNAP benefits actually issued with the State's Master Issuance File. During fiscal 2014, staff utilized a spreadsheet prepared by a contractor to prepare the FNS-46 report reports. The spreadsheet contained several errors, which resulted in errors in five out of nine monthly reports submitted at the time of our testing. DHS subsequently corrected the reports.

The information required to prepare the FNS-46 report is available directly from the Department's INRHODES computer system. Use of this direct source data rather than the spreadsheet would improve controls over the reliability of the data included in the reports. Since these reports are available soon after the close of each month, the reports could also be prepared more timely.

Questioned Costs: None

RECOMMENDATION

2014-029 Prepare the FNS-46 reports based on information from the Department's INRHODES computer system.

Corrective Action Plan/ auditee views:

Upon becoming aware of the discrepancy in FNS-46 reporting, the department immediately took action to correct the issue. The department now uses only the INRHODES system to report on the FNS-46.

Anticipated Completion Date: *March 2015*

Contact Person : *M. Christine Ruggieri, SNAP Administrator*

Phone: 401.462.2256

Finding 2014-030 ***(significant deficiency – repeat finding)***

CHILD NUTRITION CLUSTER:
School Breakfast Program – CFDA 10.553
National School Lunch Program – CFDA 10.555
Special Milk Program for Children – CFDA 10.556
Summer Food Service Program for Children – CFDA 10.559
Federal Award Agency: US Department of Agriculture
Award Year: 2014
Federal Award Number: N/A
Administered by: RI Department of Corrections (DOC)

ACCOUNTABILITY FOR USDA-DONATED FOODS

The Department of Corrections (DOC), which has responsibility for the State warehouse used to store and distribute USDA-Donated Foods, needs to improve accountability to ensure that it complies with federal regulations governing the receipt, distribution and inventory of these commodities.

Federal regulation 7 CFR section 250.16 requires DOC to maintain accurate and complete records with respect to the receipt, distribution/use and inventory of donated foods. In addition, 7 CFR section 250.14(e) requires DOC to take a physical inventory of its storage facility and reconcile the results with its inventory records.

DOC performed a physical inventory in June 2014. In sum, it selected 27 types of donated commodities in inventory that were available for use in the Child Nutrition Cluster programs. The physical count revealed that 21 of the 27 items sampled did not match amounts recorded in the inventory records. In one case, the inventory records indicated DOC had 105 cases of a particular item on hand while the physical count showed there were only 36 cases on hand. In another example, the inventory records indicated there were 32 cases of another item on hand while the physical inventory found none. The discrepancies in the remaining instances ranged from 1 to 16 cases (both over and under reported).

DOC did not attempt to investigate the reason(s) for the discrepancies between its inventory records and its physical count. Instead, it simply changed the inventory records to mirror the result of the physical inventory. This defeats the purpose of keeping inventory records and performing periodic physical counts.

DOC advised us that it did not investigate the discrepancies because its computer system could not generate the information necessary to make the exercise meaningful (DOC implemented a new computer system to account for donated foods in November 2012).

Questioned Costs: None

RECOMMENDATION

2014-030 Make necessary modifications to the computer system used to account for USDA-Donated Foods to ensure compliance with federal regulations.

Corrective Action Plan/ auditee views:

As you outlined in the regulations, the Department is to maintain complete records on the receipt, distribution, use and inventory of such foods. In addition to these function, the Department is to conduct a physical inventory and reconcile the results of the inventory taken with records on file. Based upon your 2014 finding, the Department did not investigate the cause of the inventory discrepancies. To correct the deficiency, the Central distribution Center's administrator has been requested to address this shortfall through insuring a quality control check process. The warehouse staff will be responsible for counting all product received and leaving the facility. This should help address inventory differences in the future.

The Department has also requested contracted programming services to address the reporting shortfalls with the inventory system. Changes to this system through reporting changes should help assist staff to monitor inventory and also assist in the quality control process. It is the Department's long term goal to also install a wireless scanning process but that system will require an evaluation process to determine needs. It is anticipated that DoIT will be an integral part of developing this system to insure compatibility with state standards.

Anticipated Completion Date: *Ongoing*

Contact Person: *Joanne Hill, Associate Director, CFO*
Phone: 401.462.2617

Finding 2014-031 ***(other matters – new finding)***

SUPPORTIVE HOUSING PROGRAM – CFDA 14.235
Federal Award Agency: Department of Housing and Urban Development (HUD)
Award Years: Federal Fiscal Years 2010, 2011 and 2012
Federal Award Numbers: RI0044B1T001104 and RI0043B1T001104
Administered by: Rhode Island Housing

SUPPORTING DOCUMENTATION FOR GRANT EXPENDITURES

24 CFR Part 85.20 and 24 CFR Part 583.330 require that grant recipients establish such fiscal control and accounting procedures as may be necessary to assure the proper disbursal of, and accounting for, grant funds in order to ensure that all financial transactions are conducted, and records maintained in accordance with accounting principles generally accepted in the United States of America.

During HUD's review of the financial management and oversight of certain grants, Rhode Island Housing was unable to provide documentation in accordance with 24 CFE Part 85.20(6) to properly support funds drawn against the 2010, 2011, and 2012 grant years.

HUD initially requested reimbursement of project funds totaling $1,157,573. Since the initial request for reimbursement, Rhode Island Housing has provided documentation regarding a substantial amount of the funds drawn against the 2012 grant year. As a result of the documentation provided to HUD, on November 4, 2014, Rhode Island Housing received an additional 30-day extension to provide additional documentation related to the 2010 and 2011 grant years. Therefore, the actual amount of questioned costs could be significantly different than the amount originally assessed by HUD.

Grant funds were disbursed without all of the supported documentation as required by 24 CFR Part 85.20(6).

In developing the policy and procedures to administer the program, Rhode Island Housing utilized the examples provided within the grant agreements and other applicable guidance. As the examples were not inclusive of all types of documents required by 24 CFR Part 85.20(6) in administering the program, Rhode Island Housing made certain disbursements that were not supported by all of the required documentation. Rhode Island Housing requested documentation from the sub-grantee to support such disbursements; however, the sub-grantee did not provide the documentation in a timely manner.

Questioned Costs: Undetermined

RECOMMENDATION

2014-031 We recommend Rhode Island Housing enhance its policies and procedures to ensure that it obtains supporting documentation for all grant disbursements and that the supporting documentation meets the requirements outlined in the grant agreement, 24 CFR Part 85.20(6) and OMB Circular A-133.

Corrective Action Plan/ auditee views:

Rhode Island Housing has implemented changes to policies and procedures regarding supporting documentation form sub-grantees and has worked with HUD to ensure all requirements of the grant agreement, 24 CFR Part 85.20(6) and OMB Circular A-133 are being met.

Anticipated Completion Date: *November 1, 2014*

Contact Person: *Carlos Hernandez, Director of Resident Services*
Rhode Island Housing
Phone: 401.457.1234

Finding 2014-032 ***(significant deficiency - repeat finding)***

UNEMPLOYMENT INSURANCE – 17.225
Federal Awarding Agency: US Department of Labor / ETA Division of Federal Assistance
Award Years: Federal Fiscal Years 2011, 2012, 2013 and 2014
Federal Award Numbers: UI-25229-14-55-A-44, UI-23916-13-55-A-44, TA-21241-11-55-A-44, TA-22681-12-55-A-44, TA-24367-13-55-A-44 and TA-25312-14-55-A-44
Administered by Department of Labor and Training (DLT)

FEDERAL REPORTING

The Department of Labor and Training can enhance controls over the preparation of the various financial reports required for the Unemployment Insurance Program by reconciling similar data included on multiple reports and enhancing supervisory review of the reports prior to submission.

Trade Act Participant Report

The Trade Act Participant Report (TAPR) is a quarterly report of trade assistance provided to participants and their employment and wage information. The report is prepared from client data maintained within DLT's employment services computer system and wage information obtained from DLT's Wage Record computer system. All data is electronically populated in the TAPR report by a contractor that maintains the employment services computer system. DLT Adult and Dislocated Worker Unit staff reviews the TAPR for reasonableness and obvious errors and submits the report electronically to the US Department of Labor, quarterly.

Federal guidance for the TAPR (2012 Trade Activity Participant Report Data Preparation and Reporting Handbook) states that accrued training expenditures should be reported in the TAPR and that they should equal the amount of accrued expenditures reported by the State for the relevant quarterly submission on the ETA-9130 Fiscal Report for TAA Training. DLT did not reconcile expenditure information between the TAPR and the 9130 reports before the TAPR was submitted, as personnel in different divisions within DLT complete the two reports. DLT management indicated they were aware of differences between the two reports and continue to work with USDOL to improve the accuracy of the TAPR information. We attempted to reconcile federal expenditures between the TAPR reports and the corresponding ETA 9130 reports for state fiscal year 2014 and found unreconciled differences of $54,663 (TAPR's less than 9130's) for training expenditures and $588,588 (TAPR's less than 9130's) for all Trade expenditures including training. These are most likely timing differences between the different systems used to prepare the reports. For example, the 9130 reports are prepared from DLT's internal financial and reporting system (FARS) while the TAPR is prepared from information in the DLT employment services computer system.

We found that DLT retained wage record data for reported wages. As a result, we were able to determine the propriety of wage data included in the TAPR reports submitted to the federal government for SFY 2014, except for a few instances where a participant's wages were not reported for a certain prior to participation quarter, i.e., fourth quarter of CY 2009.

<u>ETA 227 Overpayment Detection And Recovery Activities Report</u>

The ETA 227 Overpayment Detection and Recovery Activities Report provides quarterly information on results of the State Workforce Agency's (DLT) accomplishments in principal detection areas of benefit payment control (ETA Handbook 401).

During SFY 2014, DLT improved controls over this report; however, basic controls were not implemented to ensure the accuracy and completeness of amounts reported in Section E Aging of Benefit Overpayment Accounts and that such aged amounts are supported by the Department's underlying records. Additionally, the financial information in these reports was not reviewed by a supervisor in the fiscal unit for propriety.

<u>Questioned Costs:</u> None

<u>RECOMMENDATIONS</u>

2014-032a Reconcile expenditures between the TAPR and related ETA 9130 reports. Review TAPR reports prior to submission to ensure data agrees to supporting information systems and is reasonable.

2014-032b Perform and document a fiscal unit supervisory review of the financial related information in the ETA 227 report on a timely basis. Reconcile report aging information to the underlying accounting records.

<u>Corrective action plan / auditee views</u>:

2014-032a - The Department of Labor & Training's Business Affairs Division has continued to work on the full implementation of the recommendation to reconcile expenditures between the TAPR and ETA-9130 reports but still requires additional programming in an effort to receive the necessary data elements to facilitate the reconciliation. Controls will be established to incorporate supervisory review the TAPR reports prior to submission to ensure reasonableness that the data include in the reports agrees to supporting information systems, as much as practicable, without causing delay in submittal beyond the required deadline.

2014-032b - As noted in the finding, the Department of Labor & Training's Business Affairs Division has improved controls over this report by performing a comparison of the information on the ETA-227 report to a summary receivables listing but timing of the receipt of the required information may inhibit this process being done on a timely basis. We will continue to pursue the timely production of a detailed receivables report to facilitate the reconciliation between that report and the underlying accounting records in an effort to fully implement the recommendation.

Anticipated Completion Date: *Spring 2016*

Contact Person: *Denise Paquet, Administrator, Financial Management*
Phone: 401.462.8178

Finding 2014-033 ***(significant deficiency - new finding)***

UNEMPLOYMENT INSURANCE – 17.225
Federal Awarding Agency: US Department of Labor / ETA Division of Federal Assistance
Award Years: Not Applicable – Entitlement Program
Federal Award Numbers: Not Applicable – Entitlement Program funded through US Treasury Trust Fund
Administered by Department of Labor and Training (DLT)

REGISTRATION FOR WORK AND EMPLOYRI COMPUTER SYSTEM

The EmployRI computer system is used to facilitate claimant job searching and employer recruitment. We found that in certain situations, a claimant actively receiving an unemployment benefit may actually be classified as "inactive" thereby eliminating the claimant from the pool of workers potentially available to a prospective employer.

State law (RI GL 28-44-12(a) - *Availability and Registration for Work*) provides that "An individual shall not be eligible for benefits for any week of his or her partial or total unemployment unless during that week he or she is physically able to work and available for work. To prove availability for work, every individual partially or totally unemployed shall register for work and shall:

- File a claim for benefits within any time limits, with any frequency, and in any manner, in person or in writing, as the director may prescribe;
- Respond whenever duly called for work through the employment office; and make an active, independent search for suitable work."

The DLT EmployRI computer system is used to register UI claimants for work.

We found a weakness in controls for ensuring that all UI claimants are properly registered for work - a client may be receiving a benefit payment but may not be *actively* registered for work in the EmployRI computer system. Twenty-four (24) of 60 claimants tested were not *actively* registered because they had been transferred from active to *inactive* status within the EmployRI computer system. DLT management (of the Job Services and ISD divisions) advised that inactive registrants are not considered when the department or an employer queries for eligible workers. For example, if a query is made for welders, only active registrants are considered.

"Inactive" registrants occur because federal regulations governing the EmployRI system, i.e., "Common Measure Reporting" criteria, require that when there has been no access by a client within the last 90 days, the *last exited* date is entered in the system and the account is considered inactive. For example, if a client last accessed the system on March 31, 2014, but not on any date thereafter, then on June 29, 2014, the computer automatically enters a *last exited* date of March 31, 2014 in the system and classifies the client as inactive. The client is the system but is classified as inactive and would not be considered available for work by DLT or a prospective employer.

A purpose of the EmployRI system is to provide a marketplace to bring together unemployed workers and prospective employers looking for workers. Classifying certain claimants who are actively receiving unemployment benefits as inactive from an availability perspective is inconsistent with the goal of the EmployRI system. While the system was apparently programmed to meet a specific federal requirement, DLT should seek to modify the system classification of all claimants actively receiving an unemployment benefit be considered active in the EmployRI system (with certain specific exceptions – e.g., a scheduled return to work date)

In addition, we were advised that many claimants use guest access, in lieu of establishing a unique user name and password, to use certain features - such as to view available jobs. However, guest activity is not tracked. As a result, inactive and active registrants may actually be "active" and using the system to look for work via guest visits to the system (but not accessing full functionality of the system and its resources). In such cases, the EmployRI system would not record that activity and reflect the claimant as active and duly registered for job services.

Questioned Costs: None

RECOMMENDATIONS

2014-033a Modify the EmployRI computer system so that claimants receiving unemployment benefits will not be classified as inactive from a job services perspective.

2014-033b Require all users who are unemployment compensation recipients to access the EmployRI computer system using a unique user ID and password.

Corrective action plan / auditee views:

2014-033a - When the State law was passed, the current MIS (EmployRI) was not in existence, nor was the availability of any virtual one-stop career center. The State law, as passed, referenced the requirement of UI recipients to be physically able to work and available for work. "To prove availability for work, every individual partially or totally unemployed shall register for work and shall:

- *File a claim for benefits within any time limits, with any frequency, and in any manner, in person or in writing, as the director may prescribe;*
- *Respond whenever duly called for work through the employment office, and make an active independent search for available work."*

The recommendations that have been provided in order to address this finding include modification of EmployRI so that claimants receiving UI benefits will not be classified as inactive from a job service perspective.

Unfortunately, this recommendation is in direct conflict with federal programmatic reporting requirements and compliance. For example, not allowing UI beneficiaries that are enrolled in federally funded programs to exit after 90 days of not receiving a service would result in reporting zeros for an entire cohort of individuals reported on the ETA 9002 C reports, those being "Eligible Claimant". Of the 14,259 individuals counted in the numerator used to calculate *the Entered Employment Rate on the ETA 9002 C report for Quarter ending 12/31/2014, sixty-six percent (9,376) were "Eligible Claimants". Moreover, by not allowing UI beneficiaries to exit from Wagner Peyser, the same individuals would not exit from the Workforce Investment Act (WIA) program, and Trade Adjustment Assistance (TAA) program due to common measures. The same reporting issues apply to those programs and outcomes reporting, in addition to reporting on outcomes for Veterans being served.*

TEGL 17-05 defines the following performance reporting data elements under Common Measures as:

Entered Employment

Of those who are not employed at the date of participation:

> *# of adult participants who are employed in the first quarter after the exit quarter Divided by # of adult participants who exit during the quarter*

Employment Retention

Of those who are employed in the first quarter after the exit quarter:

> *# of adult participants who are employed in both the second and third quarters after the exit quarter Divided by # of adult participants who exit during the quarter*

Average Earnings

Of those adult participants who are employed in the first, second, and third quarters after the exit quarter:

Total earnings in the second plus the total earnings in the third quarters after the exit quarter divided by # of adult participants who exit during the quarter.

It should be noted that even though an EmployRI user might not be "active" in EmployRI, nevertheless, DLT staff members are able to see/find their resumes and job match using those resumes. DLT currently practices this when holding recruitments for employers. The job seekers are matched to the employers' jobs and job requirements and individuals are contacted by staff in order to notify them of the recruitment events and to inform them that they match the job requirements of the participating employers.

Alternatively, we would like to investigate the following approach. There currently exists a UI rule that requires all UI recipients to post their resumes into EmployRI by their sixth week of receiving UI benefits. In order to ensure compliance with this rule, UI engaged the Department of Information Technology (DOIT) to create an Automated Programmatic Interface (API) with Geographic Solutions, Inc. (GeoSol) whereby a daily file that contains the SSNs of UI recipients is placed on a Secured File Transfer Protocol (SFTP) site for GeoSol to retrieve and process. GeoSol then places a file that contains the individuals resume completion status onto the SFTP site. DOIT processes that file thru UI's AS-400/Mainframe and if the UI recipient has not met the resume posting requirement by the sixth week of receipt of benefits, then a stop is automatically placed on their claim. We could look into modifying this process to include the requirement that resumes posted by UI recipients must also remain active for as long as they continue collecting UI benefits. A stop could automatically be placed on claims if the resumes are not active while the individual/s are collecting UI. We will work with Geographic Solutions, Inc and our

Department of Information Technology to investigate whether this solution is possible and cost effective.

2014-033b - This recommendation is fully implemented. This is already being required for all UI recipients via the requirement that they post their resumes in EmployRI. In order to do so, they have to register in EmployRI which requires the creation of a unique user ID and password.

Anticipated Completion Date:	*Spring 2016*
Contact Person:	*Susan Chompka, Assistant Director for Employment and Training Services* *Phone: 401.462.8127*

Finding 2014-034 ***(other reportable matter – new finding)***

UNEMPLOYMENT INSURANCE – 17.225
Federal Awarding Agency: US Department of Labor / ETA Division of Federal Assistance
Award Years: Federal Fiscal Years: Not Applicable
Federal Award Numbers: Not Applicable – Entitlement Program funded through USTreasury Trust Fund
Administered by Department of Labor and Training (DLT)

OTHER REPORTABLE MATTER – ALLEGED FRAUD

The Department of Labor and Training (DLT) became aware of an alleged fraud involving a DLT employee, which is being investigated by DLT, the Rhode Island State Police, and the federal Department of Labor's Office of Inspector General. The alleged fraud included potential continuation of unemployment insurance benefits beyond allowable timeframes and diversion and theft of the benefits. The investigations are ongoing and the amount of any questioned costs or potential misuse of federal funds is not presently determinable.

Finding 2014-035 ***(material weakness – repeat finding)***

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

QUALITY ASSURANCE PROGRAM - MATERIALS TESTING

RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal and RIDOT policy.

Federal regulations (23 CFR 637.205) require that state transportation departments have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications, including approved changes. The program must meet the criteria in §637.207 and be approved by the FHWA.

RIDOT operates an FHWA approved quality assurance program; however, we observed opportunities for the department to enhance controls over its operation, implement efficiencies, and improve coordination within divisions with the overall goal of ensuring that materials and workmanship generally conform to approved plans and specifications.

RIDOT has made policy changes in response to prior year recommendations with varying degrees of success. For fiscal 2014, we tested 64 materials tests related to 35 projects. RIDOT's policy requires that materials test results be documented and available at each construction site office, which is overseen by the project Resident Engineer. Based on visits to various construction sites, we found that the recording of the materials test results was not uniform throughout the department. For the materials tests selected, only 39 out of 64 material tests were available at the construction sites. In many instances, obtaining the test results required repeated follow-up; however, RIDOT ultimately was able to provide evidence of the tests performed.

A challenge in this and prior audits is discerning that the test results provided by RIDOT correspond to a specific material, delivery interval, and contract due to the lack of consistent cross-referencing between the material (item number) and the test results. This is compounded further when testing stockpiled materials, which can be used at different times, places and for different purposes.

In response to prior findings, the Materials section issued a policy requiring the project Resident Engineer (Construction Section) to provide the Rhode Island Contract (RIC) number and material item number to the Material Inspector to ensure linkage of the test results to the appropriate project. Enforcement of this policy could be enhanced; we observed instances where the RIC number and material item reference information were not provided.

The Materials section also began scanning and storing material test results in a shared folder on the RIDOT network. This process could be further enhanced by developing a uniform file naming convention that allows for easy identification of the applicable construction project and materials test by the resident engineer.

We also observed the need for enhanced coordination and communication among the three RIDOT sections (Materials, Construction, and Design) which have responsibilities related to the Quality Assurance Program. Each section implements policy without necessarily coordinating and considering the impact on the overall Quality Assurance Program.

Lastly, RIDOT should consider employing additional information technology resources to this activity to enhance the timeliness, reliability, and availability of materials test results to the Resident Engineers and to effect overall departmental efficiencies.

<u>Master Schedule of Sampling, Testing and Certification of Materials (MST)</u>

RIDOT's Quality Assurance Program is formalized in a written policy (Master Schedule of Sampling, Testing and Certification of Materials (MST)). The MST identifies the materials and required testing for those most commonly used in the construction of roads and bridges. Industry standards related to testing procedures continually change and consequently the Department periodically changes its testing procedures and seeks approval from FHWA.

RIDOT converted the MST into an electronic system (Materials Testing System Module). A "Materials Test Book" is created for each construction project which becomes the basis for all testing performed. We identified the following control weaknesses over the MST and Materials Testing System Module:

- The Master Schedule of Sampling, Testing and Certification of Materials (MST) does not include all changes approved by FHWA. Consequently, Materials Test Books created from the MST do not reflect the updated testing requirements. Further, RIDOT has not adopted a policy regarding when MST changes are effective (e.g., effective immediately or only for new contracts).

- In practice, RIDOT certifies specific material plants or field sites for the construction season; whereas the MST requires tests to be performed in the field (construction site). The MST should be updated to reflect actual current practices.

- RIDOT has not implemented controls over the creation, updating or deletion of materials testing requirements in the Materials Testing System (MTS) Module - changes should only be initiated and approved by the designated RIDOT personnel.

Materials Test Book

RIDOT's Procedures for Uniform Record Keeping (PURK) manual states "the Construction Section will prepare and provide each project with a Project, Schedule of Sampling, Testing, and Certification of Materials (Project Materials Test Book). The Resident Engineer must ensure that the required tests are performed and logged. We observed the following control weaknesses over creation of the Project Materials Test Book:

- The PURK manual has not been updated to reflect various Department memorandums communicating changes in construction policies.

- Creation of the Project Materials Test Book has been computerized but still requires significant manual intervention. Users may modify testing requirements (within the MTS Module) without approval. Additionally, all non-standard items (Specialty Items) are assigned testing requirements by staff creating the Project Materials Test Book. These staff members may not have sufficient training or experience to assign the appropriate materials test. We observed instances where the test did not appear appropriate for the item.

- RIDOT has not implemented requirements regarding modifying the Project Materials Test Book for project change orders – generally as quantities change so do the number of required materials tests. Currently, there are no addendums to the Project Materials Test Book when change orders are approved.

- Specialty items are non-standard items that require different tests than those included in the Master Schedule of Testing (MST). The Materials section issued a policy requiring the consulting design engineer to identify appropriate material tests for the specialty items; however, this policy has not been implemented.

Questioned Costs: None

RECOMMENDATIONS

2014-035a Enforce existing policies designed to better link testing results to projects and contract items by requiring resident engineers to provide RIC and material item numbers; and establish a uniform file naming convention for test results shared on the RIDOT network.

2014-035b Update the Procedures for Uniform Record Keeping (PURK) manual to include all current policies and procedures. Maintain and distribute the PURK manual electronically.

2014-035c Enhance coordination among the three sections of RIDOT that have shared responsibility for the overall operation of the Department's Quality Assurance Program.

2014-035d Consider employing additional information technology resources to the Quality Assurance Activity to enhance the timeliness, reliability, and availability of materials test results to the Resident Engineers and to effect overall departmental efficiencies.

2014-035e Train all project related staff, design 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.

Corrective action plan / auditee views:

2014-035a - RIDOT has worked hard over the years to continuously improve its procedures. The department has increased the use of item numbers on test results. Item numbers are included on test forms when supplied by Construction, and an item numbers field is now included on all test forms. Some materials, such as concrete sand/aggregate/sand, are used for multiple item numbers on the same project, so it is not always possible and/or practical to know the item number at the time of sampling.

Anticipated Completion Date: *June 30, 2015*

Contact Person: *Colin Franco, Materials*
Phone: 401.222 3030

2014-035b - At the direction of the Chief Engineer, a subcommittee headed by Construction, along with members of Materials, has been established to work on a revision to the PURK manual.

Anticipated Completion Date: *June 30, 2015*

Contact Person: *Frank Corrao, Construction*
Phone: 401.222.2468

2014-035c - RIDOT has weekly meetings between Construction and Materials supervisors to discuss work for the coming week, issues, and policies. We also discuss policies with Design before TACs/TAPEs are sent out. RIDOT believes this has been accomplished.

Anticipated Completion Date: *Complete*

Contact Person: *Colin Franco, Materials*
Phone: 401.222.3030

2014-035d - RIDOT has worked consistently and diligently with MIS to increase the use of IT over the years by providing scan documents to the Residents, and most recently going to implement test reports sent to the Residents electronically through electronic signatures. In addition, RIDOT is constantly working to improve its databases in the materials laboratory. RIDOT has also instituted a new plant program, which will come on-line as a pilot for the 2014 *season. Although the department has worked diligently in this area, progress has been impacted by the myriad of demands on limited MIS staffing resources.*

Anticipated Completion Date: *To be determined*

Contact Person: *Colin Franco, Materials*
Phone: 401.222.3030

2014-035e **-** *RIDOT regularly issues policy memos and also provides training at the winter staff development seminars. This winter, a class was added specifically for Construction Record Keepers to apprise them of the audit findings. We agree that a plan of self-testing is a prudent undertaking. RIDOT will review internally and come up with a plan of action.*

Anticipated Completion Date: *June 30, 2015*

Contact Person: *Colin Franco, Materials*
Phone: 401.222.3030

Finding 2014-036 ***(material weakness - repeat finding)***

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

SUBRECIPIENT MONITORING

RIDOT can enhance its monitoring of subrecipients as required by federal program requirements.

RIDOT has not reliably identified all amounts passed through to subrecipients; however, we estimated that payments to subrecipients totaled approximately $8.0 million in fiscal 2014. The Office of Monitoring and Finalization (OMF) provided a list of subrecipients, which spanned multiple years, and was incomplete since some subrecipient payments, as included in the State's accounting system, were omitted. Additionally, there were a number of projects excluded from monitoring when they fall within subrecipient monitoring parameter. A complete list of sub-awards detailing project award information should be maintained to facilitate both programmatic and financial monitoring procedures.

RIDOT is required to have an annual monitoring plan that ensures subrecipients' use of federal awards complies with federal regulations. The monitoring plan can consist of reviewing audit reports, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws and regulations. RIDOT generally performs site visits, reviews contractor and sub-contractor billings, and communicates regularly with its subrecipients; however, the department does not have an annual monitoring plan and it did not document all the monitoring activities performed. RIDOT indicated that the Office of Monitoring and Finalization only monitor's subrecipient awards when they reach the construction phase and only for awards beginning in fiscal 2011.

RIDOT has improved certain aspects of subrecipient monitoring but can further improve its efforts by ensuring the identification of all subrecipients timely, notifying the subrecipient of federal compliance information timely, and by coordinating the overall departmental monitoring efforts.

In our testing of the projects monitored, we noted RIDOT identified an issue with one consultant that appeared to be noncompliant with Davis Bacon Act requirements. RIDOT notified the subrecipient who in turn contacted the contractor about the discrepancy. While the contractor indicated it was a clerical error, RIDOT did not receive corrected certified payrolls nor confirm correction of the clerical error.

RIDOT can enhance its monitoring to ensure that subrecipient audits are completed within nine months of the close of the subrecipient's audit period and that required management decisions are issued within 6 months of audit submission. Seven of 25 subrecipient audits sampled required follow-up communication by RIDOT. As of December 2014, RIDOT was still in the process of issuing management decisions or communications on audit findings, which is beyond the 6 month permitted federal timeframe.

Questioned Costs: None

RECOMMENDATIONS

2014-036a Identify all federal awards passed through to subrecipients by project.

2014-036b Enhance written policies and procedures over subrecipient monitoring. Document the Department's monitoring plan and document the monitoring performed.

2014-036c Ensure all subrecipient audits are completed timely and management decisions are issued within six months of audit report receipt.

Corrective action plan / auditee views:

2014-036a - The RIDOT Office of Financial Management reconciles subrecipient expenditures per FMS with corresponding subrecipient expenditures per RIFANS and then resolves any variances.

Furthermore, the RIDOT Office of Financial Management has implemented a policy that requires all subrecipient expenditures to be charged to Natural Account 654120 on the State accounting system.

Lastly, RIDOT recently revamped its contract template to require subrecipients to notify the Chief Engineer's Office in writing of the anticipated start date of construction.

Anticipated Completion Date: *December 31, 2015*

Contact Person: *Robert Farley, Chief Financial Officer*
Phone: 401.222.6590

2014-036b - The department has recently formed a subrecipient monitoring team to conduct comprehensive site visits and ensure that the monitoring performed is adequately documented.

Additionally, the department is in the process of developing a department-wide subrecipient monitoring plan that will include written policies and procedures, a risked-based selection *process for selecting which subrecipients will have a comprehensive monitoring review, and a checklist that will be used to document subrecipient monitoring.*

Lastly, the subrecipient monitoring team will perform quality assurance to ensure that all documentation is adequate and complete.

Anticipated Completion Date: *December 31, 2015*

Contact Person: *Edward Troiano*
Phone: 401.222.6590

2014-036c - The Department will ensure that all subrecipient audits are completed timely and management decisions are issued within six months of audit report receipt.

Anticipated Completion Date: *September 30, 2015*

Contact Person: *Edward Troiano*
Phone: 401.222.6590

Finding 2014-037 *(material non-compliance / material weakness - repeat finding)*

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

SPECIAL TESTS AND PROVISIONS – UTILITY ACCOMMODATION POLICY

RIDOT has not documented and sought FHWA approval of its Utility Accommodation Policy (UAP) as required by federal regulation 23 CFR 645.215. Documentation of required utility accommodation requirements for projects should be enhanced.

A Utility Accommodation Policy (UAP) is required to outline when and how utilities may use public highway right-of-way, and under what conditions public funds may be used to relocate utility facilities to accommodate highway construction.

The Department has not documented and sought FHWA approval of its Utility Accommodation Policy (UAP) as required by federal regulation 23 CFR 645.215. The lack of a UAP increases the risk that the Department will not comply with limitations on the use of public highway right-of-ways or the use of public funds to relocate utility facilities to accommodate highway construction.

Controls over documentation of Utility Accommodation requirements also needs to be improved. We selected 36 projects for testing. In a number of instances, the Utilities Section within RIDOT was unable to provide required documentation; however, documentation was subsequently obtained from the Financial Management Section for some of these projects. Ultimately, the missing documentation regarding utility accommodation for the projects tested is summarized below:

- For four projects, RIDOT was unable to provide the Utility Agreement, RIDOT Construction & Maintenance Agreement, a PS&E containing a statement confirming appropriate coordination with all utilities prior to the PS&E approval, or utility estimates. Accordingly, we were unable to determine whether the costs reimbursed met the requirements of the agreement.

- For nine projects, the Utility Accommodation file did not include the approved PS&E Authorization Request (Project Specification and Estimate). The PS&E form is part of RIDOT's utility accommodation approval process.

RIDOT should enforce documentation requirements for utility accommodation projects to ensure compliance with federal requirements.

Questioned Costs: $34,870

RECOMMENDATIONS

2014-037a Finalize the draft Utility Accommodation Policy and obtain FHWA approval.

2014-037b Improve Utility Accommodation file documentation to demonstrate compliance with federal requirements.

Corrective action plan / auditee views:

2014-037a - The Department has prepared a draft Utility Accommodation Policy that is being reviewed. As soon as this review is complete, the policy will be forwarded to FHWA for its approval

2014-037b - The Department will improve its Utility Accommodation file documentation to comply with federal requirements.

Anticipated Completion Date: *December 31, 2015*

Contact Person: *Kazem Farhoumand*
Phone: 401.222.2492

Finding 2014-038 ***(significant deficiency - repeat finding)***

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

VALUE ENGINEERING

RIDOT can improve compliance with federal requirements relating to value engineering analyses by including all the required elements in its value engineering policy. RIDOT's value engineering policy does not include 22 of the 28 required elements as outlined in 23 CFR 627.

Federal regulation 23 CFR 627.1(b) states that State transportation departments shall assure that a Value Engineering (VE) analysis has been performed on all applicable projects and that all resulting, approved recommendations are incorporated into the plans, specifications and estimates. Applicable projects generally include those with an estimated total project cost of $50 million or more ($40 million for bridge projects) that utilize Federal-aid highway program funding.

RIDOT provided evidence where value engineering analyses had been performed for various projects. However, we noted that RIDOT's Value Engineering policy does not include 22 of the 28 requirements of such as outlined in 23 CFR 627. RIDOT can improve its controls and procedures to (1) identify those projects that must include a value engineering analysis and delineate the appropriate point in the project timeline for such analysis to be performed, and (2) ensure value engineering recommendations are evaluated, and approved recommendations are incorporated into the plans, specifications, and cost estimate for the project. Enhanced control procedures should include an appropriate monitoring component to ensure compliance.

Questioned Costs: None

RECOMMENDATION

2014-038 Enhance policies, procedures, and controls to ensure compliance with Value Engineering analysis requirements contained in 23 CFR 627.

Corrective action plan / auditee views:

The Department will further enhance its existing policies, procedures, and controls to ensure compliance with the Value Engineering analysis requirements contained in 23 CFR 627. An updated Value Engineering policy has been drafted and comments from the various RIDOT sections have been received and are currently being incorporated; upon completion, it will be forwarded to FHWA for concurrence. The development of procedures and controls to ensure compliance are being developed based on the new policy. Overall, the Department believes it is in compliance with Value Engineering requirements and can document its efforts in this area.

Anticipated Completion Date: *December 31, 2015*

Contact Person: *Norman Marzano*
Phone: 401.222.2468

Finding 2014-039 ***(significant deficiency – repeat finding)***

FEDERAL TRANSIT CLUSTER:
Capital Investment Grants – CFDA 20.500
Formula Grants – CFDA 20.507
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Public Transit Authority (RIPTA)

ACTIVITIES ALLOWED AND UNALLOWED; ALLOWABLE COSTS/COST PRINCIPLES; PERIOD OF AVAILABILITY OF FEDERAL FUNDS

An entity is responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal award programs. In addition, OMB Circular A -87 – “Cost Principles for State, Local, and Indian Tribal Governments” requires that charges to federal award programs be support by appropriate documentation including approved requisitions, vendor invoices or other documentation.

RIPTA has internal control policies and procedures in place to ensure compliance with activities allowed or unallowed, allowable costs/cost principles, and period of availability of federal funds requirements. RIPTA's internal control procedure to ensure compliance with these requirements is the approving signature of the AGM of planning or his designee and the approving signature of the Executive Director of Accounting on the capital supply requisition. During our testing of internal controls, we noted that the capital supply requisition for one of the forty transaction selected was not approved by either the Planning or Finance department.

We also noted that reimbursements from the federal awards programs to RIPTA's operating funds initiated prior to January 2014 did not require a capital supply requisition. As a result, prior to January 2014, there is no documentation that RIPTA has performed any procedures for this type of federal awards program to ensure compliance with the activities allowed or unallowed, allowable costs/cost principles, and period of availability of federal funds requirements. Effective January 2014, RIPTA has established an operating requisition to document the approvals for reimbursements to RIPTA's operating fund and compliance with activities allowed or unallowed, allowable costs/costs principles, and period of availability of federal funds requirements.

Questioned Costs: None

RECOMMENDATION

2014-039 We recommend that RIPTA ensure a properly approved requisition form is prepared for all federal award 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 federal funds compliance requirements.

Corrective Action/auditee views:

The Authority implemented the requisition process for Operating Funding reimbursements effective January 31, 2014.

Anticipated Completion Date: *January 31, 2014*

Contact Person: *Maureen Neira, CFO*
Rhode Island Public Transit Authority
Phone: 401.784.9500
Email: mneira@ritpa.com

Finding 2014-040 ***(significant deficiency – repeat finding)***

FEDERAL TRANSIT CLUSTER:
Capital Investment Grants – CFDA 20.500
Formula Grants – CFDA 20.507
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Public Transit Authority

EQUIPMENT DISPOSAL

An entity is responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal award programs. Federal Transit Administration (FTA) Circulars 5010.1, 9030.1 and 9300.1 establish requirements related to FTA approval of the transfer, sale or lease of property, equipment or supplies acquired with FTA transit funds that are no longer needed for transit purposes. Any disposition of project property before the end of its useful life requires prior FTA approval.

The Planning Department determines whether the disposal of equipment acquired with federal awards requires prior FTA approval. Although RIPTA has internal control policies and procedures to ensure compliance with equipment and real property management requirements, prior to April 2014, there was no formal documentation of the policies and procedures related to whether prior FTA approval is required for the disposition of project property. Effective April 2014, RIPTA has amended its policies and procedures to include formal documentation of the Planning Department's determination of whether prior FTA approval is required for the period of equipment acquired with federal awards.

Questioned Costs: None

RECOMMENDATION

2014-040 We recommend that RIPTA ensure its amended policies and procedures for the disposal of equipment acquired with federal awards is properly implemented.

Corrective Action/auditee views:

The Authority updated the current disposal policy to include language regarding the Planning Department's determination of whether FTA approval is required prior to disposal of an asset.

Anticipated Completion Date: *May 1, 2014*

Contact Person: *Lillian Shuey Picchione, Transit Planner*
Rhode Island Public Transit Authority

Phone: 401.784.9500
Email: lpicchione@ritpa.com

Finding 2014-041 ***(significant deficiency – repeat finding)***

FEDERAL TRANSIT CLUSTER:
Capital Investment Grants – CFDA 20.500
Formula Grants – CFDA 20.507
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Public Transit Authority

DBE COMPLIANCE AND REPORTING

Recipients of FTA funds are required to ensure nondiscrimination in the award and administration of FTA-assisted contracts by implementing a DBE (Disadvantaged Business Enterprise) program in accordance with 49 CFR 26.

Although RIPTA has a DBE program in place, we noted during our testing of internal controls of procurement policies and procedures that the DBE file for a vendor selected was incomplete. Documentation related to the vendor payment of the approved DBE subcontractors was not available.

Questioned Costs: None

RECOMMENDATION

2014-041 We recommend that RIPTA ensure DBE participation is monitored and documented in a timely manner in accordance with federal requirements.

Corrective Action/auditee views:

RIPTA will ensure that payment verification by vendors to DBE's are made on a timely basis. The RIPTA Compliance Officer will be included as a sign-off in the invoice approval process.

Anticipated Completion Date: *February 1, 2014*

Contact Person: *Jim Vincent, Compliance Officer*
Rhode Island Public Transit Authority
Phone: 401.784.9500
Email: jvincent@ritpa.com

Finding 2014-042 ***(significant deficiency – new finding)***

FEDERAL TRANSIT CLUSTER:
Capital Investment Grants – CFDA 20.500
Formula Grants – CFDA 20.507
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Public Transit Authority

COST PRINCIPLES, SUPPORTING DOCUMENTATION

OMB – Circular A-87 **-** Cost Principles for State, Local, and Indian Tribal Governments" requires that charges to federal award programs be support by appropriate documentation including approved requisitions, vendor invoices or other documentation.

During our testing of internal controls, we noted that two CMAQ service to RIPTA's to operating fund were not properly documented. RIPTA was unable to provide certain supporting documentation, including the vehicle statistic and cost factors reports, used to prepare its reimbursement worksheets. RIPTA attempted to reconstruct the supporting documentation, but the reimbursement worksheets did not agree to the information provided in all cases.

Question Costs: None

RECOMMENDATION

2014-042 We recommend that RIPTA properly maintain all supporting documentation used to prepare CMAQ service reimbursement in accordance with OMB – Circular A-87.

Corrective Action/auditee views:

The source documentation used in the service reimbursement calculations will be forwarded to Finance along with the billing invoice. A copy of both documentations will be maintained in the Planning Department as well.

Anticipated Completion Date: *February 1, 2015*

Contact Person: *Lillian Shuey Picchione, Transit Planner*
Rhode Island Public Transit Authority
Phone: 401.784.9500
Email: lpicchione@ritpa.com

Finding 2014-043 ***(significant deficiency – new finding)***

FEDERAL TRANSIT CLUSTER:
Capital Investment Grants – CFDA 20.500
Formula Grants – CFDA 20.507
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Public Transit Authority

DAVIS BACON ACT

Construction contracts and subcontracts greater than $2,000 that are finance by Federal awards must comply with the Davis-Bacon Act requirements. The Act require that prevailing wage clauses be included in construction contracts; that employees be paid wages not less than those established for the locality of the by the U.S. Department of Labor (DOL); and that contractors submit weekly certified payrolls and statements of compliance for each week in which any contract work is performed. RIPTA should have a system of internal controls to ensure compliance with Davis-Bacon Act requirements.

RIPTA has policies and procedures in place to ensure compliance with Davis – Bacon Act requirements. During our testing of internal controls, we noted that RIPTA was unable to provide certified payroll documentation for one transaction selected that was subject to Davis-Bacon Act requirements.

Questioned Costs: None

RECOMMENDATION

2014-043 We recommend that RIPTA ensure certified payrolls documentation be maintained in accordance with its policies and procedures.

Corrective Action/auditee views:

The Authority has subsequently received the certified payroll documents in question. RIPTA will continue to maintain all certified payroll documentation required by Davis- Bacon Act.

Anticipated Completion Date: *February 1, 2015*

Contact Person: *Maureen Neira, CFO*
Rhode Island Public Transit Authority
Phone: 401.784.9500
Email: mneira@ritpa.com

Finding 2014-044 ***(significant deficiency – new finding)***

FEDERAL TRANSIT CLUSTER:
Capital Investment Grants – CFDA 20.500
Formula Grants – CFDA 20.507
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Public Transit Authority

PROCUREMENT

States are required to purchase goods and services charged to federal awards in accordance with the laws and regulations used for procurements with non-federal funds. Rhode Island laws require that non-construction procurements over $5,000 and construction procurements over $10,000 be competitively bid. If an item meeting the criteria cannot not be competitively bid, the reason why must be properly stated.

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.

Questioned Costs: None

RECOMMENDATION

2014-044 We recommend that RIPTA properly document non-competitive procurements in accordance with its procurement policies and procedures and State Laws and regulations.

Corrective Action/auditee views:

The previous vendor for radiation repairs has been performing substandard work. This poor work is resulting in an unacceptable number of failures resulting in buses out of service.

There are few vendors in the area capable of providing this service, therefore, the Authority is going to utilize the services of BGR Radiator of Plainville Connecticut on a trial basis. This evaluation will be lengthy due to the age of the current fleet.

This evaluation will include the cost of replacement vs. repair and a search of other responsible vendors. Once this evaluation is complete, a bid specification will be developed and a formal bid will be conducted. Purchasing is currently working with the Maintenance Technical writer on specifications.

In the meantime, Procurement has documented the reasons for this purchase in the file, per RIPTA's procurement policies and procedures. Purchasing will work with Maintenance to actively solicit a formal solicitation for this type of repair in the near future.

Anticipated Completion Date: *June 30, 2015*

Contact Person: *Roger Mencarini*
Rhode Island Public Transit Authority
Phone: 401.784.9500
Email: rmencarini@ripta.com

Finding 2014-045 ***(significant deficiency – repeat finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Work Study Program – CFDA 84.033
Federal Award Agency – U.S. Department of Education
Administered by: Rhode Island College

STUDENT TIME SHEETS

According to 34 CFR 682.24(e): an institution shall keep records relating to its administration of the Federal Perkins Loan, Federal Work Study (FWS), Federal Supplemental Educational Opportunity Grants (FSEOG), Federal Pell Grant, ACG (?), National SMART Grant, or TEACH Grant Program for three years after the end of the award year for which the aid was awarded and disbursed under those programs.

The College has established policies and procedures for maintaining, monitoring, and controlling student FWS payroll records and files in accordance with both federal and state regulations.

The audit procedures included tests for proper authorization, supporting documentation, accuracy, completeness, timeliness and adherence to award specifications. We reviewed payroll timesheets for Fall 2013 and Spring 2014 semesters for a sample of fifteen students. Our review indicated that four of the fifteen students' timesheets were unavailable for testing because the supervisor disposed of them after the semester ended.

Current business processes in the payroll office were not effective in ensuring supervisors were keeping appropriate documentation of the work study students' timesheets by allowing a supervisor to dispose of timesheets after the end of the semester. Lack of record retention leads to questioned costs because there is no verification for the hours the students worked and were paid.

Questioned Costs: $4,899

RECOMMENDATION

2014-045 We recommend that management strengthen their oversight of the supervisors in charge of administering the FWS students' timesheets. The College should request that copies of timesheets are kept for the appropriate amount of time.

Corrective Action/auditee views:

It was found that certain departments did not realize they should be maintaining copies of all student sign-in sheets. Per the Student Employment Handbook student employment supervisors should "retain the current year and the previous year sign-in and sign-out sheets and official timesheets in order to be in compliance with our regulations". There was a misunderstanding of what should be retained since now student timesheets are on-line and input by the departments, approved paper timesheets were previously sent to payroll.

Payroll will reinforce with departments that they need to retain the student sign-in sheets. A communication will be sent to all student employment supervisors reminding them to retain the sign-in sheets for the appropriate length of time. They will be instructed to notify payroll if space is a problem for the file retention and that payroll will take the them and scan them for the departments and will be maintained on our server.

Anticipated Completion Date: *Ongoing*

Contact Person: *Melissa Souza, Assistant Controller*
Rhode Island College
Phone: 401.456.8001

Finding 2014-046 ***(significant deficiency – new finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Direct Student Loans – CFDA 84.268
Federal Award Agency – U.S. Department of Education
Administered by: University of Rhode Island

STUDENT STATUS REPORTS

One of the underlying assertions regarding the student status reports is the accuracy of the information as it relates to the effective dates of status changes. Out of a sample of forty students with enrollment status changes, the students' status change dates for two students were not reported properly.

According to 34 CFR Section 685.309(b):

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

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

Questioned Costs: None

RECOMMENDATION

2014-046 We recommend that the University have a process to manually review the information being uploaded, on a test basis, to ensure that the software is pulling accurate information.

Corrective Action Plan/ auditee views:

Upon review of the file information sent to the National Student Loan Clearinghouse (NSLC), the University confirmed that the transmitted information was correct. However, the NSLC did not *upload the information correctly to its website. The University will investigate the creation of a report comparison that will identify variances between the information sent to NSLC and the actual information reported on their website, which subsequently is transmitted to the National Student Loan Data Systems (NSLDS).*

Anticipated Completion Date: *November 2014*

Contact Person: *Bonnie Saccucci, Senior Associate Director*
Enrollment Services
University of Rhode Island
Phone: 401.874.7530

Finding 2014-047 ***(significant deficiency –new finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Direct Student Loans – CFDA 84.268
Federal Award Agency – U.S. Department of Education
Administered by: University of Rhode Island

STUDENT STATUS REPORTS

The Federal government requires that University to report enrollment changes to the National Student Loan Data System (NSLDS) within sixty days. Out of a sample of forty students with enrollment status changes, three of the students' status change dates were not reported within the appropriate time frame to the NSLDS. The timeframe for reporting the change in status for the three students was 11, 71, and 125 days late.

According to 34 CFR Section 685.309(b)(2):
An institution shall, unless it expects to submit its next Enrollment Reporting Roster File to the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days if the institution discovers a Direct Subsidized, Direct Unsubsidized, or Direct PLUS loan has been made to a student who enrolled at the institution and :

1. Has ceased to be enrolled on at least a half-time basis
2. Has failed to enroll on at least a half-time basis for the period for which the loan was intended
3. The loan was made to a full-time student who has ceased to be enrolled on a full-time basis
4. Has changed his or her permanent address

Our audit disclosed that, although the University had policies and procedures for transmitting information to the National Student Clearinghouse on at least a monthly basis to ensure reporting of all students is done in a timely manner, they did not report during one month.

Questioned Costs: None

RECOMMENDATION

2014-047 We recommend that the University have a process to manually review the information being uploaded, on a test basis, to ensure that the software is pulling accurate information.

Corrective Action Plan/ auditee views:

Upon review of the file transmission dates from the University to the National Student Loan Clearinghouse (NSLC), it was confirmed that although the University transmitted a January 2014 file, the NSLC did not pick up the file and have it available for the National Student Loan Data Systems (NSLDS to transfer into its database. The University will investigate how it can confirm the receipt of their files to the NSLC and subsequent transmission to the NSLDS.

Anticipated Completion Date: *November 2014*

Contact Person: *Bonnie Saccucci, Senior Associate Director*
Enrollment Services
University of Rhode Island
Phone: 401.874.7530

Finding 2014-048 ***(significant deficiency – repeat finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Direct Student Loans – CFDA 84.268
Federal Award Agency – U.S. Department of Education
Administered by: Community College of Rhode Island

STUDENT STATUS REPORTS

One of the underlying assertions regarding the student status reports is the accuracy of the information as it relates to the student's effective status.

Our testing revealed three of ten students tested did not have the proper effective status reported. According to the National Student Loan Data System (NSLDS) Enrollment Reporting Guide:

> *A school must correctly report students who have completed a program with a "G" for "graduated" status rather than a "W" for "withdrawn." This assists the Department in identifying individual student completion of programs of study. Further, an accurate anticipated completion date aids in correct servicing of students' loans, avoiding unnecessary early conversion, causing technical defaults.*

Our audit disclosed that although the Community College of Rhode Island had policies and procedures for transmitting information to the National Student Clearinghouse (NSC), the staff did not effectively monitor the accuracy of the information related to retroactive status changes. The Community College does have a policy in place to ensure that the reporting is completed accurately, however student changes that were made retroactively (i.e. graduate statuses) were not properly reflected on the NSLDS website.

Questioned Costs: None

RECOMMENDATION

2014-048 We recommend that the Community College establish a process requiring a designates individual to manually review the information being uploaded to ensure that the software is pulling the accurate information on a test basis.

Corrective Action/auditee views:

The Community College assigned a staff member to ensure the accuracy of the information that was being submitted to the National Student Clearinghouse. As of the date of submittal, the information being reported was found to be accurate.

However, through a review of this corrective action plan, it was determined that there was an issue with reporting adjusted/updated information that was changed after the initial submission, i.e., retroactive graduates. The college anticipated these edits to graduation statuses would be submitted along with graduation records for the next term reported. After consultation with the National Student Clearinghouse the recommended solution was to develop a manual process for ensuring updated enrollment statuses are reported to the Clearinghouse.

Anticipated Completion Date: *November 2014*

Contact Person: *Joel Friedman, Director of Financial Aid*
Community College of Rhode Island
Phone: 401.825.2117

Finding 2014-049 ***(significant deficiency – repeat finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Supplemental Educational Opportunity Grants – CFDA 84.007
Federal Work-Study Program – CFDA 84.033
Federal Perkins Loan Program – Federal Capital Contributions – CFDA 84.038
Federal Pell Grant Program – CFDA 84.063
Federal Direct Student Loans – CFDA 84.268
Federal Award Agency – U.S. Department of Education
Administered by: Rhode Island College

APPLICATION OF CREDIT BALANCES

Out of a sample of forty students, twenty-five students' financial aid causes a student credit. Out of the twenty-five students whose financial aid caused a credit, two were applied to prior year charges in excess of $200. Per Federal regulations, current year awards are only allowed to be applied to current year charges, unless under $200.

According to 34 C.F.R. Section 668.164(d)(2):
An institution can disburse funds for prior year charges for a total of not more than $200 for tuition and fees, room, or board and if the institution obtains the student's or parent's authorization under 34 C.F.R 668.165(b), other educationally related charges incurred by the student at the institution.

The College's system automatically applies payments received to the student's account balance. Because the system is set up this way, if a student has a balance due from a prior year and receives aid in excess of what is needed for the current year, the additional aid is automatically applied to the prior year balance that is past due. Per the Federal regulation, this is not allowed in excess of $200.

Questioned Costs: Unknown

RECOMMENDATION

2014-049 We recommend the bursar office ensure that the current year award is only allowed for current year charges unless under $200. If the student has an outstanding balance, the College should provide the appropriate refund check to the student and request the write the refund check back to the College or not allow the student to enroll in courses at all, until the student has paid the balance due in full.

Corrective Action/auditee views:

When financial aid is disbursed to the student's account, the system automatically deducts any amounts that are outstanding for previous balances. The College will establish procedures to provide the appropriate refund check to the student. The College will then request that the student sign the check back over to the College or use the funds to pay off the past due balance. By doing so, this will adhere to the regulation by not applying the funds directly to prior year charges and it will ensure adherence to the 14 day refund requirement.

Anticipated Completion Date: *Ongoing*

Contact Person: *Charlene L. Szczepanek, Bursar*
Rhode Island College
Phone: 401.456.8130

Finding 2014-050 ***(significant deficiency –repeat finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Supplemental Educational Opportunity Grants – CFDA 84.007
Federal Work-Study Program – CFDA 84.033
Federal Perkins Loan Program – Federal Capital Contributions – CFDA 84.038
Federal Pell Grant Program – CFDA 84.063
Federal Direct Student Loans – CFDA 84.268
Federal Award Agency – U.S. Department of Education
Administered by: Rhode Island College

REFUND TIME LIMIT

Out of a sample of forty students, twenty-five students' financial aid causes a student credit. Out of the twenty-five students whose financial aid caused a credit, two credits were applied to prior year charges instead of being refunded to the student. Because the students' accounts were credited instead of the student receiving the refund, the refund is past the 14 day requirement. According to 34 C.F.R 668.164(e):

"Whenever an institution distributes Title IV, Higher Education Act (HEA) program funds by crediting a student's account, and the total amount of all Title IV, HEA program funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges accessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible, but:

- No later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period: or

- No later than 14 days after the first day of class of a payment period if the credit balance occurred on or before the first day of class of that payment period."

The College has policies and procedures in place to determine and issue refunds for all students within the required 14 days. However, in the case of those selected students, the College applied the refund to prior award year balances that the students held on their accounts. Because this is not allowed, as noted in finding 2014-049, the College is now delayed in refunding the student.

Questioned Costs: None

RECOMMENDATION

2014-050 The College should review refund procedures currently in effect and determine the necessary changes to ensure improved adherence to the 14-day refund requirement.

Corrective Action/auditee views:

When financial aid is disbursed to the student's account, the system automatically deducts any amounts that are outstanding for previous balances. The College will establish procedures to provide the appropriate refund check to the student. The College will then request that the student sign the check back over to the College or use the funds to pay off the past due balance. By doing so, this will adhere to the regulation by not applying the funds directly to prior year charges and it will ensure adherence to the 14 day refund requirement.

Anticipated Completion Date: *Ongoing*

Contact Person: *Charlene L. Szczepanek, Bursar*
Rhode Island College
Phone: 401.456.8130

Finding 2014-051 ***(material weakness - new finding)***

REHABILITATION SERVICES-VOCATIONAL REHABILITATION GRANTS TO STATES (VR) – CFDA 84.126
Federal Award Agency – Department of Education
Award years: Federal Fiscal Years 2012-2013, 2013-2014
Federal Award Numbers: H126A130058, H126A140058
Administered by: Department of Human Services, Office of Rehabilitation Services (ORS)

PROCUREMENT AND SUSPENSION AND DEBARMENT

The Office of Rehabilitation Services ORS should ensure that its procurement authority is currently authorized and consistent with State law and regulations. ORS personnel should require certifications regarding suspension and debarment from vendors, or alternatively, periodically check the federal Excluded Parties List System.

R.I. General Laws 37-2-54(a) provides that the Chief Purchasing Officer may delegate purchasing authority to state agencies. The Office of Rehabilitation Services (ORS) has been operating under "limited delegated authority" from the State's Division of Purchases to procure various client services for the Vocational Rehabilitation (VR) program; however, that authority expired in December 2012. ORS requested a renewal of the authority in January 2015, which is pending approval by the Chief Purchasing Officer.

Guidance for states regarding suspension and debarment provides that:

"Non-Federal entities are prohibited from contracting with or making subwards under covered transactions to parties that are suspended or debarred. Covered transactions include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other specified criteria. All nonprocurement transactions (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions. (2 CFR 180)

When a non-Federal entity enters into a covered transaction at a lower tier, the non-Federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity."

ORS did not obtain required suspension and debarment certifications nor review the EPLS at the GSA's System for Award Management (SAM) website for its providers supplying goods and services under the limited delegated contracting authority. During fiscal 2014, 67 vendors were paid more than $25,000 from Vocational Rehabilitation Grants to States funding. We found that none of the vendor names appeared on the EPLS.

<u>Questioned Costs:</u> None

<u>RECOMMENDATIONS</u>

2014-051a Ensure authorization of delegated purchasing authority is maintained currently.

2014-051b Ensure that no vendors paid with Vocational Rehabilitation Grants to States funding are suspended or debarred parties by obtaining certifications or documenting review of the Excluded Parties List System (EPLS).

<u>Corrective action plan / auditee views:</u>

ORS will enhance our internal procurement procedures to verify that our vendors that enter into covered transactions in the Vocational Rehabilitation Grants to States Program are not suspended or debarred from contracting with or receiving sub awards.

ORS will check the Excluded Parties List System (EPLS) website for notice of suspension or debarment for any new vendor applying for services. ORS will also periodically check our existing vendor list as well, and the results of checking of the EPLS website will be documented and kept on file.

ORS will obtain current Delegated Authority letters to replace the ones which have expired.

<u>Anticipated Completion Date:</u> *For new Vendor applications - Effective immediately*
For Existing Vendors - June 30, 2015
Delegated Authority - Completed

Contact Person: *Kathleen Grygiel, Administrator - VR*
Phone: 401.462.7873

Finding 2014-052 ***(material weakness - new finding)***

REHABILITATION SERVICES-VOCATIONAL REHABILITATION GRANTS TO STATES (VR) – CFDA 84.126
Federal Award Agency – Department of Education
Award Year: Federal Fiscal Years FFY 2012-2013, 2013-2014
Federal Award Numbers H126A130058, H126A140058
Administered by: Department of Human Services, Office of Rehabilitation Services (ORS)

ACCESS CONTROLS – CASE MANAGEMENT SYSTEM

The Office of Rehabilitation Services (ORS) must immediately review the system access of all users within its automated case management system to limit the number of individuals with system administrator access roles and to ensure appropriate segregation of duties.

The Office of Rehabilitation Services (ORS) utilizes a client case management system (System 7) to manage caseloads, including processing authorizations for client services vendor payments. Access roles are assigned to all users and controlled through unique passwords. The roles assigned are based on job function and responsibility level. The system is designed to permit or limit access to various system capabilities. Access is further controlled by permitting only the viewing of data or the actual entry or changing of system information.

The ORS has assigned the system administrator role to 29 of the 94 ORS employees and 3 temporary contractors using System 7. This included administrators, case supervisors, and administrative support staff. The System administrator role allows wide and privileged access - users may change system settings and manage crucial configuration data. A complete review of all user access roles should be performed matching actual job functions to system functionalities. The review should ensure that appropriate segregation of duties has been maintained within the assignment of system access. System administrator access roles should be limited to a significantly smaller number of employees actually requiring such wide system responsibilities.

Formal procedures should be implemented to request, review, and approve user system access. All approvals to grant or modify user system access should be documented. Reviews of system user access roles and responsibilities should be performed periodically.

Questioned Costs: None

RECOMMENDATIONS

2014-052a Implement formal procedures to request, review, and approve user system access.

2014-052b Review the system access of all users matching actual job functions to system functionalities and ensuring appropriate segregation of duties has been maintained. Limit system administrator access roles to employees actually requiring such wide system responsibilities.

2014-052c Perform periodic reviews of user access rights.

Corrective action plan / auditee views:

ORS will identify all users assigned to the System Administrator Role (24) and determine the appropriateness of each worker who has this role. ORS will also contact our MIS vendor to *assist us to re-categorize these users to a more appropriate role while still allowing them to conduct the necessary work in the system.*

Anticipated Completion Date:	*June 30, 2015*
Contact Person:	*Peter Lavalle, IT Program Analyst II* *Phone: 401.462.7808*

Finding 2014-053 ***(material weakness- new finding)***

REHABILITATION SERVICES-VOCATIONAL REHABILITATION GRANTS TO STATES (VR) – CFDA 84.126
Federal Award Agency – Department of Education
Award Year: Federal Fiscal Years FFY 2012-2013, 2013-2014
Federal Award Numbers H126A130058, H126A140058
Administered by: Department of Human Services, Office of Rehabilitation Services (ORS)

FEDERAL FINANCIAL REPORTING

The Office of Rehabilitation Services (ORS) needs to improve controls over the preparation of federal reports by (1) ensuring adequate resources are committed to federal reporting tasks and (2) federal reports are supported by and reconciled to the State accounting system.

The SF-425 Federal Financial Reports (FFR) (OMB No. 0348-0061) is prepared semi-annually by the ORS. We noted variances between amounts reported on the SF-425's and amounts recorded in the state accounting system. Supporting documentation of amounts included on each federal report requires improvement and should include reconciliation to the state accounting system. Examples of variances included:

- FFY2013 Grant - Quarter ended September 30, 2013 - the federal share of expenditures reported by ORS exceeded the federal share recorded in the state accounting system by $259,771
- FFY2013 Grant - Quarter ended March 31, 2014 - the federal share of expenditures reported by ORS exceeded the federal share recorded in the state accounting system by $125,965
- FFY2014 Grant - Quarter ended March 31, 2014 - the federal share of expenditures reported by ORS was $524,817 less than the federal share recorded in the state accounting system
- the state recipient share of expenditures was reported as $3,451,256 in the Final 9/30/14 report for the FFY 2013 grant, which was $239,454 less than recorded previously reported by ORS at 9/30/13 and less than recorded in the state accounting system for the FFY 2013 grant (see discussion below regarding MOE).

ORS was not able to identify or resolve the variances noted. ORS informed us that changes in key financial accounting staff over an extended period resulted in the weakened controls and reporting variances. ORS has begun a review of the SF-425 Federal Financial reports submitted for the FFY 2013, 2014 and 2015 grants.

We also found accounts with expenditures totaling approximately $71,000 that are inappropriately linked to the Vocational Rehabilitation CFDA in the state accounting system which complicated reconciliation of the SF-425 reports to the State accounting system.

RECOMMENDATIONS

2014-053a Review all SF-425 federal financial reports previously submitted for the FFY 2013, 2014 and 2015 grants and reconcile to amounts included in the state accounting system. Submit revised reports as required.

2014-053b Strengthen control procedures to ensure that documentation is maintained for all amounts included in each SF-425 report including required reconciliations to the state accounting system.

ORS is also required to submit the RSA-2 Annual Vocational Rehabilitation Program/Cost Report (OMB No. 1820-0017). We found this report was inconsistent with and unreconciled to amounts included in the state accounting system. ORS was not able to provide us with adequate documentation to supported the detailed categories of expenditures included in the RSA-2 report. We also observed variances between amounts included on the annual RSA-2 report and the applicable quarterly SF-425 reports covering the same period. Controls must be strengthened to require reconciliation between the amounts included in RSA-2 report to amounts included in the state accounting system and the applicable SF-425 reports. ORS has begun a review of the RSA-2 report submitted for FFY 2013.

Questioned Costs: None

RECOMMENDATIONS

2014-053c Review all RSA-2 federal financial Reports submitted for FFY 2013 and 2014 and reconcile to the state accounting system, other supporting data and to the applicable SF-425 reports. Submit revised reports as required.

2014-053d Strengthen control procedures to ensure that documentation is maintained for all amounts included in each RSA-2 report including required reconciliations to the State accounting system, other supporting date, and the applicable SF-425 reports.

Corrective action plan / auditee views:

ORS will improve controls over Federal reporting by having the Associate Director or Administrator-VR review the 425 Reports prior to submission. The ORS Chief Human Services Business Officer will ensure the federal reports are supported and reconciled with the state accounting system. ORS will also review all RSA-2 federal financial reports as suggested in the draft audit report, and submit revised reports as required.

Anticipated Completion Date: *June 30, 2015*

Contact Person: *Carol Mattson*
Chief Human Services Business Officer
Phone: 401.462.7812

Finding 2014-054 ***(material weakness - new finding)***

REHABILITATION SERVICES-VOCATIONAL REHABILITATION GRANTS TO STATES (VR) – CFDA 84.126
Federal Award Agency – Department of Education
Award Year: Federal Fiscal Years FFY 2012-2013, 2013-2014
Federal Award Numbers H126A130058, H126A140058
Administered by: Department of Human Services, Office of Rehabilitation Services (ORS)

LEVEL OF EFFORT – MAINTENANCE OF EFFORT (MOE)

We found that controls were insufficient to ensure compliance with the MOE requirements for the VR program for Federal Fiscal Year (FFY) 2012 - 2013. The federal Department of Education found that the State did not comply with MOE requirements and reduced the FFY 2014 fourth quarter grant allotment accordingly.

Federal regulations (34 CFR section 361.62) require the State to provide non-Federal expenditures under the VR program at least equal to the total of such expenditures for the federal fiscal year two years earlier. The federal government may reduce the State's next federal funding grant allotment by the amount of any MOE shortfall.

In a letter dated August 13, 2014, the Commissioner of the Federal Office of Special Education and Rehabilitative Services, Rehabilitative Services Administration (RSA), stated that ORS was noncompliant with the MOE requirement for the VR program in FFY 2013 after review of a revised SF-425 submitted ORS. Accordingly, the federal government reduced the FFY 2014 fourth quarter grant allotment by the MOE deficit it calculated to be $624,369.

In a fiscal 2012 monitoring report, the federal government indicated that certain costs claimed as non-Federal share of expenditures did not meet federal guidelines. ORS, in a Corrective Action Plan update, stated that it had discontinued claiming these costs. We found that the noncompliant costs identified by RSA were included in the cumulative state recipient share of expenditures as reported by ORS for the September 30, 2013 quarter. RSA used FFY 2013 non-Federal expenditures of $3,693,870, which included the noncompliant costs in determining the MOE deficit of $624,369. ORS in its Final FFY 2013 SF-425 report (as of September 30, 2014) revised its reported MOE amount, which would appear to increase the MOE deficit. ORS was unclear whether the change in reported MOE amounts was due to the exclusion of the non-federal share expenditures, which were cited by the federal monitoring review, or other changes in data used to prepare the report.

ORS should review all FFY 2013 SF-425 reports, resolve the variances, and discuss required revisions with RSA. ORS must improve controls to monitor and ensure compliance with the VR program MOE requirement.

Questioned Costs: Unknown

RECOMMENDATIONS

2014-054a Review all FFY 2013 SF-425 reports, resolve the variances in the reporting of non-Federal share expenditures, and discuss required revisions with RSA.

2014-054b Improve controls to monitor and ensure compliance with the VR program MOE requirement.

Corrective action plan / auditee views:

ORS will review all FFY 2013 SF425 Reports, resolve the variances, and seek guidance/possible revisions with RSA.

Anticipated Completion Date: *June 30, 2015*

Contact Person: *Carol Mattson*
Chief Human Services Business Officer
Phone: 401.462.7812

Finding 2014-055 ***(material noncompliance/ material weakness - new finding)***

CHILD NUTRITION CLUSTER:
School Breakfast Program – CFDA 10.553
National School Lunch Program – CFDA 10.555
Special Milk Program for Children – CFDA 10.556
Summer Food Service Program for Children – CFDA 10.559
Federal Award Agency: US Department of Agriculture
Award Year: 2014
Federal Award Numbers: 14144RI306N1098 and 14144RI306N1097
SPECIAL EDUCATION CLUSTER:
Special Education – Grants to States (IDEA Part B) 84.027
Special Education – Preschool Grants (IDEA Preschool) 84.173
Federal Award Agency: US Department of Education
Award Year: 2014
Federal Award Numbers: H027A130164-13A and H173A130067
ARRA - STATE FISCAL STABILIZATION FUND (SFSF) – RACE TO THE TOP INCENTIVE GRANTS – CFDA 84.395
Federal Award Agency: US Department of Education
Award Year: 2010
Federal Award Number: S395A100073
Administered by: RI Department of Education (RIDE)

SUBRECIPIENT MONITORING

The Rhode Island Department of Education (RIDE) did not comply with subrecipient monitoring requirements during fiscal 2014. Controls must be enhanced to ensure compliance with these requirements which are applicable to a significant amount of program expenditures.

OMB Circular A-133 (the Circular) requires RIDE to ensure that its subrecipients expending $500,000 or more in federal awards during the subrecipient's fiscal year meet the audit requirements of the Circular. In addition, it requires RIDE to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

RIDE provides federal funds to 229 subrecipients many of which must have an audit in accordance with the Circular. These subrecipients generally have a fiscal year end of June 30. As a result, these subrecipients were required to have their fiscal 2013 single audits completed by March 30, 2014. Shortly thereafter, RIDE began collecting and reviewing some of these audit reports with the goal of ensuring that recipients had the required audit in accordance with Circular requirements. RIDE also began reviewing these reports to identify any findings, which would then compel it to issue management decisions and ensure the subrecipients took appropriate corrective actions.

At the time of our audit fieldwork, RIDE had completed the review of subrecipient audit reports for only 17 of its 229 subrecipients. This weakened the effectiveness of RIDE's monitoring of subrecipients to ensure their compliance with federal requirements.

Questioned Costs: None

RECOMMENDATION

2014-055 Complete review of subrecipient audit reports and, in instances where there are audit findings, issue management decisions and ensure that the subrecipient takes appropriate and timely corrective action.

Corrective action plan / auditee views:

The Rhode Island Department of Education (RIDE) understands the importance of sub recipient monitoring, and takes this responsibility very seriously.

During the review period of the 2013-14 sub recipient audits RIDE was unable to monitor all of the 229 sub recipients due to a staff shortage, a result of the department being unable to attract a qualified candidate for a short term vacancy. The lack of capacity required existing staff to assume additional duties which resulted in the untimely review of the sub recipient audits.

The duties and responsibilities of the vacant position are diminishing as the grant requiring the support approaches the end of its term. This will allow the staff member temporarily assigned to the grant duties to reallocate time to the audit reviews.

As of this writing 76 audits have been reviewed and marked complete, it is the department's intention to have all of the 2013 and many 2014 audits reviewed by fiscal year end, 6/30/15, with the balance of the 2014 audits complete by September 30, 2015. If achieved, this plan will allow the department to begin the review of the 2015 audits with no backlog and a concentrated focus.

Anticipated Completion Date: *September 30, 2015*

Contact Person: *Mark Dunham, Director of Finance*
RI Department of Elementary and Secondary Education
Phone: 401.222.4647

Finding 2014-056 ***(material weakness – new finding)***

ARRA - RACE TO THE TOP- EARLY LEARNING CHALLENGE – CFDA 84.412
Federal Award Agency: US Department of Education
Award Years: 2012-2015
Federal Award Number: S412A120033
Administered by: RI Department of Education (RIDE)

ALLOWABLE COSTS/COST PRINCIPLES

RIDE can improve the monitoring of activities of Participating State Agencies (PSA) utilizing funding from the Early Learning Challenge Grant to ensure all PSA costs incurred are necessary and reasonable and comply with federal cost principles.

RIDE has entered into a number of cooperative agreements with other state agencies to implement the Scope of Work outlined in its application for the Early Learning Challenge (ELC) grant. RIDE is considered the grantee or lead agency and the other state agencies are known as Participating State Agencies (PSAs). The PSAs process payments through the state accounting system related to all activities coming under their purview. The grant conditions, however, stipulate that RIDE is responsible for ensuring all PSA costs incurred are necessary and reasonable.

Total fiscal 2014 expenditures for the ELC grant were nearly $8.8 million. After excluding payroll and other internal administrative charges, we selected five large dollar vendor payments totaling $1,368,594 million and a random sample of 24 additional vendor payments totaling $393,896. These vendor payments totaling $1,762,490 were tested for compliance with program requirements including whether vendor billings were adequately supported consistent with federal cost principles (OMB Circular A-87).

We found that RIDE can improve its oversight of costs incurred by its PSAs. Specifically, we found that five of the 29 expenditure transactions charged to the ELC grant were processed without sufficient supporting documentation. As a result, we were unable to ascertain that these expenditure claims were reasonable, necessary and supported by contract provisions.

All five of the aforementioned claims were processed by the same PSA and represented monthly reimbursements for the costs incurred by a vendor engaged to establish a statewide Professional Development/Technical Assistance Center. The Center provides professional development and technical assistance for the early education workforce. These five monthly reimbursements totaled $1,315,033, $292,799 of which represented the vendor's payroll costs (22% of total) for the 5 month period. The supporting documentation outlined the employee names, number of hours worked and total payroll costs for the period but did not include position title. As a result, we were unable to verify that the hourly rates were in compliance with contract terms. We also noted that the contract specified five separate hourly rates for personnel reimbursed through the contract; however, the actual billing documentation included additional rates that were not consistent with the contract.

Other examples of unsupported charges are outlined the table below.

Nature of Charge	Amount
Consultants	$ 36,760
Furniture	10,187
Office Supplies	5,389
Rent	35,742
Sub Contracts/Sub Grants	667,016
Travel	1,512
Vacation, holiday and sick time	42,726

RIDE periodically visits its PSAs and performs limited fiscal review procedures. Essentially, these reviews focus on ensuring that all costs are included in the proper budget categories rather than ensuring that the documentation supporting the claims provides sufficient evidence that the claims were reasonable, necessary and supported by contract provisions.

Questioned Costs: None

RECOMMENDATION

2014-056 Ensure documentation supporting all ELC disbursements meets the minimum standards established by federal cost principles and RIDE policies. Develop a system to periodically review disbursements processed by the Participating State Agencies.

Corrective action plan / auditee views:

The Rhode Island Department of Education (RIDE) will meet with the Participating State Agencies (PSAs) to reinforce the documentation required to pay vendors. RIDE will regularly monitor the evidence/back up used by the PSAs for bill payment throughout the year for compliance.

Anticipated Completion Date: *Ongoing*

Contact Person: *Mark Dunham, Director of Finance*
RI Department of Elementary and Secondary Education
Phone: 401.222.4647

Finding 2014-057 ***(material weakness – repeat finding)***

STATE PLANNING AND ESTABLISHMENT GRANTS FOR THE AFFORDABLE CARE ACT (ACA)’S EXCHANGES – CFDA 93.525
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2014
Federal Award Numbers: HBEIE0064A, HBEIE0086A, HBEIE0157A, and HBEIE0182A
Administered by: HealthSource RI – Department of Administration

ALLOWABLE COSTS/COST PRINCIPLES

Grant expenditures must meet certain criteria defined in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, to be allowable for federal reimbursement. We noted control deficiencies relating to inadequate documentation being obtained and reviewed prior to disbursement authorization and failure to document personnel costs allocated to federal grants.

For fiscal 2014, the State expended, and was reimbursed through the federal grant, $48.5 million relating to the planning and implementation of its State-based Health Insurance Exchange (HIE) as authorized by the federal Affordable Care Act. Fiscal 2014 expenditures include costs (1) to plan and develop the technology supporting the HealthSource RI (HSRI) - primarily contracted vendors and consultants and (2) to operate HSRI which began on October 1, 2013 including vendor costs for HSRI's call center.

HSRI can improve its controls to ensure amounts billed by vendors are fully supported and documented consistent with federal requirements. Additionally, controls can be enhanced to ensure personnel costs allocated to the program are supported by time sheets or semi-annual certifications (for employees expending 100% of their efforts on the program).

Consultant and Technology Services Vendor Charges

During fiscal 2014, HSRI engaged multiple consultants and technology service providers to plan and build the HIE. Some vendors were paid based on successful task completion/delivery while others were paid based on hourly billing rates and reimbursement for other charges.

Expenditures must meet certain criteria defined in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments,* to be allowable for federal reimbursement. We tested a sample of the vendor related expenditures and found that documentation supporting hours charged in monthly consultant invoices and for reimbursed consultant travel expenses was not complete. In certain instances, additional documentation was provided by the vendors after our audit requests to HSRI; however, such documentation had not been obtained and reviewed, at the time of payment. We observed the following:

HSRI was unable to provide documentation (i.e., timesheets, activity reports, etc.) demonstrating that the number of hours detailed on contractor invoices had been validated prior to approval – the hourly billing rates were supported by the original contract provisions. HSRI currently requires contractors to include supporting details for periodic billings that include employee title, hours worked, and contracted rate. While this may be sufficient for contracts reimbursed on a task completion basis, other contracts where reimbursement is hourly and task completion is less measurable, additional documentation requirements should be considered.

Consultant travel and other administrative costs were reimbursed without supporting documentation. While the contractors did subsequently provide supporting documentation based on our request, we noted instances where the charges were mislabeled on invoices and where it was unclear as to whether the underlying costs qualified as administrative costs not already within the scope of the tasks covered by the contract.

HSRI should have ensured adequate supporting documentation was obtained and reviewed for all consultant and vendor invoices prior to payment. While each of the underlying contracts and purchase orders within the State accounting system provide control over the maximum contract amount disbursed, review and approval of invoices and supporting documentation is critical to ensuring that only allowable costs are charged to the federal program.

HSRI should adopt a policy detailing uniform documentation requirements for consultants that bill on an hourly basis and are reimbursed for other allowable costs. This is particularly important due to the volume of consultant effort billed on an hourly basis.

Personnel Charges

Personnel costs for state employees working on HIE related activities totaled approximately $2.2 million for fiscal 2014. HSRI was unable to provide supporting documentation for certain personnel costs charged to the HIE program. OMB Circular A-87 requires employees that work solely on one federal award to complete periodic (no less than semi-annually) certifications attesting to that fact. In response to the 2013 audit findings, the State began obtaining semi-annual certifications for all employees charged 100% to the federal program for the six-month period January 1, 2014 through June 30, 2014. Certifications were not obtained for the period July1, 2013 through December 31, 2013.

Our testing also included a sample of journal entries that charged personnel costs to the grant. Personnel costs totaling $101,638, representing the partial allocation of salary and benefits for two employees of the Office of the Lieutenant Governor, were allocated to the grant. While these employees were involved in grant-funded activities, the percentage or amount allocated was not supported by time sheets or other equivalent documentation. Consequently, these amounts are questioned due to lack of supporting documentation.

Initial planning for the HIE began as a multi-agency collaboration before program activities and responsibilities were consolidated within HealthSource RI, a division within the Department of Administration. The sharing of responsibilities over several departments continued to complicate the retrieval of certain documentation related to fiscal 2014 requested during our audit.

Questioned Costs: $101,638

RECOMMENDATIONS

2014-057a Ensure that consultant billings are adequately supported and documented prior to payment to ensure compliance with federal allowable cost regulations. Adopt uniform documentation requirements for consultants billing on an hourly basis and for other reimbursable costs.

2014-057b Ensure personnel costs reimbursed under the program are supported by either timesheets or semi-annual certifications for those employees that work solely on one federal award.

Corrective action plan / auditee views:

2014-057a - Current HSRI policies and procedures require that the operational contract managers review and approve invoices for appropriateness and allowability of vendor charges prior to payment. The standards adopted for consultant billings on an hourly basis are consistent with those stipulated in vendor contracts. Additionally, HSRI management believes these procedures appropriately mitigate the risk of improper expenses but will continue to evaluate further procedures as the organization matures.

HSRI will consider additional procedures to obtain and review the detail of vendor invoiced out of pocket expenditures such as travel, meals, etc., within the constraints of agency resources.

2014-057b - During state fiscal 2014, HSRI was able to implement internal controls that include the bi-annual certification of time for all employees who charge 100% of their time to HSRI grants. In addition, HSRI is in the process of implementing a policy that will require all other state agencies to provide supporting payroll documents to HSRI grant managers prior to initiating journal transfers within the state accounting system.

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Anticipated Completion Date: *Effectively Immediately*

Contact Person: *James Thorsen, Deputy Director*
Finance and Operations, HealthSource RI
Phone: 401.415.8104

Finding 2014-058 ***(significant deficiency – repeat finding)***

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: G1302RITANF, G1402RITANF
CCDF CLUSTER:
Child Care and Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: G1301RICCDF, G1401RICCDF
Administered by: Department of Human Services (DHS)

ELIGIBILITY - CASE FILE DOCUMENTATION

Controls can be further strengthened to ensure eligibility determinations are sufficiently documented consistent with department policy. Cases should be closed when noncompliance with a required work plan extends beyond three months.

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

Families apply for RI Works cash assistance using the DHS Application for Assistance and the Statement of Need forms. Families seeking eligibility for the Child Care Assistance Program (CCAP) must submit a signed RI Works request for services or CCAP application form. All RI Works and childcare service applications are required to be submitted along with the documentation required to verify eligibility and the need for services.

We tested the case files of 30 families receiving RI Works cash assistance and 30 receiving child care services to determine whether the proper eligibility determinations were made, and whether payments were calculated in accordance with program requirements, including obtaining any required documentation and performing required verifications. Each TANF recipient participating in "work activities" has a separate service file (paper documentation) which includes an agreement outlining the required work activities. When a TANF participant does not comply with the required "work activities", their cash benefits are reduced for a period of up to three months; if noncompliance continues their cash benefits are to be terminated.

We noted the following documentation exceptions concerning the RI Works Program and Child Care Programs applications eligibility determination process:

- Four CCAP case files selected were not provided for review.

- Three TANF eligibility files and one service file were not provided for testing. Two additional case files did not contain an application or interim report that covered the time period selected for testing. Three service plan files were also out of date.

- During a separate test of cases penalized for non-compliance with a work plan, we found 11 cases sanctioned for more than three months. In five of these cases, the case was not closed after the third month because of a lack of approval by a supervisor. Some of the cases were subsequently closed, but for reasons other than the three months sanction.

Controls should be further strengthened to ensure that workers comply with established procedures thereby assuring the accuracy of eligibility determinations, including sanctions for noncompliance with a work plan. Cases involving work penalty sanctions should be closed as required.

Questioned Costs: Unknown

RECOMMENDATION

2014-058 Strengthen controls to ensure adherence to procedures requiring agency personnel maintain and properly utilize required documentation to update electronic case file records prior to determining eligibility and payment amounts. Enforce compliance with work participation requirements, including closure after three months of non-compliance.

Corrective Action Plan/ auditee views:

DHS has made great strides with changing our business processes to enhance effective and proper processing of all cases as a result of a Ford Foundation's Work Support Strategies (WSS) Grant provided to the department in 2011. The Department has had the opportunity to redesign the service delivery system of four essential work support programs for low-income families (SNAP, RI Works, family Medical Assistance, and the Child Care Assistance Program). This change in business process with staff working on all programs will continue to increase efficiencies and more accurate eligibility determinations.

DHS continues to work on adequate staffing which will ensure proper closure of RI Works cases when appropriate. Again, efficiencies have been gained through business process redesign. Implementation of the new eligibility system will also assist the staff with proper eligibility determinations and enforcement of sanctions. Continued emphasis with Supervisors to reinforce imposition of appropriate sanctions will also be made

Anticipated Completion Date: *May 2016*

Contact Person: *Deborah Buffi, Associate Director*
Phone: 401.462.0547

Finding 2014-059 ***(significant deficiency – new finding)***

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years, 2012-2013 and 2013-2014
Federal Award Numbers: G1302RITANF, G1402RITANF
Administered by: Department of Human Services (DHS)

FEDERAL FINANCIAL REPORTING AND PERIOD OF AVAILABILITY

DHS can improve its controls over federal reporting to ensure that TANF program expenditures are reported in the appropriate grant period. Controls can also be enhanced to ensure compliance with the limitations on transfer of TANF funds to other federal programs.

DHS made $595,000 in regular TANF funds available to continue a youth summer employment program managed by the Department of Labor and Training. Accounts previously used for ARRA funds were used to make payments for the program, even though the ARRA funding was exhausted. This resulted in confusion regarding where the expenditures should have been reported. Since the program ran from July through September 2013, the expenditures should have been reported on the TANF expenditure report for the 2013 grant at September 30, 2013. Since the 2013 grant was fully expended and the report closed by the time the error was discovered, the summer youth program expenditures were reported on the FFY 2014 grant but not until the quarter ended December 31, 2014. Grant reporting should be timely and amounts should be supported by the underlying accounting records. Reconciliation of the reported amounts to the State accounting system would have detected the reporting difference.

Federal regulations allow for the transfer of funds from TANF to the Child Care and Social Services Block Grant (SSBG) programs, within limits. Up to 10% of the grant can be transferred to SSBG. In the fourth quarter of SFY 2014, DHS transferred $1,730,604 to SSBG. This amount was not included on the TANF report filed for the quarter ended June 30, 2014. If included DHS would have exceeded the 10% transfer limit at that time. Although compliance with the 10% transfer limitations is ultimately measured on a federal fiscal year basis, the federal government monitors the transfer limitation quarterly in relation to quarterly grant awards. The transfer mount was included on the September 30, 2014 report, but because the grant award had been increased, DHS was within the 10% limit at that time.

We also noted that the transfer to the Child Care program at June 30, 2014 was overstated by $35,000. The reporting error occurred because the transfer amount was taken from the state accounting system which included a credit related to overpayment collections. This was corrected on a subsequent report.

Questioned Costs: None

RECOMMENDATIONS

2014–059a Report all grant expenditures in the proper period. Verify quarterly and cumulative amounts before reporting.

2014–059b Monitor transfer amounts so that limits are not exceeded each quarter.

Corrective Action Plan/ auditee views:

2014-059a- The Department of Human Services currently reconciles TANF cash assistance expenditures internally on a monthly basis as part of an in-state reporting procedures with the Department of Administration and the RI General Assembly and reconciles all TANF expenditures quarterly on the state FGIS reports. Effective 4/1/15 all expenditures will additionally be reconciled prior to report submission to strengthen controls and ensure that reporting is timely and clearly supported by the state accounting system.

2014-059b – The Department of Human Services agrees that tightening the current monitoring of transfer amounts to a quarterly basis would result in improved reporting and better control and decrease the danger of ultimately exceeding the allowed amounts. Starting 4/1/15 upon receipt of the quarterly award, the exact amounts will be calculated and distributed within DHS Financial Management and monitored continually throughout the quarter.

Anticipated Completion Date: *April 2015*

Contact Person: *Kevin McCarthy, Chief Human Services Business Officer*
Phone: 401.462.6871

Finding 2014-060 ***(material weakness – repeat finding)***

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years, 2012-2013 and 2013-2014
Federal Award Numbers: G1302RITANF and G1402RITANF
Administered by: Department of Human Services (DHS)
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5021 and 1405RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

INCOME ELIGIBILITY AND VERIFICATION SYSTEM

Controls over eligibility can be enhanced by timely resolution of IEVS data match information posted to recipient case records. While timely resolution has improved compared to prior years, IEVS data match data in 10 out of 40 case files in our sample was not resolved timely.

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

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

The objective of our testing was to assess whether DHS considered the IEVS data match information in determining eligibility for TANF and the amounts of benefits. Specifically, we understand that case workers are prompted electronically through the Department's INRHODES computer system when new information resulting from the IEVS data matches is posted in the case record.

We received a data file from DHS for our testing which included 83,078 IEVS records representing data that populated INRHODES case files upon upload of various data interfaces. Since INRHODES is used to determine eligibility for multiple programs including TANF, we matched the IEVS data interface file to a file containing all TANF benefit payments for fiscal 2014. That file included

10,589 TANF recipients with at least one or more cash benefit payments during the year. The resulting match yielded 6,761 records representing TANF recipients with one or multiple cash benefit payments during the year and at least one IEVS data match. We selected a random sample of 40 out of a population of 6,761 records for testing.

For each case, we assessed whether the IEVS data had been properly considered in the eligibility and benefit determination process. Our assessment was based on whether the electronic case record contained evidence that a worker had acted on and/or cleared the IEVS data. The results of our testing of 40 randomly selected IEVS data messages showed that ten (10) out of 40 electronic case records with IEVS data matches did not contain evidence that a worker investigated or resolved the issue.

Failure to promptly investigate and resolve IEVS interface data weakens the Department's controls over the determination of eligibility and benefit levels for the TANF program.

Questioned Costs: None

RECOMMENDATIONS

2014-060a Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.

2014-060b Maintain documentation supporting the resolution of data match discrepancies and initiate modifications when discrepancies affect eligibility and/or amount of benefits.

Corrective Action Plan/ auditee views:

2014-060a - Business process redesign was fully implemented in all field offices by December 2014, however, the Department continues to make changes and improvements based upon lessons learned. One significant change to our previous business process, which will positively impact the error rate, is that under the new model, we have transitioned from a caseload model to a 'task-based' model. Thus, one worker no longer owns a case from start to finish, instead there will be teams of individuals responsible for specific tasks, one of which is a 'Change Team.' That said, we anticipate a positive impact on our error rate given there is now a team of individuals responsible for ensuring changes are entered into cases accordingly.

2014-060b - Although the backlog of information to be processed by the IEVS unit staff remains significant and the work can often be slow when verification forms (50bs) are not returned promptly by the employers, the unit has made great progress over the past year. Priority has been given to addressing the more recent interfaces first, the older ones subsequently. The ultimate goal of this unit is to address all new interfaces within a month of when they hit. Provided the unit remains fully staffed, we anticipate being able to meet this goal within the next year, and the unit will maintain documentation of any data match changes.

Anticipated Completion Date: *April 2016*

Contact Person: *Lissa DiMauro, Associate Director, Division of Community Services*
Phone: 401.462.6356

Finding 2014-061 ***(material weakness – repeat finding)***

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years, 2012-2013and 2013-2014
Federal Award Numbers: G1302RITANF and G1402RITANF
Administered by: Department of Human Services (DHS)
SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 13RISOSR and 14RISOSR
Administered by: Department of Human Services (DHS)

SUBRECIPIENT MONITORING

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

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

Guidance for pass-through agencies can be found at 31 USC 7502(f)(2)(A through C). It requires pass through entities to provide subrecipients the program name, CFDA number (or other identifying number) and Federal requirements of the award, The circular also requires the pass through agencies (1) ensure that subrecipients expending $500,000 or more in federal awards have met applicable audit requirements, (2) issue a management decision on any audit findings within six months after receipt of the subrecipients' audit reports, (3) ensure that the subrecipients take timely and appropriate corrective action, and (4) evaluate whether any audit findings necessitate adjustment of the pass-through entity's records or impact the agency's ability to comply with applicable federal regulations.

We selected seven TANF subrecipient files for testing. Only four of the subrecipients had provided their audit report timely to the department. The other three subrecipients forwarded their reports later. Once received, DHS staff did review them and noted no findings related to the TANF program. When we went to confirm that the contract requires the submission of audit reports, we found that the contract requires the performance of a financial statement audit and federal compliance audit, when required, but there is no language requiring it be submitted to DHS. We believe this may have been inadvertently removed from the standard contract language.

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

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

- DOA obtained audit reports from of its subrecipients as part of their grant application process – but they did not maintain a log to track when reports or due, nor complete checklists or otherwise indicate that the reports were reviewed when received. Audit reports received as part of the application process may not be timely depending on the date of the application and the agency's fiscal year end date.

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

<u>Questioned Costs</u>: None

<u>RECOMMENDATIONS</u>

2014-061a Obtain and review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action. Ensure that all federal funds passed through the State are included in the subrecipient's audit report. Modify the contract language to require the timely submission of audit reports.

2014-061b Notify all subrecipients of federal award data and compliance requirements, including changes in funding source.

2014–061c Require subrecipients to submit appropriate documentation when requesting payment of federal funds.

<u>Corrective Action Plan/ auditee views</u>:

2014-061a - The Office of Financial Management staff is finalizing a process to issue management decisions and ensure subrecipients take timely corrective action . Contract language is currently being revised to more clearly request submission of audit reports, and follow up with non-complying subrecipients.

2014-061b **-** *The Department is revising contract language to notify all subrecipients of federal award data and compliance requirements and will also be following recently issued guidance from the RI Office of Management and Budget on Subaward data requirements in compliance with new Uniform Grant Guidance*

2014-061c - In SFY15 the Behavioral Healthcare staff began training on proper contract monitoring including reviewing expenditures on submitted invoices to ensure expenditures were within the approved scope of work per the contract award.

<u>Anticipated Completion Date</u>: *June 2015*

Contact Person: *Jennifer Pate, Administrator, Financial Management*
Phone: 401.462.1586

Finding 2014-062 ***(significant deficiency – new finding)***

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Year 2012-2013
Federal Award Number: G1302RITANF
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING- MAINTENANCE OF EFFORT

Controls need to be enhanced over the accumulation of data representing Maintenance of Effort (MOE) expenditures, particularly when estimates are applied to categories of expenditures to quantify those deemed TANF eligible.

The Department of Human Services' (DHS) internal control procedures require further strengthening to ensure the reliability of data reported on the ACF-204 (*Annual Report including the Annual Report on State Maintenance-of-Effort (MOE) Programs – OMB No. 0970-0248*). This annual report is submitted to the Administration for Children and Families, U.S. Department of Health and Human Services and contains information on the TANF program and the State Maintenance of Effort program(s). The same expenditure information is also reported on the ACF-196, TANF Financial Report.

Data needed to prepare these reports is accumulated from a variety of sources including other departments and agencies of state government. In general, DHS needs to further improve its documentation of such data and ensure that relevant source documentation is consistently retained and referenced to support amounts claimed. Further, documentation to support both the ACF-196 and ACF-204 reports, particularly in the case of MOE claimed expenditures, should reference qualifying regulations or other federal guidance for such expenditures.

In previous years, DCYF residential service expenditures were used to meet the maintenance of effort requirement. Multiple estimates were used to determine the TANF eligible portion of those total expenditures. Previously, a sample of all of the families was tested to determine if they were receiving other types of assistance and could therefore be deemed "TANF eligible." For FFY 2013 reporting, no sampling was performed to support the Department's estimate of the TANF eligible portion of these DCYF residential services. DHS and DCYF should formalize their methodology for estimating the TANF eligible portion of residential services that qualify as MOE expenditures and perform sampling and other statistical support for the estimates ultimately used.

Control procedures over the preparation and review of the ACF-196 and ACF-204 reports should be further enhanced to ensure that all necessary information is included in the report and the information is accurate and is supported by appropriate data and calculations.

Questioned Costs: None

RECOMMENDATION

2014-062 Enhance control procedures over the preparation of the ACF-196 and ACF-204 reports to ensure that all information included in the report is accurate and is supported by appropriate methodology.

Corrective Action Plan/ auditee views:

DHS has corrected the ACF-196 and ACF-204 report for the amount of Maintenance of Effort claimed. We will also strengthen control procedures to ensure the reporting is correct.

<u>Anticipated Completion Date</u>: *March 2015*

Contact Person: *Deborah Anthes, Administrator*
Family & Adult Services
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Finding 2014-063 ***(material weakness – repeat finding)***

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services - Administration for Children and Families
Federal Award Numbers – 2013G992201, 2012G992201
Administered by: Department of Human Services (DHS)

<u>SUBRECIPIENT MONITORING</u>

The Department of Human Services can significantly improve its monitoring of subrecipients in a number of areas to ensure compliance with program requirements.

DHS is required to monitor the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means as outlined in OMB Circular A-133 to provide reasonable assurance that subrecipients administer federal awards in compliance with laws and regulations.

DHS did not perform regular site visits, client data reviews, vendor monitoring, and fiscal reviews during fiscal 2014 due to insufficient program staff, delay in reassigning monitoring responsibilities and implementation of a new line of business system.

<u>Questioned Costs</u>: None

<u>RECOMMENDATIONS</u>

2014-063a Perform client data reviews, vendor monitoring, and fiscal reviews of LIHEAP subrecipients and document the monitoring procedures performed.

2014-063b Evaluate the impact of subrecipient activities on DHS's ability to comply with applicable federal regulations.

<u>Corrective Action Plan/ auditee views</u>:

DHS will improve its monitoring of subrecipients. The LIHEAP program staff, along with DHS fiscal staff is currently working on a combined effort to monitor all the subrecipients for multiple programs at the same time. This combined effort will stream line the process and reduce the burden on the subrecipients to duplicate documentation and testing protocols for each of the separate program's monitoring requirements. DHS has also developed an accurate and obtainable time line for the testing to be completed. Implementation of the above mentioned measures will resolve this audit finding.

<u>Anticipated Completion Date</u>: *June 2015*

Contact Person: *Lewis Babbitt, Chief of Program Development*
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Phone: 401.462.6424

Finding 2014-064 ***(significant deficiency – repeat finding)***

CCDF CLUSTER:
Child Care and Development Block Grant CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund CFDA 93.596
Federal Awarding Agency: US Department of Health and Human Services
Award Years: Federal Fiscal Years 2013 and 2014
Federal Award Numbers: G1301RICCDF, G1401RICCDF
Administered by Department of Human Services (DHS)

FRAUD DETECTION AND REPAYMENT

Controls over fraud detection and repayment within the CCDF Cluster can be enhanced by referring potential child care fraud or overpayment cases to the Front-End Detection (FRED) Unit on a timely basis.

Federal regulations require that lead agencies such as DHS recover childcare payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud (45 CFR section 98.60).

The Front-End Detection (FRED) Unit concentrates on early detection of potential fraud by investigating Child Care applications which exhibited indicators of possible fraud as well as investigating active cases that are forwarded to it from other Divisions within the Department in order to identify potential overpayments. If an overpayment is detected, the FRED Unit attempts appropriate action to recover payment, including referrals to the DHS fraud and collection units. The FRED Unit investigates cases of potential fraud for four federal programs: Child Care, SNAP, Medical Assistance and RI Works (TANF).

During fiscal 2014, according to a list provided by the Department, only two Child Care cases with potential overpayments were referred to the FRED Unit for investigation and these cases were still in review as of June 30, 2014. No overpayment cases were identified. Management advised us that this occurred because the small staff of five focused on other federal programs such as SNAP and TANF cases because of federal grantor emphasis on those programs. As a result, the FRED Unit did not identify any Child Care cases to refer for collections.

Questioned Costs: None

RECOMMENDATION

2014-064 Review active Child Care cases referred by other units for possible over-payments and take appropriate action to recover any over-payments found.

Corrective Action Plan/ auditee views:

The FRED unit will follow up with referrals for possible overpayment and take appropriate actions for recovery if overpayments are found or refer to Fraud when appropriate. We will update referral forms from the field and disseminate for training.

Anticipated Completion Date: *May 2015*

Contact Person: *Deborah Barclay, Legal Counsel*
Phone: 401.462.6816

Finding 2014-065 ***(material weakness- new finding)***

FOSTER CARE – TITLE IV-E - CFDA 93.658
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1301RI1401, 1401RI1401
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by the Department of Children, Youth and Families

CONTROLS OVER FEDERAL CLAIMS RESULTING FROM PAYMENTS TO "SYSTEM OF CARE" NETWORK PROVIDERS

The Department of Children, Youth and Families must implement controls to ensure that federal claims for reimbursement are reconciled and adequately supported to aggregate payments made to "system of care" network providers.

The Department of Children, Youth and Families (DCYF) contracted with two "system of care" (SOC) providers to manage and provide care to certain children, particularly those requiring residential provider placements. The SOC providers, in turn, engage residential care providers for the children in DCYF's care. During fiscal 2014, payments totaling approximately $79.2 million were made by DCYF to the SOC providers for direct care and administrative costs. Payments were disbursed monthly based on the total contract amounts.

DCYF uses its RICHIST computer system for both case management activities and also to accumulate costs related to each child in its care. RICHIST also allocates direct care costs to the various permitted funding sources available (e.g., Medicaid, Foster Care, State general revenue) for each child based on the child's eligibility characteristics and the nature of the specific cost. Certain child specific care costs are authorized and readied for payment through RICHIST. However, payments to the SOC providers are made in aggregate amounts that are not provider or child specific. For the purpose of allocating the "system of care" costs to the appropriate funding source through RICHIST, a "shadow claim" is entered in the RICHIST system which is intended to replicate the payment made by the SOC providers to a residential care provider (number of days multiplied by a daily rate). Controls are not adequate to ensure the estimated or "shadow claims" can be fully reconciled to the total amounts paid to the SOC providers. Further, DCYF has not implemented controls or procedures to verify the census information and to ensure the rates used to build the "shadow claims" are the actual daily rates paid by the SOC networks.

Through the RICHIST system, costs are allocated to both the Medicaid and Foster Care (Title IV-E) programs for the purpose of claiming reimbursement for the eligible federal share of costs. Controls need to be implemented to ensure that claims charged to federal programs are supported by and reconciled to the actual disbursements to the SOC providers' contracted residential care providers. Specifically, total contract payments should be segregated into the portions representing direct child care costs and provider administration. The direct child care costs paid should be reconciled to the "shadow claims" created in the RICHIST system that allow for child specific claims for federal reimbursement. Additional audits or monitoring of the SOC providers and the residential care providers may be required to periodically validate census data and to ensure the propriety of rates used to build the RICHIST "shadow claims".

Questioned Costs: None

RECOMMENDATIONS

2014-065a Implement controls to support federal claims for reimbursement resulting from aggregate payments to "system of care" network providers.

2014-065b Reconcile the direct child care costs of the "system of care" providers to the "shadow claims" created in RICHIST to enable child specific claiming.

2014-065c Implement audits and other monitoring of the "system of care" providers to periodically validate census data and to ensure the propriety of rates used to build the RICHIST "shadow claims".

Corrective Action Plan/ auditee views:

We are currently working with the Executive Office of Health and Human Services (EOHHS) to understand and outline how this department will be monitoring, implementing and auditing federal claiming through the Interstate Agreement within EOHHS. In addition, the Bureau of Audits from Department of Administration is also currently reviewing billing and claiming procedures to recommend an action plan in improving internal controls within the Department. To date, we have implemented a "Network Monthly Billing Backup Documentation" form with the "System of Care" Networks, which will be a more concise billing procedure to address direct services and administration expenditures. The Networks will be submitting actual costs via receipts, payroll registers, provider specific invoices, and child specific information per providers to assist in reconciling shadow claims inputted into RICHIST for federal claiming.

Anticipated Completion Date: *June 30, 2015*

Contact Person: *David W. Eaton, Acting CFO*
Phone: 401.528.3630

Finding 2014-066 ***(material weakness- new finding)***

FOSTER CARE – TITLE IV-E - CFDA 93.658
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1301RI1401, 1401RI1401
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by the Department of Children, Youth and Families

COST ALLOCATION PLAN

The Department of Children, Youth and Families can improve controls over the monitoring of its cost allocation plan which is administered by a vendor to ensure that costs distributed to various programs by the cost allocation process are appropriate and consistent with the federally approved cost allocation plan.

DCYF uses a cost allocation plan (CAP), designed and operated by a consultant, to allocate administrative costs to multiple federal programs, including the Foster Care and Medicaid programs. During fiscal 2014, DCYF charged over $10 million of costs to the Foster Care program and $3.4 million to the Medicaid program based on data derived from the cost allocation plan.

DCYF provides the consultant with expenditure data, detailed personnel costs, and child placement statistics for each quarter. Quarterly cost reports are also provided directly to the consultant from the two “system of care” (SOC) network providers, as well as the residential care provider agencies, for the purpose of providing the relative administrative costs of those agencies. The consultant inputs this data into its cost allocation system, which then allocates these costs, based on a pre-approved methodology. The consultant provides DCYF with the amount of costs to be charged to each federal program. DCYF uses these amounts to prepare federal reports for the Foster Care program to obtain reimbursement from other federal programs.

DCYF has limited procedures in place to ensure the accuracy of the costs determined by the cost allocation system. For instance, there are insufficient procedures in place to verify quarterly cost data provided by the two SOC network providers and the residential care providers. Administrative costs of these agencies totaling more than $8.5 million were input into the CAP during fiscal 2014, resulting in allocations to the Foster Care program of $1.6 million. There is a lack of resources at DCYF devoted to monitoring the cost data provided by the SOC network agencies. We also noted inconsistencies between the cost data provided to the consultant and the CAP reports produced. In addition, $327,225 in administrative costs for the two SOC providers were inadvertently omitted from the CAP for the first quarter of the fiscal year, and were not properly reported in subsequent quarters. This resulted in an understatement of federal expenditures in the Foster Care program of $163,613 in fiscal 2014.

Additionally, adjustments for additional allocated administrative costs were reported totaling $1.3 million. This amount includes adjustments for computer system costs not properly allocated in prior fiscal years, as well as administrative costs of the SOC network providers and residential care providers for periods not previously allocated. In both instances, the costs claimed were applicable to multiple prior quarters. We also noted errors in preparing the CB-496 federal report, resulting in adjustments to federal expenditures reported being understated in fiscal 2014 by $87,705 for project development and evaluation costs incurred in prior years. However, in order to be eligible for federal reimbursement, the costs must be submitted within two years after the calendar quarter in which they were expended. As a result of this limitation, approximately $50,500 of the costs are now ineligible for reimbursement.

Given the level of reliance placed on data provided by the consultant in determining applicable administrative costs, DCYF should enhance its oversight and monitoring of the cost allocation process to ensure that administrative expenditures to the Foster Care program are accurately and timely claimed.

The State utilizes a Title IV-E participation rate, or the Foster Care penetration rate, in its quarterly cost allocation plan. The penetration rate is calculated by dividing the number of Title IV-E Foster Care eligible children by the total number of children in foster care. Specifically, the denominator should be comprised of the total number of children who are in foster care, including those that are Title IV-E eligible and those that are not or have not yet been determined Title IV-E eligible.

During fiscal 2014, the State erroneously excluded children in foster care pending eligibility determination from the calculation of the penetration rate. While the RICHIST system captures the data and uniquely identifies children with pending status, those children were excluded when calculating the denominator of the penetration rate. Consequently, for fiscal 2014, the amount of costs allocated to the Foster Care program was overstated. The number of children pending eligibility for the Foster Care program averages approximately 10 children out of approximately 1,400 children in DCYF foster care.

The Department should modify its procedures to ensure that the penetration rate is calculated correctly in accordance with federal requirements.

Questioned Costs: Unknown

RECOMMENDATIONS

2014-066a Enhance procedures for reviewing the quarterly cost allocation to obtain reasonable assurance that the cost allocation plan is operating as designed.

2014-066b Develop more robust procedures for monitoring the costs incurred for the two “system of care” network providers and the residential care providers.

2014-066c Modify procedures for calculating the Foster Care penetration rate to include children pending eligibility in the population of all children in foster care.

Corrective Action Plan/ auditee views:

The Department will work with the Executive Office of Health and Human Services to map a process that will review the initial collection of data for the cost allocation plan and reconcile the final outputs to the CB-496 and other federal reports. The Department will work with the current vendor to understand how all operational and administrative costs are applied through the cost allocation plan and will implement training for Department staff to be versed in analyzing cost allocation plan data, monitoring, and quality control checks. Along with the mapping and training components of this response the Department will implement a quality control schedule to review and monitor the cost allocation plan and ensure it is implemented as it has been approved by the federal government.

The Department has implemented the use of an information request form named “Network Monthly Billing Backup Documentation”. The form will require the electronic and paper submission of detailed cost data for residential billing, community based services, flex funding billing, NCC billing, operations, personnel and administrative costs of system of care network providers and residential care providers. Detailed information will include invoices from sub-providers to the networks, spreadsheets with detailed information on children and the services provided to children, network payments made to sub-providers and cost information for operations, personnel and administration.

The information provided will be compiled and analyzed for comparison to payments made to the networks. Results of the comparison will be used to analyze costs, enhance departmental decision making related to expenditures and more closely link payments to vendors to actual costs incurred by vendors.

The RICHIST report used to develop the Foster Care penetration rate will be modified to add the count of children in Foster Care pending eligibility determination status to the population of children in foster care included in the Foster Care penetration rate. The Department will set a schedule to monitor and analyze penetration data to ensure that pending eligibility status children are included in the Foster Care Penetration rate used in the cost allocation plan.

Anticipated Completion Date: *June 30, 2015*

Contact Person: *David W. Eaton, Acting CFO*
Phone: 401.528.3630

Finding 2014-067 ***(material weakness - new finding)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5021 and 1405RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER MEDICAID ELIGIBILITY - UNIFIED HEALTH INFRASTRUCTURE PROJECT (UHIP)

Controls over Medicaid eligibility were weakened during fiscal 2014 due to UHIP system data interfaces that were not operating as designed. These interfaces were required to validate self-attested Medicaid applicant information. Periodic matching of Medicaid enrollee information to interface data sources to ensure continued eligibility (post-eligibility review) was also not operating during fiscal 2014 and has yet to be implemented. Documentation and procedures supporting eligibility determinations through UHIP should be enhanced.

The State of Rhode Island's implementation of the federal Affordable Care Act (ACA) resulted in significant changes in the processes used to determine eligibility for Medicaid and also expanded eligibility to certain individuals not previously eligible for the program. Key within this implementation is the design and implementation of the Unified Health Infrastructure Project (UHIP) system to administer (upon completion) a unified client application process and eligibility determination system for the State's Health Insurance Exchange and various federal programs including Medicaid, TANF, Child Care, and SNAP.

Beginning October 1, 2013, there were multiple paths to Medicaid eligibility including the online HealthSource RI portal, visiting the HealthSource RI contact center (staffed and operated by a vendor), utilizing a "system navigator", or through applying at a local Department of Human Services (DHS) field office. The Unified Health Infrastructure Project (UHIP) system began operation on October 1, 2013 after the first phase of the project was completed. This phase included the launch of the State's Health Insurance Exchange and Medicaid eligibility determinations based on new modified adjusted gross income (MAGI) rules allowed under ACA. Both the new UHIP system and the predecessor INRHODES system were used to determine eligibility during fiscal 2014.

We obtained an understanding of the uniform application process and system controls designed within UHIP and reviewed a sample of Medicaid eligibility determinations processed during our audit period. We noted control deficiencies relating to eligibility determinations processed through the new UHIP system.

Key income verification data source was not operational during most of fiscal 2014

The UHIP system design, consistent with federal guidelines, involves extensive online and real time interfaces with federal and State data hubs. In essence, the data hubs are used to match, validate and verify data self-attested by the applicant. For example, this includes verification of the social security number provided by the applicant, citizenship status, and income. The federal data hub has income data, largely derived from Internal Revenue Service sources. Since such information is derived from annual tax return filings, it does not necessarily reflect current income sources. For Medicaid eligibility determination purposes, the UHIP system was designed to utilize a State wage reporting database - SWICA (State Wage Income Collection Agency) maintained by the State Department of Labor and Training (DLT). This data is more current due to required quarterly filings by Rhode Island employers to DLT.

During fiscal 2014, there were issues involving both the ability of the UHIP system to access the SWICA interface data and the "refreshing" of the database to periodically update the data with more current wage information. Because the SWICA interface was not operational, applicant self-attested income, a critical Medicaid eligibility determinant, was not validated before the applicant was deemed Medicaid eligible. Had the interface been operational, discrepancies between the self-attested income and SWICA database amounts would likely have been identified with the UHIP system prompting resolution before the determination of Medicaid eligibility.

The failed operation of the SWICA interface was not discovered until May 30, 2014. In addition to the prime UHIP development vendor, other vendors were engaged to monitor contract compliance, provide a system quality control function and independently validate system completion as phases are placed into production. The non-functioning SWICA interface issue previously described was not observed by these vendors.

UHIP system fixes were implemented in June 2014. Subsequent matching of SWICA wage interface data identified 6,113 individuals who potentially did not qualify for Medicaid due to self-reported income that was inconsistent with SWICA data sources. The results of separate data matching procedures performed during our audit were consistent with the results reported by EOHHS.

Once discovered, system programming and interface processes were corrected through coding fixes implemented on June 09, 2014 and June 16, 2014. This prevented any further individuals from being impacted by the issue. Remediation followed a multi-phase process which included notifications to impacted individuals, requests for additional documentation, and terminations of eligibility for individuals that did not respond within the allotted time. The goal was to allow individuals to provide supporting documentation and only terminate from Medicaid on failure to provide the information. A key decision made during on-going meetings was to effectuate changes prospectively due to the large population impacted and manual effort required by Health Plans to determine if claims were filed and paid. EOHHS represented that this issue was fully remediated by the end of the August 2014 eligibility period.

The ineffective operation of the SWICA interface impacted eligibility determinations made during the majority of fiscal 2014. In addition, it was noted that other important MAGI validation interfaces designed in UHIP to evaluate reported unemployment insurance and disability income benefits received by applicants were not operational during the fiscal year.

Within the new UHIP control environment, verification of applicant data has shifted from "paper-based" at the time of application (INRHODES system operation) to verification of self-attested data through the on-line interfaces. Ensuring these interfaces are operating as designed and providing access to current data is key to the overall effectiveness of the designed system controls. Failure of the operation of the SWICA interface for most of the period October 1, 2013 to June 2014 was a critical control failure over the verification of applicant income - a key Medicaid eligibility determinant.

Documentation and procedures supporting eligibility determinations through UHIP could be enhanced

Based on UHIP system design parameters, self-attested applicant information is accepted without additional support because the data is subject to verification from the various external interfaces employed within the system. When the self-attested information is matched to the various interfaces and is found to be inconsistent (within established tolerances), a system "task" is created which then requires resolution. Working the task may involve a worker requesting additional data from the applicant and/or a worker entering a comment within the system and clearing/closing the task. Upon completion or resolution of the task(s), the system can complete the determination of Medicaid eligibility. UHIP does not prevent tasks from being closed without supporting documentation or eligibility technician notes being included in the system. We considered this system weakness coupled with the fact that cleared tasks were not subsequently reviewed by technician supervisors to be a weakness in control over eligibility determinations. In addition, UHIP does not appear to have the capability to identify those worker actions most sensitive to the eligibility process so that those can be subsequently approved by a supervisor prior to acceptance by the system.

Documentation requested from applicants (usually to resolve differences with reported interface data or in instances when interface sources were unavailable) include birth documents, proof of citizenship, recent wage reports/paystubs, etc.. Applicants can scan and upload documentation to the system, mail in supplemental documentation to either the contact center or a local DHS field office, or present the documentation in person again at either the contact center or local DHS field office.

In addition to system and procedural weaknesses noted above, we noted the following:

- In accordance with ACA, individuals can be granted conditional Medicaid eligibility for 90 days in instances where immigration or citizenship status is unable to be validated or differs from UHIP's electronic interfaces. We were unable to determine if system controls existed to terminate this conditional eligibility if the individual's immigration or citizenship status was not validated within the 90 day period.

- Historical eligibility information for Medicaid applicants could not be retrieved by system users during fiscal 2014. Information reported in fiscal 2014 was limited to the most recent information submitted by the applicant and related interface reported results. The inability to view this information in UHIP limited the user's ability, if needed, to research individual Medicaid cases, conduct quality control reviews, and determine the specific data that was utilized in past eligibility determinations.

- Supplemental documentation was not timely or reliably scanned and included within the electronic case record.

- The system functionality to allow upload of scanned documentation into the electronic case record was not operational at the inception of the system (October 1, 2013).

- Cases were determined Medicaid eligible with open tasks pending.

- Regional DHS field offices were never equipped with scanners to allow inclusion of the supplemental documents in the case record. Paper files were created and stored at the regional offices for documentation obtained at the DHS field offices or as referred from the contact center. The system design capability which allows for electronic filing of supporting case documentation was clearly underutilized in fiscal 2014.

- Paper files of supplemental documentation were not routinely and reliably maintained to allow such records to be retrieved in support of the eligibility determination process.

- Because supplemental documentation was received in multiple manners and at various locations, there was a lack of uniformity regarding the standards of acceptable supporting documentation (e.g., original documents, photocopies, etc.).

- EOHHS should reevaluate the policies and procedures relating to required documentation deemed acceptable for tasks to be cleared in the UHIP system, subsequent review and monitoring of worker actions, and mandating the attachment of supported documentation to the UHIP case record. EOHHS should also explore system controls to prevent UHIP case tasks from being cleared without clear documentation and notes being provided by the eligibility technician.

Questioned Costs: Unknown

RECOMMENDATIONS

2014-067a Implement specific controls that ensure that critical data interfaces are operating as intended.

2014-067b Reevaluate the policies and procedures relating to required documentation deemed acceptable for tasks to be cleared in the UHIP system, subsequent review and monitoring of worker actions, and mandating the attachment of supporting documentation to the UHIP case record.

2014-067c Explore system controls to prevent UHIP case tasks from being cleared without clear documentation and notes being provided by the eligibility technician.

2014-067d Evaluate whether the UHIP Phase II implementation will sufficiently address the various eligibility control weaknesses noted.

Corrective Action / auditee views:

2014-067a – The State and Deloitte have implemented tighter control and periodic checklists to ensure critical data interfaces are operating as intended. We also now receive periodic reports from CMS on Federal Hub interfaces to flag any interface problems. The State is also conducting internal case reviews to verify the information was obtained correctly from critical data interfaces.

2014-067b – CMS has approved the Rhode Island Medicaid Verification Plan that allows the state to establish a reasonably compatible threshold for verification of eligibility data points. EOHHS also has clear policy regulations that dictate which documents are acceptable to verify eligibility data points. EOHHS will continue to conduct random case reviews to ensure that appropriate documentation has been provided by recipients and approved correctly by workers. This documentation may be stored in paper or electronic form. Workers are also required by the system to write case notes when a task is overridden. When errors are found, the worker and their supervisor are notified so corrective actions steps can be taken.

2014-067c – EOHHS will continue to conduct random case reviews to ensure that appropriate documentation has been provided by recipients and approved correctly by workers. This documentation may be stored in paper or electronic form. Workers are also required by the system to write case notes when a task is overridden. Ongoing staff training continues to occur to remind workers of proper documentation procedures, the new eligibility rules under the ACA, and how to resolve tasks correctly in the new UHIP system.

2014-067d - UHIP Phase II will have a robust worker portal that will enhance the workers ability to determine eligibility, view history and audit trails in real time. Currently in UHIP Phase 1, the ability to view history and audit trails is stored in the "back end" of the system and not readily available to most workers due to compressed timeline of initial system design. However, this history and audit trail has been made available to MEQC staff and others in order to conduct case reviews for CMS and internal auditing purposes.

Anticipated Completion Date: *Ongoing*

Contact Person: *Amy Lapierre*
Phone: 401.462.0779

Finding 2014-068 ***(material weakness - repeat finding)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5021 and 1405RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER MANAGED CARE CAPITATION PAYMENTS AND CONTRACT SETTLEMENTS

Controls should be enhanced over the classification and reconciliation of individuals assigned within the unique managed care capitation categories/plans. The State needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period.

During fiscal 2014, the State paid approximately $970 million in capitation payments to participating health maintenance organizations covering approximately 218,323 Medicaid eligible individuals (approximately 84% of total Medicaid enrollees). These capitations payments related to the following managed care programs designed within the State's Medicaid program:

Program Name	Enrollment (June 2014)	Expenditures (in millions)
Rite Care (Core, CSHCN, Foster Care)	141,855	$508
Rhody Health Partners (certain adults with disabilities)	13,620	$189
Rhody Health Options (long-term care population)	17,129	$126
Medicaid Expansion (newly eligible due to ACA implementation)	45,719	$147
Total	**218,323**	**$970**

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.

We noted the following control deficiencies over this significant expenditure category:

- *Determination of program eligibility and assignment of proper capitation rates* – the determination and assignment of individuals to managed care coverage under the Rhody Health Partners and Rhody Health Options programs involves monthly queries (performed by contractors) to identify individuals eligible for the program as well as changes in the status of current enrollees. Although Rhode Health monthly capitation is paid through the MMIS, identification of eligible individuals and the determination of capitation payment levels are not coded into the MMIS as they are for Rite Care. Instead, participants in these programs are largely determined through queries of MMIS data elements. No current monitoring or validation of individual program assignment and related monthly capitation amounts are being performed by the State.

- *Representation of managed care capitation payments by program* – In conjunction with our testing of managed care capitation payments, we requested capitation detail reconciled to expenditures claimed for the various managed care programs. EOHHS had difficulty providing us with complete capitation payment populations reconciled to amounts reported on federal reports. Such identification is critical to final managed care contract settlements for validating premium revenue amounts reported by the plans.

- *Managed Care 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 prior to final settlement. Periodic "risk share" reports that detail the medical component of the capitation payment received versus actual claims paid are required and, in some instances, periodic payments are made to prevent large liabilities or receivables from accumulating until the end of the settlement period. 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 managed care contract settlements involve a comparison of the medical component of the capitation payment received for a particular contract period with the underlying medical expenses relating to the same contract period. In its current form, this final settlement evaluation is difficult since 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 which period the payment is reported between the State and the HMOs. Medical expenses are equally difficult to validate because although the State receives detailed encounter data from the HMOs for services rendered, this data is not always complete or does not always provide a complete accounting of medical expenses incurred by the HMO. Other less significant settlement items such as provider recoveries and other expense and revenue adjustments reported by the HMO cannot be completely validated.

Due to the significance of managed care capitation expenditures and the complexity of the contract provisions present in the State's managed care contracts, the State needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. This plan should, at a minimum, include the following:

- Identification of all significant components involved in the managed care settlement process and the specific validation procedures performed to ensure accuracy;

- The degree to which adjudicated encounter data (837 formatted claim data) can be reliably utilized to validate reported medical expenses by the HMOs.

- Detailed procedures to ensure that capitation payments are recorded consistently between the State and the HMO to ensure validation of this important settlement amount.

- Identification of other settlement considerations where independent third party validation may be required and the most efficient manner to achieve that objective. For example, HMO recoveries or other recoveries relating to medical expenses incurred under specific State contracts. The State may need to contract for an audit of these types of contract items or require the HMOs to submit audited schedules of such amounts to the State.

- For managed care programs (Rhody Health Partners and Options) where program enrollment and capitation assignment are dependent on manual or ad-hoc processes external to designed MMIS coding, implement controls to ensure the accuracy of such determinations.

Additionally, an independent audit may be warranted as a component of the comprehensive plan. The State's contract with its managed care providers includes a provision that "the contractor shall collaborate with EOHHS and/or its designees(s) to develop specific audit procedures to ensure the Contractors' reported medical expenses, as detailed in risk share financial statements, are accurate and compliant with medical expenses as defined in the Agreement."

Lastly, EOHHS must oversee all aspects of the comprehensive plan and managed care contract settlement process even when components are performed by or delegated to contractors and consultants.

Questioned Costs: None

RECOMMENDATIONS

2014-068a Enhance oversight and monitoring procedures over managed care contracts by developing a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period.

2014-068b Address identified issues relating to the MMIS's ability to fully adjudicate HMO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods.

Corrective Action / auditee views:

2014-068a - The State continually reviews and refines its methods and approaches to the application of due diligence to its MCO contract reconciliation and settlement processes. The MCO's submit to the State periodic reports covering an array of operating, quality, and financial areas. Among the reports relating to the MCO's financial performance include internal financial statements, quarterly and annual financial filings submitted to the Department of Business Regulations, and annual financial statements prepared by the MCO's outside audit firm. In addition, the MCO's also submit claims encounter data.

For risk/gain share purposes, the MCO's actual medical expenses are reconciled to the medical component of the capitation payment. The MCO's actual medical expenses are also reconciled to the State's encounter data. If the medical expense is not available in the State's encounter data, the MCO provides missing claim details prior to the final risk/gain share contract settlements. The risk/gain share reports are also accompanied by a document attesting to the accuracy and completeness of the report. This attestation is signed by an officer of the reporting Managed Care Organization.

The MCO's outside audit firm also requires that the State attests annually to all payments or recoupments between the State and the MCO. More recently, the State requires that the MCO's outside auditors attest to the accuracy of the MCO's risk/gain share statements in their MCO's annual audit report. The State continues to enhance its financial controls over these managed care plan contracts.

2014-068b - To further support this process, the MMIS will now be able to fully adjudicate MCO Encounter claims similar to the process found in the MMIS FFS claim adjudication. This process will identify the various components of the claim at both the header and detail level that was previously unavailable through the MMIS. These improvements in the Encounter claim processing should be evident in the next Audit.

EOHHS will also evaluate the resources required to have a risk assessment performed.

Anticipated Completion Date: *Ongoing*

Contact Person: *Deborah Florio, Administrator*
Phone: 401 462.0140

Finding 2014-069 ***(material weakness - repeat finding)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5021 and 1405RI5021
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER THE DETERMINATION OF SCHIP ELIGIBILITY

EOHHS can improve controls over the timely identification of SCHIP eligible individuals and the accumulation of related claims. Detailed claims documentation should be completely reconciled to amounts reported on federal reports and amounts recorded in the State's accounting system.

The State Children's Health Insurance Program (SCHIP) as authorized by Title XXI of the Social Security Act initiates or expands health insurance programs for low-income, uninsured children. Rhode Island has obtained waivers from the federal government that allow reimbursement of medical insurance coverage provided to certain individuals previously eligible under the Medicaid program at the enhanced SCHIP federal financial participation rate. SCHIP expenditures for fiscal 2014 approximated $62 million (federal share - $40 million), of which benefit claiming comprised $57.4 million.

EOHHS provided detailed fiscal 2014 SCHIP managed care capitation and fee-for-service claims totaling $63.7 million as their representation of benefit claiming relating to fiscal 2014. EOHHS was unable to fully reconcile this detail to claiming reported in RIFANS and on federal reports. The underlying detailed fee-for-service and capitation were identified through Medicaid Management Information System (MMIS) queries which identified claims for individuals meeting certain defined eligibility aid categories and, if applicable, TPL criteria, consistent with the eligibility criteria for SCHIP. These queries are performed by the State's fiscal agent and then provided to the State's managed care consultant who summarizes the claim activity for recording by EOHHS in RIFANS and on federal reports. The State's current processes to identify SCHIP eligible claiming are fully performed by contractors with no subsequent validation performed by EOHHS.

In most instances, SCHIP eligible individuals were first determined Medicaid eligible and then subsequently identified and reclassified as SCHIP eligible in subsequent months. This process is normally done monthly to isolate SCHIP eligible individuals so that the expenditures can be adjusted between the two programs and the additional federal match can be claimed. The State uses queries rather than programming its systems to identify SCHIP eligible individuals because of existing system design constraints, continual changes regarding eligibility for SCHIP, and federal limits on funding for the

SCHIP program. The State's new UHIP system which became operational for certain Medicaid groups in fiscal 2014 is designed to identify SCHIP eligibility at the time of application which will allow for immediate claiming to SCHIP once fully implemented.

During fiscal 2014, the determination of SCHIP eligible claiming was still fragmented and in certain cases lagged for several months during the year. This often delayed SCHIP claiming and resulted in the related expenditures being reported and/or adjusted as prior period activity on federal reports. This resulted in added complexity that made demonstrating the completeness of the SCHIP capitation and fee-for-service claim populations problematic. Specific identification of SCHIP claiming should be performed monthly and reconciled fully to amounts reported on quarterly federal reports. Reporting adjustments should not be utilized routinely to report federal expenditures in periods outside of when the actual expenditures are incurred.

A quality control review process over SCHIP claiming is needed because the eligibility determination process is variable and entirely performed by consultants. Controls over this process, should be improved by subjecting SCHIP claiming results to an eligibility quality control process similar to the process in place over all Medicaid claims. Such a process should provide additional control over the determination of SCHIP eligibility by evaluating eligibility based on the specific income and insurance criteria mandated for the program instead of relying solely on an individual's coding characteristics within the MMIS.

Questioned Costs: None

RECOMMENDATIONS

2014-069a Ensure that SCHIP claiming is identified accurately and timely and that the underlying supporting claim activity (capitation and fee-for-service) is documented and fully reconciled each month.

2014-069b Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure that eligibility and allowable cost program criteria are met.

Corrective Action / auditee views:

The State's new eligibility system (UHIP) determines Title XXI eligibility prospectively. This is a significant improvement from InRhodes/MMIS functioning in the allocation of CHIP claiming. UHIP transmit the CHIP eligibility to InRhodes and MMIS. EOHHS agrees that the UHIP system has not always adjudicated eligibility in a timely manner but we believe that the eligibility system will continue to improve in performance and will result in appropriate and timely CHIP and Medicaid eligibility determinations.

EOHHS will recommend that the CHIP claims be included in the MEQC (or related quality assurance) process in the future.

Anticipated Completion Date: *July 1, 2015*

Contact Person: *Deborah Florio, Administrator*
Phone: 401.462.0140

Finding 2014-070 ***(significant deficiency - repeat finding)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5021 and 1405RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

FEDERAL REPORTING

Controls should be improved over the quarterly reporting of Medicaid and SCHIP expenditures by improving the alignment of information reported by the MMIS and the State's accounting system. Inconsistencies between when Medicaid administrative expenditures are claimed on federal reports and when reported in the State's accounting system should also be resolved and made consistent.

Federal regulations require that expenditures for the Medical Assistance Program (Medicaid) be reported on Form CMS-64. Expenditures for the State Children's Health Insurance Program (SCHIP) are also reported on Form CMS-64 for the basic children's population with all other eligible SCHIP populations reported on Form CMS-21. While most of the information regarding claims paid is provided through the MMIS operated by the State's fiscal agent, RIFANS, the State's accounting system, is the official record for reported federal expenditures.

Quarterly Statements of Expenditures- Program Expenditures

Controls should be improved over the preparation of the quarterly reporting of Medicaid and SCHIP expenditures. The processes required to accumulate information needed to prepare the CMS-64 report are complex and require extensive manual effort. Although total program expenditures reported for both federal programs were able to be reconciled to RIFANS for fiscal 2014, RIFANS does not include the same level of Medicaid service detail that is available in the MMIS. This requires that financial management staff perform significant manual computations to derive amounts required for the preparation of the CMS-64 and CMS-21 reports. This often requires that estimated federal expenditures be reported on the federal financial report, Form SF-425, which must be filed within 30 days after the end of each quarter. Delays in recognizing SCHIP eligible claiming also complicates federal reporting for both federal programs as expenditures often need to be adjusted on federal reports through adjustments to prior periods.

Although the reconciliation and reporting of Medicaid and SCHIP program expenditures has improved in recent years, the overall process could be streamlined by better aligning the account structure within the State's accounting system to accommodate the categories of expenditure data generated by the MMIS and required for preparation of the CMS-64. Better alignment of accounts and coding would facilitate the preparation of the CMS-64 as well as the reconciliation of data reported by the fiscal agent which ultimately is recorded in the State's accounting system.

Quarterly Statements of Expenditures- Administrative Expenditures

EOHHS reports administrative expenditures claimed by other State agencies (DEA, DOH, BHDDH, DCYF) based on certifications filed by these departments or transactions recorded in the State's accounting system. For certain administrative expenditure categories, EOHHS imputes State matches for federal expenditures certified by other State agencies to derive total costs reported on the CMS-64. Based upon agreements with other State agencies, all Medicaid claiming initiated by other departments should be recorded in authorized accounts within the State accounting system demonstrating the appropriate state/federal shares of the expenditures. Agency compliance with this mandated accounting would allow EOHHS to completely reconcile administrative expenditures reported in the State's accounting system with those reported on cost certifications filed by those agencies and ultimately on Form CMS-64.

During fiscal 2014, Medicaid administrative expenditures reported on Form CMS-64 totaled $83.5 million (federal share) while expenditures reported in the State's accounting system totaled $100.4 million. Most of the difference is attributable to administrative expenditures for other State agencies which often are not claimed on federal reports in the same quarter that they are recorded in the State accounting system. Federal reimbursement of administrative expenditures is drawn when recorded in the State accounting system, thus administrative expenditures should only be recorded in Medicaid accounts when agencies have determined their eligibility for Medicaid reimbursement.

While EOHHS reconciles reported program expenditures to amounts recorded in the State's accounting system, no reconciliation is performed for administrative expenditures to explain reporting differences. Adopting policies that align the timing of when administrative expenditures are recorded in the State accounting system, drawn for federal reimbursement, and reported on federal reports would significantly enhance EOHHS's ability to reconcile administrative expenditures reported on federal reports with those reported in the State accounting system.

Questioned Costs: None

RECOMMENDATIONS

2014-070a Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.

2014-070b Reconcile administrative expenditures reported on the CMS-64 report with those reported in the State's accounting system.

Corrective Action / auditee views:

2014-070a - EOHHS agrees with the Auditor's recommendation to align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS. EOHHS, working with the State Controller and its fiscal agent Hewlett Packard, has developed a system to interface MMIS transactions with the State's accounting system (RIFANS) to facilitate the process of reconciling expenditures reported on the CMS 64 and the state's accounting system. This interface has been in effect since July 1, 2014.

Anticipated Completion Date: *July 1, 2014*

2014-070b - EOHHS agrees with the Auditor's recommendation that administrative expenditures reported on the CMS-64 report reconcile with those reported in the State's accounting system. One of the many factors which complicate the reconciliation process is the adjustments which occur at the agencies outside of the EOHHS hierarchy. EOHHS issued a Request for Proposal in October 2013 and awarded in May 2014 the development of a new cost allocation plan for the Medicaid administrative program as a whole to Public Consulting Group, the winning vendor bid. However, recognizing that this work and the implementation of the new cost allocation would take time to complete, we did commence a quarterly reconciliation of Medicaid administrative expenditures to cash and the CMS-64. By extracting Medicaid expenditure information from RIFANS for all state agencies, EOHHS will be able to identify where variances *exist and will either correct practices that cause these variances or have explanations for why these variances occur.*

<u>Anticipated Completion Date</u>:	*April 1, 2015 for the implementation of the new Medicaid Cost Allocation.*
Contact Person:	*Corsino Delgado* *Phone: 401.462.2517*

Finding 2014-071 ***(material weakness - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

<u>COSTS NOT OTHERWISE MATCHABLE (CNOM)</u>

Controls need to be enhanced over the determination of individuals eligible for CNOM services since these processes are separate from other system eligibility controls. Processes implemented to provide a post-eligibility review should be completed timely.

In January 2009, the Centers for Medicare and Medicaid Services (CMS) approved the State's request to operate its entire Medicaid program under a single Section 1115 Demonstration Waiver called the Global Consumer Choice Demonstration ("Global Waiver"). The federal approval authority exists within Section 1115(a) of the Social Security Act, which includes a provision for certain expenditures that would not otherwise be claimable as Medicaid program expenditures "to the extent and for the period prescribed by the Secretary". Consistent with the Section 1115 Demonstration Waiver, the State has identified various "CNOM" claiming populations and services deemed to represent "at risk" segments of the State's population.

The State claimed $31.6 million (federal share - $16.2 million) in CNOM expenditures during fiscal 2014. These included early intervention services to young children, individuals in need of medical and pharmacy services relating to mental illness and substance abuse, as well as children not in the custody of the State that receive services through the State's Department of Children, Youth and Families (DCYF), as examples.

The majority of CNOM expenditures were disbursed through the State's Medicaid Management Information System (MMIS); however, recipient eligibility was either determined manually (independent of other eligibility systems) or by the service provider. Consequently, determination of recipient eligibility for CNOM expenditures lacks the comprehensive controls over eligibility for Medicaid enrollees. Specifically we observed the following weaknesses in controls over the determination of eligibility for CNOM services:

- The Executive Office of Health and Human Services (EOHHS) adopted policies and procedures that require the State agencies (DHS, DCYF, BHDDH, etc.) responsible for the administration of the respective CNOM programs to document and validate eligibility determinations made by provider agencies. These requirements for fiscal 2014 had not been fulfilled by the respective agencies at the time of our audit, and thus, specific post review controls designed to validate CNOM claiming within the Medicaid program were not effective.

- Certain CNOM claiming populations were not paid through the MMIS and thus were not subjected to the control edits inherent in that system. The payment of Medicaid benefit expenditures external to the MMIS exposes the State to the risk of paying duplicate claims for the same service performed.

- Certain CNOM populations relate to services provided to individuals that do not qualify for Medical Assistance yet still have defined eligibility criteria. The eligibility criteria (income, in most instances) for these individuals are not being processed through the State's eligibility determination systems. These systems, designed with specific applicant income verification interfaces, are designed to validate the representations made by the individuals that are ultimately claimed to Medicaid. Decentralizing the Medicaid eligibility determination process throughout the program weakens overall controls over eligibility, and will require a more extensive monitoring and post audit process to ensure that CNOM eligibility requirements are met.

- Provider eligibility requirements must be met for Medicaid eligible services. The State utilizes centralized provider eligibility procedures employed by its fiscal agent to ensure that licensure and suspension and debarment requirements are met. Processing CNOM claims external to the MMIS circumvents the program's provider eligibility controls and creates a risk that claims could be reimbursed for services performed by ineligible providers or unlicensed clinicians.

CNOM claiming should be subject to the same claims processing and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid claims to ensure adequate control over these claim groups. Respective departments need to complete all claiming reviews relating to fiscal 2014 CNOM expenditures and credit the federal government for amounts determined to be claimed in error. In the future, EOHHS should ensure that all CNOM claiming processes are fully operational prior to claiming these expenditure populations to the Medicaid program.

<u>Questioned Costs</u>: None

<u>RECOMMENDATIONS</u>

2014-071a Subject all CNOM claiming to the system edits and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.

2014-071b Ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during the fiscal year and credit the federal government for any amounts claimed in error.

2014-071c Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditures to the Medicaid program.

<u>Corrective Action / auditee views:</u>

2014-071a - EOHHS agrees with the Auditor's recommendation to subject all CNOM claiming to the system edits and eligibility control processes embedded in the MMIS and INRHODES systems.

Previously, the only two Behavioral Healthcare CNOMS not in MMIS were the Methadone CNOM and the NON-IMD Substance Abuse residential CNOM. Methadone CNOM eligibility is *currently established through IN-Rhodes prior to acceptance in CNOMS. The NON IMD Residential CNOM is performing eligibility internally currently. Last year BHDDH started working with the providers to begin establishing eligibility by using IN RHODES. Beginning July 1, 2015, however, the Behavioral Healthcare Division will no longer have CNOM funding.*

The Developmental Disabilities division documents and validates eligibility determinations and CNOM claiming populations are paid through the MMIS which subjects them to the control edits inherent in the system. Proper procedures are in place to ensure just that.

DEA currently uses MMIS for purposes of CNOM reporting. After DEA determines that individuals are eligible for the CNOM Program, based on the DEA review of documentation submitted electronically by the DEA case management agencies, DEA then transmits the names and identifying information for the eligible individuals, in an electronic file, to the OHHS Medicaid office where Medicaid staff enter the data into InRhodes. Each day, HP generates a report from InRhodes into their claims processing system.

In addition, the file that DEA sends to the Medicaid office is also sent to HP by DEA so that HP can include "prior authorization" data into the MMIS claims processing database for all DEA CNOM eligible individuals.

DHS will continue to work closely with EOHHS to ensure continued compliance with all MMIS requirements.

2014-071b - EOHHS agrees with the Auditor's recommendation. However, no CNOM adjustment have been identified and made yet on the 2015 CMS-64 reports.

In addition to the "Prior Authorizations" that are included in the MMIS claims processing system for DEA CNOM individuals, DEA staff also does quarterly reviews of a sample of claims data that they retrieve from the HP data team. DEA staff then matches the claims data to the Prior Authorization information to determine if they match.

2014-071c - EOHHS agrees with and intends to comply with the Auditor's recommendation, although we expect CNOM activity to continue to dwindle down significantly.

Anticipated Completion Date: *Ongoing*

Contact Person: *Wayne Hannon, Deputy Secretary - Administration*
Phone: 401.462.6005

Finding 2014-072 ***(material weakness - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

MEDICAID ELIGIBILITY QUALITY CONTROL (MEQC) PROGRAM

Operation of the required MEQC function must improve to serve as an important aspect of controls over Medicaid eligibility. New eligibility quality control pilot projects resulting from the implementation of the Affordable Care Act were delayed and were negatively impacted due to challenges in obtaining required information from the State's new UHIP computer system.

MEQC is one of several requirements with which States must comply to ensure overall compliance with Medicaid recipient eligibility. 42 CFR 431.800 establishes State Plan requirements for a Medicaid Eligibility Quality Control (MEQC) program that must be designed to reduce erroneous expenditures by monitoring eligibility determinations and claims processing operations. The regulations require that federal financial participation (FFP) be disallowed for erroneous Medicaid payments due to ineligibility and recipient liability errors as detected through the MEQC program. The agency must collect and verify all information necessary to determine the eligibility status of each individual included in the State's MEQC sample. 42 CFR 431.812 requires that the agency perform both active and negative case reviews in accordance with terms defined in the regulations. Active cases 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).

On August 15, 2013, CMS issued the first of a series of letters to State Medicaid Directors to provide guidance on the implementation of the Patient Protection and Affordable Care Act of 2010 (Pub. L. No. 111-148), as amended by the Health Care and Education Reconciliation Act of 2010 (Pub. L. No. 111-152) (collectively referred to as the Affordable Care Act). These letters provide guidance to states on eligibility reviews under the Payment Error Rate Measurement (PERM) and the Medicaid Eligibility Quality Control (MEQC) programs. The guidance recognized that states would be required to adjudicate eligibility for applicants for Medicaid and the Children's Health Insurance Program (CHIP) differently starting in 2014 in order to accommodate changes made by the Affordable Care Act.

The Affordable Care Act created significant changes to Medicaid and CHIP eligibility. These changes required redesign of many Medicaid and CHIP business operations and systems, and interaction with other state and federal partners. Special consideration was required in the planning of future program measurements and accountability. In 2014, CMS implemented an interim change in methodology for conducting Medicaid and CHIP eligibility reviews under PERM for FY2014 – 2016. All states were now required to participate in the Medicaid and CHIP Eligibility Review Pilots to provide more targeted, detailed information on the accuracy of eligibility determinations.

States must conduct four streamlined pilot measurements over a three year period and report results to CMS no later than June 30, 2014, December 31, 2014, June 30, 2015, and June 30, 2016, respectively. Rhode Island's pilot project included its sampling plan, case review, quality control, and payment review methodologies and was submitted for CMS approval on January 31, 2014.

The MEQC Unit was not able to meet the initial June 30, 2014 CMS reporting deadline for its pilot project largely due to challenges in extracting required case data from the State's new eligibility determination system ("UHIP").

In addition to participating in the initial round of pilots for 2014, CMS required that the states complete all outstanding case reviews for all previous years. In 2014, the Quality Control Unit (the "Unit") continued to work on completing the backlog of prior year case reviews. The Unit had completed 63% of its positive case reviews and 100% of its negative case reviews (excludes dropped cases) through June 30, 2013 but has not reported error statistics to CMS for any reporting period after March 31, 2009.

Effective and timely operation of the MEQC function is a necessary and important internal control component over Medicaid eligibility that can ensure that existing processes and control procedures are operating as designed. In order to be effective, MEQC case reviews must be completed timely and the State's UHIP must enable full review of the data supporting eligibility or the denial of eligibility.

Questioned Costs: None

RECOMMENDATIONS

2014-072a Evaluate staffing resources in the MEQC unit to ensure compliance with federal monitoring and reporting responsibilities.

2014-072b Ensure that the UHIP system has the capability to provide all necessary historical eligibility data required by the MEQC Unit to meet federal MEQC review requirements.

Corrective Action / auditee views:

Beginning with Federal Fiscal Year 2014, CMS notified states that the MEQC and the Payment Error Rate Measurement (PERM) eligibility reviews would be combined into the Eligibility Pilot Program (EPP) for Federal Fiscal Years 2014 – 2016. CMS reasoned that the method of determining Medicaid eligibility changed to Modified Adjusted Gross Income (MAGI) on October 1, 2013 and therefore the traditional eligibility audits no longer were adequate. CMS will issue new guidance covering eligibility audits for Federal Fiscal Year 2017 forward.

The MEQC unit is conducting the EPP rviews, beginning with eligibility determinations made beginning October 1, 2013. For the eligibility pilots, each state is required to submit sampling plans to CMS for approval for rounds 1 & 2, draw the samples, perform the reviews, and report the results to CMS. For round 3 eligibility reviews, MEQC and EOHHS will be working with CMS' Eligibility Support Contractor (ESC) during the audit process.

DHS accepts the recommendations of the report and we will look to add additional staff. We recently hired an MEQC Supervisor and support staff. This employee will be working with EOHHS to develop and establish protocols to meet new federal requirements regarding the implementation of the Affordable Care Act as well as federal requirements in place currently. DHS and EOHHS will take steps to determine the federal point of contact for any submission of MEQC data.

We believe that the MEQC requirement can be met by the PERM eligibility pilot program, going forward. However, the MEQC reviews, from March 2009 to September 2013, still need to be performed and the results submitted to CMS. DHS will most likely need to add staff in order to *complete the backlog of MEQC reviews and also perform the ongoing reviews for the pilot program.*

Anticipated Completion Date: *Ongoing*

Contact Person: *Deborah Buffi, Associate Director*
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Finding 2014-073 ***(material weakness - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER DISPROPORTIONATE SHARE PAYMENTS

EOHHS does not have controls in place to ensure the accuracy of uncompensated care data provided by the hospitals in support of uncompensated care reimbursements made to such hospitals through the Medicaid program.

Section 1923 of the Social Security Act requires that States make Medicaid Disproportionate Share Hospital (DSH) payments to hospitals that serve a disproportionately large number of low-income patients. The Omnibus Budget Reconciliation Act of 1993 limits these payments to the annual costs incurred to provide services to Medicaid and uninsured patients less payments received for those patients. Each state is required to administer DSH payments in accordance with the requirements outlined in their CMS-approved Medicaid State plan.

During fiscal 2014, EOHHS made DSH payments totaling $129.8 million (federal share - $66.5 million) to hospitals meeting the specific requirements outlined in the Social Security Act (the “Act”). The majority of DSH payments made are determined based on the direct proportion of each qualifying hospital’s uncompensated care to the total uncompensated care costs for all qualifying hospitals. Each qualifying hospital is required to certify the amount of uncompensated care costs incurred from providing services to low-income patients. EOHHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by the hospitals.

Section 1923 (j)(2) of the Act requires States to submit to the Secretary an independent certified audit that verifies various DSH-related information. During fiscal 2014, the audit for the federal fiscal year ended September 30, 2010 was filed by EOHHS. EOHHS also received an audit report for the federal fiscal year ended September 30, 2011 subsequent to June 30, 2014.

The State’s DSH auditor has consistently made the following recommendations in these audits:

- EOHHS should reevaluate its methodology for estimating hospital-specific DSH limits to ensure that these limits are more closely aligned with actual cost, charge and payment information after the close of the Medicaid state plan rate year.

- EOHHS should reinforce the instructions to DSH hospitals on the types of documentation they must develop and maintain in order to properly calculate the hospital-specific DSH limits. EOHHS should also implement periodic monitoring procedures to ensure that the DSH hospitals are maintaining complete and accurate data and records to support the calculation of these limits.

EOHHS must address the above control deficiencies relating to disproportionate share payments to hospitals to ensure that such program expenditures comply with federal regulations. The most recently completed DSH audit did identify one hospital that received DSH payments in excess of its hospital-specific DSH payment limit which supports that additional controls are required prior to making DSH disbursements to providers. These control deficiencies also need to be addressed to ensure that future DSH audits can be completed without limitations caused by incomplete data submitted by hospitals that received DSH payments.

Questioned Costs: None

RECOMMENDATION

2014-073 Improve controls over Medicaid DSH payments by implementing the recommendations made within completed DSH audits.

Corrective Action / auditee views:

The State has worked with the contracted DSH auditor and the Hospital Association of Rhode Island to develop uniform reporting practices by all Rhode Island hospitals. Proper controls have been established and are being used. The State continues to work with the Hospital Association and will be reviewing the information submitted to the Hospital Association to ensure that 1) the proper reporting templates are being used and 2) the data being reported conformed to the instructions. Recommendations included in the most recent DSH audit are under review to determine if any further changes need to be made to the controls and/or processes.

Anticipated Completion Date: *Ongoing*

Contact Person: *Lawrence A. Ross, Assistant Director*
Phone: 401.462.6025

Finding 2014-074 ***(questioned cost only - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

PROGRAM OVERPAYMENTS – QUESTIONED COSTS

Program overpayments must be credited to the federal government within one year of discovery regardless of whether the State has recovered the overpayment from the provider (Federal regulation 42 CFR 433.312). We identified program overpayments for which the federal share had not been credited to the federal grantor.

Medicaid Eligibility – Questioned Costs

EOHHS used two integrated computer systems (INRHODES and UHIP) to determine eligibility for Medicaid during 2014. UHIP, the State's new eligibility system, was partially implemented in October 2013 to handle selected populations and will eventually replace INRHODES.

Transactions affecting eligibility are transmitted daily from INRHODES (which included UHIP transmitted eligibility data during fiscal 2014) to update the MMIS recipient subsystem. As designed, Medicaid eligibility data from INRHODES should be replicated in the MMIS. In a limited number of instances, differences occur between the two databases. These differences can be summarized into three categories:

- cases active in INRHODES, but inactive in the MMIS;
- cases active in the MMIS, but closed in INRHODES; and
- other differences, such as personal data, recipient income, category codes, etc.

The MMIS generates monthly variance reports that identify differences between the MMIS and the eligibility systems. The number of variance reports increased significantly in 2014 with the partial implementation of UHIP. EOHHS reviews the reports and is responsible for making the appropriate corrections to ensure the accuracy and reliability of the systems. EOHHS was able to remain reasonably current in resolving differences reported between the eligibility and payment systems. There was approximately $12,911 in questioned costs (federal share - $6,507) for cases where individuals remained eligible for benefits while no longer qualified. EOHHS did not credit the federal grantor on the CMS-64 Report for these questioned costs as required by federal regulations.

RIte Share Program

The State's RIte Share program provides health insurance through employers for Medicaid eligible individuals and families as a cost effective alternative to its RIte Care program. RIte Share involves paying the employee share of health insurance coverage directly to the employer or in many cases, the employee. For fiscal 2014, RIte Share expenditures approximated $8.2 million covering approximately 10,000 individuals. Since the inception of RIte Share, EOHHS has accumulated a receivable balance totaling $1,008,424 (federal share - $508,215) relating to payments made to individuals whose employer health insurance coverage had terminated. EOHHS has not credited the federal government for its share of these unallowable costs.

As part of the RIte Share enrollment process, EOHHS accumulates necessary health insurance information to determine the cost effectiveness of the coverage provided by the employer. Once enrolled, EOHHS periodically confirms that individuals have remained employed and covered by the employer's health coverage. EOHHS does not verify continued coverage with the health insurer.

In most instances, because Medicaid pays individuals prospectively for employer coverage, individuals will usually receive one or more months of payments before EOHHS identifies terminated employment and/or health coverage, retroactively dating their insurance coverage termination date in the MMIS to the date the individual terminated their employment. Under these circumstances, the State may pay both premiums and fee for service claims submitted on behalf of these individuals during the period of ineligibility. Overpayments to individuals that terminated employment coverage should be credited back to the federal government in accordance with federal regulations.

Hospital Settlements

R.I. General Law requires inpatient hospital providers to file cost settlement reports with EOHHS within one year from the end of the hospital's fiscal year. EOHHS uses these settlement reports to determine amounts owed to or due from participating hospitals. As of June 30, 2014, EOHHS had not finalized settlements with the State's two largest hospital provider systems (representing eight separate hospitals for outstanding years ranging from 2004-2010). Since the fiscal year-end, EOHHS has made a significant effort to review submitted settlements and finalize amounts due to or from each hospital. EOHHS currently estimates that the State is owed for excess hospital reimbursements approximating $2.3 million (federal share - $1.15 million) through hospital years ending in fiscal year 2010 (new DRG hospital reimbursement methodology began July 1, 2010). The amounts owed by two hospitals may be contested. EOHHS will review any additional documentation provided by these hospitals before the final settlement is determined. EOHHS's position is that the one year period for reimbursing the federal government required by federal regulations begins when final settlement with the hospital is reached. EOHHS currently credits the federal grantor for its share of the overpayments only after payments have been received from the hospitals.

Questioned Costs: $1,664,722

RECOMMENDATION

2014-074 Reimburse the federal government for program overpayments within the timeframe mandated by federal regulations.

Corrective Action / auditee views:

Hospital Settlements: The State is in active discussions with one hospital system with the intent and expectation of finalizing the settlement amounts for that system's four hospitals by the end of May, 2015. The State's settlement calculation for four hospitals in another hospital system have been accepted. The net amount due the State will be received in April 2015. Upon finalization of each hospital's settlement amounts and subsequent payment or recoupment, CMS will be debited or credited for its share.

EOHHS interprets the one-year time frame for crediting the Federal Government for its share of overpayments as set forth in 42 CFR 433.312 as beginning after a settlement amount has been finalized.

Anticipated Completion Date: *June 2015*

Contact Person: *Lawrence Ross, Assistant Director*
Phone: 401.462.6025

RITE SHARE: As part of a 2009/2010 budget initiative, the Department crafted legislation (http://www.rilin.state.ri.us/Statutes/TITLE44/44-30.1/44-30.1-3.HTM) that was successfully passed in 2010 which allows us to intercept RI income tax returns for people who owe us Medical Assistance-related money, such as RIte Share overpayments.

The process is such that a letter is generated to the client/former client approximately two months after an overpayment is identified. This letter informs them of their debt, presents them with an opportunity to appeal or contest the State's claim, and announces the possibility of a tax refund interception if payment is not made to the Department within the allotted timeframe. If payment is not received, a second letter, identified as a final notice, is sent out informing the client/former client that their debt has been turned over to the Division of Taxation for a tax intercept. The debt remains subject to collection until it is paid in full.

Recoveries from clients, whether arriving from the individual directly or via the tax intercept, are credited back to the appropriate Federal and State accounts as they are received.

In addition, The State's accounting department is working with its fiscal agent to implement a collection procedure whereby the Rite Share outstanding receivables balances in MMIS are aged monthly and all dollars that are less than one year of discovery are credited back to the federal government, in compliance with Federal regulation 42 CFR 433.312.

Anticipated Completion Date: *Ongoing*

Contact Person: *Deborah Florio, Administrator*
Phone: 401.462.0140

Medicaid Eligibility: We will adjust the CMS-64 report to credit $6,507 back to the Federal Government for instances where recipients remained eligible for benefits in In Rhodes and no longer qualified.

Anticipated Completion Date: *June 2015*

Contact Person: *Amy Lapierre*
Phone: 401.462.0779

Finding 2014-075 ***(significant deficiency - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

BEHAVIORAL HEALTH FACILITIES AND DEVELOPMENTALLY DISABLED GROUP HOMES LICENSING

The Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) should allocate additional resources to ensure all Medicaid behavioral healthcare providers and providers of services to adults with developmental disabilities are licensed or relicensed on a timely basis.

42 CFR sections 431.107 and 447.10 and section 1902(a)(9) of the Social Security Act require that providers furnishing services to Medicaid recipients be licensed in accordance with federal, State, and local laws and regulations in order to receive Medicaid payments. The Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) licenses behavioral healthcare providers and providers of services to adults with developmental disabilities within the Medicaid program. The licenses authorize each agency to operate specific types of programs and services. BHDDH has promulgated rules and regulations titled "Licensing Procedure and Process for Facilities and Programs Licensed by the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (as amended July 2011)" (regulations) to create a uniform licensing process for all facilities and programs licensed by BHDDH. Licenses issued are effective for no more than a two year period. The rules and regulations apply to all facilities, programs and organizations that provide services for adults with developmental disabilities or mental health services for adults who are not in the custody of the Department of Children, Youth, and Families (DCYF) and/or substance abuse services for children and adults. The regulations are designed to ensure the effective operation of provider facilities and programs in the interest of public accountability, health, safety and welfare. BHDDH's Office of Licensure and

Standards licenses, monitors and otherwise performs its administrative licensing function under Rhode Island General Laws section 40.1-24.

All licensed providers are subject to periodic monitoring and review to ensure compliance with BHDDH's regulations. Biannual reviews play an important role in the granting of licenses. Providers must meet regulatory requirements to be issued an initial license or to have an existing license renewed.

Our review of BHDDH's implementation of the above policies and procedures continued to note progress in the number of facilities being evaluated and relicensed during fiscal 2014. We also, however, noted a significant number of providers, mostly those providing services to individuals with developmental disabilities, that had not been subjected to a complete relicensing evaluation by BHDDH within the required time period. With the current staffing allocated to provider licensure by BHDDH, it is unlikely that the department will be able to meet its established goal of evaluating and relicensing providers every two years. Agency reviews are complex, time-consuming and require multidisciplinary teams. The survey and support staff available to perform reviews has been limited both in the numbers of required surveyors and the multidisciplinary skills required to perform the variety of clinical determinations required by departmental regulations. For example, surveyors with clinical and behavioral health skills, such as registered nurses and clinical social workers, would be required to adequately measure agencies against certain applicable departmental regulations.

Rhode Island General Laws section 42-35-14 allows a provider to continue to provide services when its license expires provided that the provider has submitted a timely license renewal application. During fiscal 2013, BHDDH relicensed providers without completing its stated procedures for relicensure to ensure that providers had current operating licenses and to restart the two-year period for the department to license providers properly under the newly adopted policies and procedures. We consider the licensing of providers without ensuring that the provider was in compliance with the department's adopted policies and procedures to be a control deficiency over provider eligibility within this provider group.

Given the number of provider agencies and the complexity of the agency reviews, BHDDH needs to evaluate the resources and procedures required to ensure that provider licenses are maintained current and supported by documentation of compliance with agency adopted regulations as mandated by federal regulations.

Questioned Costs: None

RECOMMENDATION

2014-075 Evaluate resources and procedures in the BHDDH licensing division to ensure that all providers are licensed timely in accordance with promulgated rules and regulations as required for participation in the Medical Assistance Program.

Corrective Action / auditee views:

1) BHDDH will review the "Rules and Regulations for the Licensing of Developmental Disability Organizations" and the "Rules and Regulations for the Licensing of Behavioral Healthcare Organizations" to further streamline licensing processes and procedures and recommend changes to the regulations as needed.

2) Determine through the regulatory review process whether additional staffing resources are necessary.

3) At this time, based on the current staffing in BHDDH Licensing, it is anticipated that BHDDH will be substantially compliant with conducting the required BHO, DDO, and CDO licensing reviews by January 1, 2016.

4) BHDDH Licensing will maintain current staffing resources and move to fill any vacancies that should occur in a timely manner. There are currently no vacant positions. There are three (3) principal health facility surveyors and one (1) senior health facility surveyor conducting licensing reviews at this time. [Previously, there was a principal housing specialist position in licensing. In 2014, this position was replaced with the correct classification senior health facility surveyor.]

Anticipated Completion Date: *Ongoing*

Contact Person: *Robin Pelletier*
Phone: 401.462.3100

Finding 2014-076 ***(material weakness – repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

SURVEILLANCE AND UTILIZATION CONTROL REVIEWS

EOHHS must improve compliance with the timeliness of required Surveillance and Utilization Control Reviews by ensuring sufficient resources are allocated to identify, investigate, and refer suspected fraud and abuse cases. The SURS unit (operated by the State's fiscal agent) had ninety-three (93) Level III investigations going back to 2009 on hold at June 30, 2014 due to insufficient personnel resources and other activities prioritized by EOHHS.

42 CFR 455.1 establishes State plan requirements for the identification, investigation, and referral of suspected fraud and abuse cases. The regulations require that the State report fraud and abuse and have a method to verify whether services reimbursed by Medicaid were actually furnished to beneficiaries. Federal regulations also require that the agency conduct a preliminary investigation to determine whether there is sufficient basis to warrant a full investigation if the agency receives a complaint of Medicaid fraud or abuse from any source or identifies any questionable practices. If the findings of a preliminary investigation give the agency reason to believe that an incident of fraud or abuse has occurred in the Medicaid program, the agency must refer the case to its Medicaid Fraud Control Unit.

A full investigation must continue until appropriate legal action is initiated, the case is closed due to insufficient evidence to support the allegations of fraud or abuse, or the matter is resolved between the agency and the provider or beneficiary. Resolution may include sending a warning letter to the provider or beneficiary, giving notice that continuation of the activity in question will result in further action, suspending or terminating the provider from participation in the Medicaid program, seeking recovery of payments made to the provider, or imposing other sanctions provided under the State plan.

EOHHS relies upon its fiscal agent's Surveillance, Utilization and Review System (SURS) unit to coordinate much of its Utilization Control and Program Integrity program. The SURS unit is responsible for conducting regular reviews of provider claims and recipient program utilization while also conducting special projects and targeted queries to follow up on instances of suspected fraud or to monitor high fraud risk providers and/or services. Cases are assigned Level I/II status during the initial stages of an investigation. Cases are advanced to Level III if there appears to be evidence of program abuse or fraud. Under those circumstances, the SURS unit requests additional information such as laboratory or medical records to supplement its investigation. Level III cases are those most likely to require referral to the Medicaid Fraud Control Unit.

The SURS unit had ninety-three (93) Level III investigations going back to 2009 on hold at June 30, 2014 due to insufficient personnel resources and additional demands imposed on the unit by the State. Supplemental work is regularly assigned to the SURS unit including OIG investigations support and work delegated by the OHHS's Program Integrity Unit. The supplemental work impacts the SURS unit's ability to close Level III investigations that pose the highest probability of abuse and/or fraud. Claims payments continue to be made to vendors included in the Level III case backload unless there is clear and convincing evidence of fraud before the case has been officially closed. It is thus possible that payments are being made, perhaps for years, to vendors who have committed program abuse and/or fraud in the past and/or present.

The inability of the SURS unit to resolve Level III cases in a timely manner represents a material weakness in internal control over the State's Medicaid Program. The State should ensure that sufficient SURS resources are employed to ensure timely compliance with federal regulations relating to this vital program integrity function.

The State's fiscal agent added an additional employee to the SURS unit in November 2014 and recently made some progress in resolving the backlog of Level III cases. A significant backlog, however, still existed at the time of audit fieldwork.

Questioned Costs: None

RECOMMENDATION

2014-076 Ensure that sufficient resources are employed by the State to fully comply with Medicaid surveillance and utilization review program regulations in a timely manner.

Corrective Action / auditee views:

The SURS team has made significant improvements towards addressing the backlog of Level III cases showing a 37 percent improvement. At the end of 2013 there were 69 Level III reviews pending. SURS closed 26 of those in 2014. Additionally, in November of 2015, SURS hired another nurse auditor who is actively reviewing cases and training on the MMIS. The addition of this position is will reduce the backlog significantly and keep new cases current.

Anticipated Completion Date: *Ongoing*

Contact Person: *Ralph Racca*
Phone: 401.784.3100

Finding 2014-077 ***(significant deficiency - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013 and 2013-2014
Federal Award Numbers: 1305RI5MAP and 1405RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER HOME AND COMMUNITY BASED SERVICES

Controls should be enhanced over claims for home and community based services by (1) eliminating "span billing" thereby improving system controls to identify incompatible service dates and (2) requiring matching of authorized to billed services.

Medicaid eligible individuals may receive necessary home-based medical and support services (home and community based waiver services outlined in the State's Global Consumer Choice Section 1115 Waiver) with the goal of minimizing more expensive care provided within skilled nursing facilities. For example, these services include homemaker, nursing services, meal preparation, residential support, and respite care services. Fiscal 2014 expenditures for home and community based services totaled in excess of $300 million.

The MMIS, due to the billing convention ("span billing") utilized by the majority of home and community based medical service providers, does not have the capability to identify when claims are submitted and paid for periods when the recipient of certain home and community based services was actually hospitalized (or residing in another residential setting such as hospice or nursing facilities) and unavailable to receive the billed services at home. The MMIS lacks edits to detect these types of incompatible services from being paid (e.g., inpatient hospital and meal delivery or home attendant care services). In many instances, home-based service claims cover a period (or "time span" when service is provided) of service (e.g., a month) rather than a specific date for each unit of service provided. This lack of claim detail makes it impossible to determine whether incompatible services were paid in these instances. In instances where detailed claim data shows overlapping home and community based services with claims for services provided in an inpatient or residential (hospital, nursing facility, group home, hospice, etc.) setting, the MMIS is not designed with system edits or procedural controls to prevent payment for those services or to subject those potentially incompatible services to additional analysis before payment is approved.

Controls over this claim group could be improved by requiring home and community service providers to detail specific service dates when submitting claims to the MMIS. This detail with enhanced edits in the MMIS would enhance control by identifying incompatible services before payment. Enhanced MMIS system edits should be programmed to prevent home and community based services from being billed when individuals are receiving institutional care (hospital, hospice, nursing facility, etc.). Post processing identification of incompatible claiming could also be considered, however, such procedures will likely require extensive manual analysis and additional personnel.

Questioned Costs: None

RECOMMENDATION

2014-077 Strengthen system processing controls over home and community based medical and support services to enhance overall program integrity for this claim group.

Corrective Action / auditee views:

The practice of "span billing" prevents the MMIS from identifying instances of a billing for services incompatible with other services. The 'span billing' also hinders the ability to match specific units of service to specific dates, especially when span billing crosses months.

The EOHHS will consider a policy change to eliminate the practice of span billing and the creation of new MMIS edits / audits to identify specified instances of incompatible services.
It should be noted that there are positive and negative consequences associated with the elimination of span billing:

Anticipated Completion Date: *Ongoing*

Contact Person: *Ralph Racca*
Phone: 401.784.3100

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
State Administrative Matching Grants for SNAP	10.561	12-42, 13-035, 13-036
Child Nutrition Cluster:		
School Breakfast Program	10.553	13-030, 13-031, 13-032, 13-033, 13-034
National School Lunch Program	10.555	13-030, 13-031, 13-032, 13-033, 13-034
Special Milk Program for Children	10.556	13-030
Summer Food Service Program for Children	10.559	13-030
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	13-029
Unemployment Insurance	17.225	12-45, 13-037, 13-038
WIA Cluster:		
WIA Adult Program	17.258	12-48
WIA Youth Activities	17.259	12-48
WIA Dislocated Workers	17.260	12-48
WIA Dislocated Worker Formula Grants	17.278	12-48
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	12-54, 13-029, 13-039, 13-040, 13-041, 13-042, 13-043, 13-044
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	13-029, 13-045, 13-046, 13-047, 13-048, 13-049
Federal Transit – Formula Grants	20.507	13-029, 13-045, 13-046, 13-047, 13-048, 13-049
Special Education Cluster:		
Special Education – Grants to States	84.027	13-050
Student Financial Assistance Cluster:		
Federal Perkins Loan Program – Federal Capital Contributions	84.038	13-051
Federal Direct Student Loans	84.268	13-051, 13-052, 13-053
ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants	84.395	13-054
Immunization Cooperative Agreements	93.268	13-055
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	13-029, 13-056, 13-057
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	13-036, 13-058, 13-059, 13-060, 13-061
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs	93.714	13-036, 13-058, 13-059, 13-060, 13-061

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Low-Income Home Energy Assistance Program	93.568	13-062
CCDF Cluster:		
Child Care and Development Block Grant	93.575	13-036, 13-058, 13-063, 13-064
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	13-036, 13-058, 13-063, 13-064
Social Services Block Grant	93.667	13-029, 13-036, 13-061
Children's Health Insurance Program	93.767	13-029, 13-060, 13-065, 13-066
Medicaid Cluster:		
Medical Assistance Program	93.778	11-78, 13-029, 13-036, 13-060, 13-066, 13-067, 13-068, 13-069, 13-070, 13-071, 13-072, 13-073, 13-074, 13-075, 13-076, 13-077, 13-078

Finding and Recommendation Number		CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
11-78		93.778	Payments were made to a facility whose Medical Director had been suspended from participation in federal programs. Another suspension and debarment certification could not be located.						
	11-78b		Recover reimbursements to providers for services provided by the identified suspended provider and credit the federal government for its share of ineligible Medicaid expenditures.		X				
12-42		10.561	Errors were noted in the Financial Status Reports. These errors could have been prevented if expenditures reported were regularly reconciled to the State accounting system.						
	12-42b		Reconcile expenditures between federal financial reports and the State accounting system quarterly. Investigate and resolve any differences			X			See Corrective Action Plan for Finding 2014-028
12-45		17.225	BAM unit investigative summaries were not consistent with respect to whether or not registration was required. The BAM unit did not meet its completion targets for investigations of paid claims.						
	12-45b		Strengthen controls to ensure that BAM investigations are completed within the required federal timeline targets.	11-46c	X				
12-48		17.258 17.259 17.260 17.278	The forms used as guides to determine program eligibility were not always properly completed by staff.						
	12-48a		Further strengthen supervisory review over the eligibility process to ensure consistency between the case file information and the department's client database.	07-56 08-50 09-42 10-47a 11-49a	X				
12-54		20.205	Testing revealed three instances where vendor invoices were approved by staff, and not the resident engineer as required by the PURK Manual.		X				
	12-54		Update the PURK manual to include a formal policy of who is able to verify and authorize an invoice for payment.						

Finding and Recommendation Number		*CFDA*	*PRIOR YEAR FINDINGS AND RECOMMENDATIONS*	*Prior rec. number*	*Imple-mented*	*Partially Imple-mented*	*Not Imple-mented*	*No Longer Valid*	*Comments*
13-029		10.557 20.205 20.500 20.507 93.525 93.667 93.767 93.778	The State did not have adequate controls to ensure compliance with regulations governing reporting under the Federal Funding Accountability and Transparency Act reporting requirements. Several departments/programs, did not submit required reports.						
	13-029a		Standardize agency documentation requirements for compliance with FFATA reporting.	11-41a 12-38a	X				
	13-029b		Ensure that FFATA-applicable subawards are reported to FSRS in a complete and timely manner.	11-41b 12-38b		X			See Corrective Action Plan for Finding 2014-026
13-030		10.553 10.555 10.556 10.559	The Department of Corrections needs to improve the computer system it uses to account for USDA-Donated Foods to ensure that it complies with federal regulations governing the receipt, distribution and inventory of these commodities.						
	13-030		Make necessary modifications to the computer system used to account for USDA-Donated Foods to ensure compliance with federal regulations.				X		See Corrective Action Plan for Finding 2014-030
13-031		10.553 10.555	Central Falls School District - Nine out of forty free or reduced price meal recipients tested did not have a required application on file. Three other applications were incomplete.						
	13-031		We recommend that more care be taken to ensure all applications are completed and completed properly as required by USDA guidelines. We also recommend that all supporting documentation be maintained on file to support the determination of eligibility.	12-39	X				
13-032		10.553 10.555	Central Falls School District – Only seven out of the districts eight schools performed the required verifications of free and reduced price meals. All of these verifications were completed after the November 15th deadline.						
	13-032		We recommend that the School District ensure that all personnel responsible for the food service program are aware of the federal compliance requirements.	12-40	X				

Finding and Recommendation Number		CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
13-033		10.553 10.555	Central Falls School District – The District does not have formal policies and procedures or an accounting system in place to properly maintain and account for their capital assets.						
	13-033		We recommend that the School District implement policies and procedures and an accounting system for capital assets. The procedures should include the identification of the specific federal funds used to acquire equipment and be in compliance with the state laws and procedures regarding the use, management and disposition of capital assets.		X				
13-034		10.553 10.555	Central Falls School District – The District is not in compliance with the lunch equity requirement.						
	13-034		We recommend that the School District implement policies and procedures to ensure it is in compliance with Paid Lunch Equity requirements.		X				
13-035		10.561	URI did not obtain sufficient documentation supporting all of the amount of in-kind match reported by non-profit agencies.						
	13-035		We recommend that management of the University implement policies and procedures to ensure that proper information is collected and reviewed.	10-42a 10-42b 11-41 12-41			X		See Corrective Action Plan for Finding 2014-027
13-036		10.561 93.558 93.714 93.575 93.596 93.667 93.778	Five employees whose pay is allocated across several programs did not complete their required time sheets.						
	13-036		Require supervisory/management review to ensure that all employees complete and submit required timesheets.	11-44a 12-43	X				
13-037		17.225	Controls over federal reporting for the UI program should be improved to ensure accuracy and completeness. Problems were noted with the 9130, ETA 227 and TAPR reports.						

Finding and Recommendation Number		*CFDA*	*PRIOR YEAR FINDINGS AND RECOMMENDATIONS*	*Prior rec. number*	*Imple-mented*	*Partially Imple-mented*	*Not Imple-mented*	*No Longer Valid*	*Comments*
	13-037a		Reconcile expenditures between the TAPR and related ETA 9130 reports. Review TAPR reports prior to submission to ensure data agrees to supporting information systems and is reasonable.	10-45b 11-45f 12-44b			X		Reprogramming is required to obtain the population of expenditures on the TAPR to include additional date elements to facilitate a reconciliation.
	13-037b		Perform and document a fiscal unit supervisory review of the financial related information in the ETA 227 report on a timely basis. Reconcile report information to the underlying accounting records.	11-45e 11-45g 12-44a		X			See Corrective Action Plan for Finding 2014-032
13-038		17.225	Some clients may not have been registered with RI Job Service. BAM unit investigative summaries were not consistent with respect to whether or not registration was required. The BAM unit did not meet its completion targets for investigations of paid claims.						
	13-038		Enhance controls to ensure that all currently eligible UI cases, both fully unemployed and partially unemployed, are registered with RI Job Services prior to first UI benefit payment.	10-43 11-46a 11-46b 12-45a		X			BAM implemented in SFY 2014. The Department has advised us that the Job Service Registration recommendation has been implemented in SFY 2015.
13-039		20.205	RIDOT should improve its quality assurance program with respect to materials testing.						
	13-039a		Enforce existing policies designed to better link testing results to projects and contract items by requiring resident engineers to provide RIC and material item numbers; and establishing a uniform file naming convention for test results shared on the RIDOT network.	07-58a 08-53a 09-44a 10-51a 11-51a 12-50a			X		See Corrective Action Plan for Finding 2014-035
	13-039b		Update the Procedures for Uniform Record Keeping (PURK) manual to include all current policies and procedures. Maintain and distribute the PURK manual electronically.				X		See Corrective Action Plan for Finding 2014-035
	13-039c		Enhance coordination among the three sections of RIDOT that have shared responsibility for the overall operation of the department's Quality Assurance Program.	12-50b			X		See Corrective Action Plan for Finding 2014-035

Finding and Recommendation Number		CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	13-039d		Consider employing additional information technology resources to the Quality Assurance Activity to enhance the timeliness, reliability, and availability of materials test results to the Resident Engineers and to effect overall departmental efficiencies.	06-33b 07-58c 08-53c 09-44c 10-51c 11-51c 12-50d			X		See Corrective Action Plan for Finding 2014-035
	13-039e		Train all project related staff, design 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.	06-33a 07-58b 08-53b 09-44b 10-51b 11-51b 12-50c			X		See Corrective Action Plan for Finding 2014-035
13-040		20.205	We found that three out of the 22 project files that we tested had at least one labor checklist missing.						
	13-040a		Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis-Bacon Act requirements. Enforce completion of labor compliance checklists and receipt of certified payrolls.		X				
	13-040b		Develop a policy for documenting "No Activity" in the Daily Activities Book.		X				
13-041		20.205	RIDOT could improve its policies and procedures with regards to the monitoring of subrecipients.						
	13-041a		Identify all federal awards passed through to subrecipients by project.	08-54b 09-45b 10-52b 11-52b 12-51b			X		See Corrective Action Plan for Finding 2014-036
	13-041b		Ensure subrecipients are made aware of the required award information (i.e., CFDA title; award name and number) in the project agreements.	08-54d 09-45d 10-52d 11-52d 12-51c	X				

Finding and Recommendation Number		CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	13-041c		Enhance written policies and procedures over subrecipient monitoring, and document the department's monitoring plan and document the monitoring performed.	08-54a 09-45a 10-52a 11-52a 12-51a			X		See Corrective Action Plan for Finding 2014-036
13-042		20.205	The Department has not documented and sought FHWA approval of its Utility Accommodation Policy (UAP) as required by federal regulation.						
	13-042		Develop a Utility Accommodation Policy and obtain FHWA approval.				X		See Corrective Action Plan for Finding 2014-037
13-043		20.205	States must ensure that a Value Engineering analysis has been performed on all applicable projects and resulting recommendations are incorporated into plans. RIDOT should improve procedures over its Value Engineering Program.						
	13-043		Enhance policies, procedures, and controls to ensure compliance with Value Engineering analysis requirements contained in 23 CFR 627.	12-53			X		See Corrective Action Plan for Finding 2014-038
13-044		20.205	RIDOT can improve its controls over amounts claimed and reported as "soft match" by requiring a secondary or management review of information input into FMIS.						
	13-044		Enhance controls over the accounting of "soft match" by requiring secondary or management review of information input to the FMIS, thereby allowing differences between RIDOT and FMIS amounts to be detected on a timely basis.		X				
13-045		20.500 20.507	RIPTA – Management should improve internal controls over expenditures and documentation of performance of these controls.						
	13-045		We recommend that RIPTA prepare a capital supply requisition or equivalent form 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 availability of federal funds requirements.				X		See Corrective Action Plan for Finding 2014-039
13-046		20.500 20.507	RIPTA has no formal documentation as to policies and procedures regarding FTA approval of disposition of property.						

Finding and Recommendation Number		CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	13-046		We recommend that RIPTA document its internal control procedures for the disposal of equipment acquired with federal awards. The procedures should include documentation of the Planning Department's determination of whether prior FTA approval is required.				X		See Corrective Action Plan for Finding 2014-040
13-047		20.500 20.507	RIPTA – A vendor DBE file was incomplete and some documentation related to subcontractors was incomplete or not available.						
	13-047		We recommend that RIPTA ensure DBE participation is monitored and documented in a timely manner in accordance with federal requirements.				X		See Corrective Action Plan for Finding 2014-041
13-048		20.500 20.507	RIPTA – All of the quarterly financial reports were prepared on the cash basis of accounting rather than the required accrual basis.						
	13-048		We recommend that RIPTA prepare its quarterly financial status reports on the accrual basis of accounting in accordance with federal requirements.		X				
13-049		20.500 20.507	RIPTA – Ten out of the thirty quarterly reports selected for testing were filed late. In four instances, the report did not agree to supporting documentation.						
	13-049		We recommend that RIPTA file the quarterly reports within 30 days of the end of the calendar quarter and implement procedures to ensure that the supporting documentation agrees to the financial status reports submitted. We also recommend that more care be taken when entering data to the FTA reporting system.		X				
13-050		84.027	Central Falls School District – The district charged costs for early intervention services in excess of the 15% earmarking limit.						
	13-050		We recommend that the School District implement procedures to ensure that all earmarking requirements are monitored for compliance.		X				
13-051		84.038 84.268	Rhode Island College - Out of a sample of ten students with the changes in enrollment status, six students were not reported to the NSLDS within the prescribed time limit.						

Finding and Recommendation Number		*CFDA*	*PRIOR YEAR FINDINGS AND RECOMMENDATIONS*	*Prior rec. number*	*Imple-mented*	*Partially Imple-mented*	*Not Imple-mented*	*No Longer Valid*	*Comments*
	13-051		We recommend that management strengthen their oversight of the NSLDS reporting to ensure that timely reporting of enrollment information is made to the NSLDS in order for them to be in compliance with the requirements. We also recommend that management establish and enforce specific administrative procedures, according to which those students who unofficially withdrew from the College will be identified and subsequently reported to the NSLDS within prescribed time frames.		X				
13-052		84.268	CCRI – The college does not have a policy to ensure the accuracy of the information transmitted to the National Student Clearinghouse. Two out of ten students tested did not have the proper withdrawal date reported.						
	13-052		We recommend that the Community College have a manual process for at least one individual to manually review the information being uploaded to ensure that the software is pulling the accurate information on a test basis.	12-58	X				
13-053		84.268	CCRI – The college does not have a policy to ensure the accuracy of the information transmitted to the National Student Clearinghouse. Two out of ten students tested did not have the proper effective status reported.						
	13-053		We recommend that the Community College have a manual process for at least one individual to manually review the information being uploaded to ensure that the software is pulling the accurate information on a test basis.	12-58			X		See Corrective Action Plan for Finding 2014-048
13-054		84.395	Documentation to support consultant invoices was insufficient and not adequately reviewed by RIDE prior to payment.						
	13-054		Ensure documentation supporting all disbursements meets the minimum standards established by federal cost principles and RIDE policies.	12-60a 12-60b	X				
13-055		93.268	DOH conducts on-site reviews of providers administering vaccines. DOH can improve documentation of required follow-up procedures.						
	13-055		Ensure required follow-up procedures are performed and documented when deficiencies are noted during on-site provider monitoring reviews.		X				The corrective action was completed on January 2, 2014 with the implementation of the PEAR system.

Finding and Recommendation Number		CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
13-056		93.525	We noted documentation supporting the quarterly financial (425) reports was not maintained and expenditures reported sometimes differed from amounts recorded in the state's financial system.						
	13-056		Prepare the SF-425 Federal Financial Report in accordance with guidelines issued by the Office of Management and Budget and consistent with amounts recorded in the State's accounting system.		X				
13-057		93.525	HealthSource RI can improve its controls to ensure amounts billed by vendors are fully supported and documented consistent with federal requirements. Additionally, controls can be enhanced to ensure personnel costs allocated to the program are supported by time sheets or semi-annual certifications (for employees expending 100% of their efforts on the program).						
	13-057a		Ensure that consultant billings are adequately supported and documented prior to payment to ensure compliance with federal allowable cost regulations.			X			See Corrective Action Plan for Finding 2014-057
	13-057b		Adopt uniform documentation requirements for consultants billing on an hourly basis and for other reimbursable costs.			X			See Corrective Action Plan for Finding 2014-057
	13-057c		Ensure personnel costs reimbursed under the program are supported either by timesheets or semi-annual certifications for those employees that work solely on one federal award.			X			See Corrective Action Plan for Finding 2014-057
13-058		93.558 93.714 93.575 93.596	Discrepancies were found in the eligibility testing for the RI Works program. Not all cases selected were provided, some documentation was out of date. Some penalized cases were not promptly closed.						
	13-058		Strengthen controls to ensure adherence to procedures requiring agency personnel obtain and properly utilize required documentation to update electronic case file records prior to determining eligibility and payment amounts, as well as, determining and enforcing compliance with work participation requirements.	05-63a 06-43a 07-70a 08-67a 09-56a 10-57a 11-58a 12-61a		X			See Corrective Action Plan for Finding 2014-058
13-059		93.558 93.714	DHS overstated expenditures on its final ARRA report and expended ARRA funds outside of the period of availability.						

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	13-059a		Adhere to all grant requirements including reporting and cash management.					X	
	13-059b		Return any remaining unspent ARRA funds to the federal grantor.					X	
13-060		93.558 93.714 93.767 93.778	Eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						
	13-060a		Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.	03-41a 04-56a 05-59a 06-40a 07-71a 08-66a 09-57a 10-60a 11-60a 12-63a		X			See Corrective Action Plan for Finding 2014-060
	13-060b		Maintain documentation supporting the resolution of data match discrepancies and initiate modifications when discrepancies impact eligibility and/or amount of benefits.	03-41b 04-56b 05-59b 06-40b 07-71b 08-66b 09-57b 10-60b 11-60b 12-63b		X			See Corrective Action Plan for Finding 2014-060
13-061		93.558 93.714 93.667	Controls over monitoring of subrecipients could be improved. Not all subrecipients submitted their audit reports timely. Controls over documentation and payments could be improved.						
	13-061a		Obtain and review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action.	12-64a		X			See Corrective Action Plan for Finding 2014-061

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	13-061b		Notify all subrecipients of federal award data and compliance requirements.	12-64b			X		See Corrective Action Plan for Finding 2014-061
	13-061c		Require subrecipients to submit appropriate documentation when requesting payment of federal funds.	12-64c			X		See Corrective Action Plan for Finding 2014-061
13-062		93.568	The Office of Energy Resources did not have consistent controls to restrict subrecipient cash balances to their immediate needs.						
	13-062a		Restrict subrecipient funding to their immediate cash needs.	11-63b 12-67a	X				
	13-062b		Strengthen internal controls over subrecipient cash management.	12-67b	X				
13-063		93.575 93.596	Errors were noted in the reporting of earmarked amounts. One report included amounts that were unsupported. Mandatory funds allocated were spent one quarter early. Questioned costs related to 2010 grant funds spent after the period of availability.						
	13-063a		Strengthen controls to ensure that federal reports are prepared accurately and reviewed prior to submission to ensure compliance with matching requirements.	11-67 12-65a	X				
	13-063c		Improve cash management practices to limit pre-award expenditures.	12-65c	X				
13-064		93.575 93.596	The Front-End Detection Unit (FRED) did not investigate any cases of potential overpayments referred to it by other DHS units.						
			Review active Child Care cases referred by other units for possible overpayments and take appropriate action to recover any overpayments found.			X			See Corrective Action Plan for Finding 2014-064
13-065		93.767	Specific eligibility criteria for the SCHIP program have not been programmed into the INRHODES system. The Department must use queries to identify SCHIP eligible individuals and program costs. Controls over these queries were not adequate to ensure that only individuals meeting SCHIP eligibility requirements were claimed. In addition, the INRHODES system does not adequately consider other insurance when determining SCHIP eligibility.						

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13-065		Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure that eligibility and allowable cost program criteria are met.	02-54a 03-53a 04-72a 05-68a 06-56a 07-89 08-89 09-70 10-70 11-71 12-71			X		See Corrective Action Plan for Finding 2014-069
13-066	93.767 93.778	The process to accumulate information for the CMS-64 report is complex and requires extensive manual effort. No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64.						
13-066a		Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.	02-65b 03-65b 04-82a 05-77a 06-59a 07-90a 08-90 09-72a 10-72a 11-72a 12-70a		X			See Corrective Action Plan for Finding 2014-070
13-066b		Reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system.	02-65a 03-65a 04-82b 05-77b 06-59b 07-90b 08-90b 09-72b 10-72b 11-72b 12-70b			X		See Corrective Action Plan for Finding 2014-070

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13-067		93.778	The State was unable to provide specific claims data to support CNOM (costs not otherwise matchable) expenditures.						
	13-067a		Subject all CNOM claiming to the claims processing and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.	09-76a 10-78a 11-73a 12-72a		X			See Corrective Action Plan for Finding 2014-071
	13-067b		Ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during the fiscal year and credit the federal government for any amounts claimed in error.	11-73b 12-72b		X			See Corrective Action Plan for Finding 2014-071
	13-067c		Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditure populations to the Medicaid program.	09-76c 10-78c 11-73c 12-72c		X			See Corrective Action Plan for Finding 2014-071
13-068		93.778	EOHHS needs to address staffing deficiencies within the MEQC Program to ensure timely compliance with federal regulations. DHS should re-evaluate MEQC policies to ensure compliance and revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.						
	13-068a		Address staffing deficiencies in the MEQC unit so that the agency can meet its federal monitoring and reporting responsibilities.	10-80a 11-76 12-73a		X			See Corrective Action Plan for Finding 2014-072
	13-068b		Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.	12-73b				X	No longer applicable due to implementation of CMS requirements for MEQC pilot projects.
13-069		93.778	EOHHS did not comply with applicable federal regulations relating to its reimbursement of nursing facilities..						
	13-069a		Eliminate the current long-term care facility audit backlogs and ensure that sufficient resources are dedicated to ensuring compliance with federal long-term care facility audit requirements.	11-77 12-74			X		Long-term care facility audit requirements relating to years prior to fiscal 2013 (year of new rate setting methodology that focus on individual patient rates based on acuity instead of the previously utilized traditional per diem facility rate) are still outstanding.

Finding and Recommendation Number	*CFDA*	*PRIOR YEAR FINDINGS AND RECOMMENDATIONS*	*Prior rec. number*	*Imple-mented*	*Partially Imple-mented*	*Not Imple-mented*	*No Longer Valid*	*Comments*
13-069b		Re-adjudicate 2013 nursing facility claims using reimbursement rates established using the State's federally-approved rate methodology for fiscal 2013.				X		Final approval of new nursing facility rate methodology still pending with CMS thus settlement with impacted nursing facilities also still pending.
13-070	93.778	EOHHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by hospitals.						
13-070		Improve controls over Medicaid Disproportionate Hospital Share (DSH) payments by implementing the recommendations made within completed DSH audits.	08-102 09-84 10-83 11-83 12-75		X			See Corrective Action Plan for Finding 2014-073
13-071	93.778	Program overpayments for individuals that terminated employment coverage as well as overpayments to hospitals are not being credited to the federal grantor in a timely manner.						
13-071		Reimburse the federal government for program overpayments within the timeframe mandated by federal regulations.			X			See Corrective Action Plan for Finding 2014-074. The current year finding provides an updated amount of program overpayments still requiring reimbursement to the federal grantor.
13-072	93.778	Controls over Rhody Health Partners capitation payments could be improved.						
13-072		Improve systemic controls over Rhody Health Partners eligibility determination and capitation payments.	10-88 11-86 12-80			X		See Corrective Action Plan for Finding 2014-068
13-073	93.778	BHDDH needs to reassess the resources required to ensure that provider licenses are maintained current and supported by documentation of compliance with agency and federal regulations.						
13-073		Address staffing deficiencies in BHDDH licensing division to ensure that all providers are licensed timely in accordance with promulgated rules and regulations as required for participation in the Medical Assistance Program.	10-76d 11-79d 12-81		X			See Corrective Action Plan for Finding 2014-075
13-074	93.778	Numerous documentation deficiencies were noted during testing of Medicaid eligibility determinations.						

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	13-074		Improve controls over required eligibility documentation obtained during the Medical Assistance application process.	12-84	X				
13-075		93.778	The Surveillance, Utilization and Review System (SURS) Unit is unable to resolve cases in a timely manner due to insufficient personnel and additional demands imposed on the unit.						
	13-075		Ensure that sufficient resources are employed by the State to fully comply with Medicaid surveillance and utilization review program regulations in a timely manner.			X			See Corrective Action Plan for Finding 2014-076
13-076		93.778	The MMIS currently lacks system edits that properly determine when home and community based service providers bill for services that are incompatible with claims billed by other providers (i.e., inpatient hospital claims) that suggest the individual was not present in the community to receive the services billed.						
	13-076		Strengthen system processing controls over home and community based medical and support services to enhance overall program integrity for this claim group.	00-42 01-49 02-53 03-57 04-75 05-71 06-55 07-86 08-86 09-69 10-74 11-80 12-85		X			See Corrective Action Plan for Finding 2014-077
13-077		93.778	EOHHS needs to increase its oversight and monitoring procedures to improve controls over managed care contract expenditures.						
	13-077a		Enhance oversight and monitoring procedures over managed care contracts by implementing independent audit or other validation processes that would ensure the accuracy, allowability, and completeness of expenditure and recovery activities reported by contracted HMOs.	09-86 10-85a 11-84a 12-79a		X			See Corrective Action Plan for Finding 2014-068

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	13-077b		Enhance the MMIS's ability to fully adjudicate HMO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods.	10-85b 11-84b 12-79b		X			See Corrective Action Plan for Finding 2014-068
	13-077c		Adopt specific documentation standards relating to final managed care contract settlements to ensure that consistent supporting documentation is maintained to support the allowability of these significant program expenditures (or recoveries).			X			See Corrective Action Plan for Finding 2014-068
13-078		93.778	Controls over Medicaid claims for children in foster care should be enhanced to match controls in place for all other Medicaid claims processed through the State's MMIS.						
	13-078a		Improve documentation supporting the allocation of contracted placement costs reimbursable by Medicaid through provider time-study results.		X				
	13-078b		Consider requiring residential placement providers to bill directly to the MMIS for eligible Medicaid services. Such direct billing should ensure more standardized reimbursement for services provided in addition to validating that such services were performed by licensed providers at the time of payment.	06-64 07-100 08-98 09-75 10-77 11-81 12-83			X		The State is currently in the process of reevaluating how it provides services to children in the State's custody (including those services reimbursed through Medicaid) thus this recommendation was not repeated for fiscal 2014. See finding, recommendations, and corrective actions for Finding 2014-065 relating to internal control over federal program claiming for services provided to children in the State's custody.