State of Rhode Island
and Providence Plantations

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2015

Office of the Auditor General
General Assembly

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
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March 31, 2016

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, 2015. 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. 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.

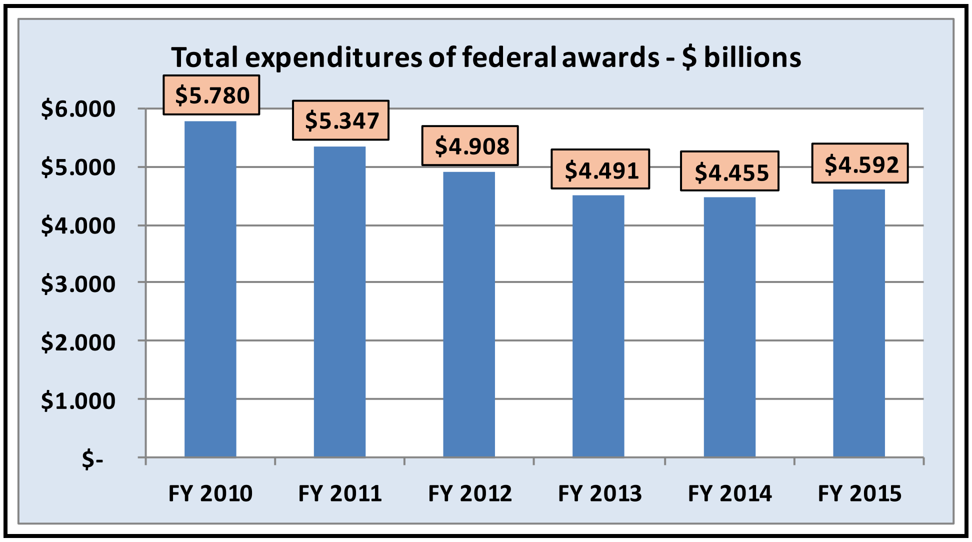
As required by the federal Single Audit Act, this report is additionally submitted to the Federal Single Audit Clearinghouse for distribution to federal funding agencies.

Respectfully submitted,

Dennis E. Hoyle, CPA
Auditor General

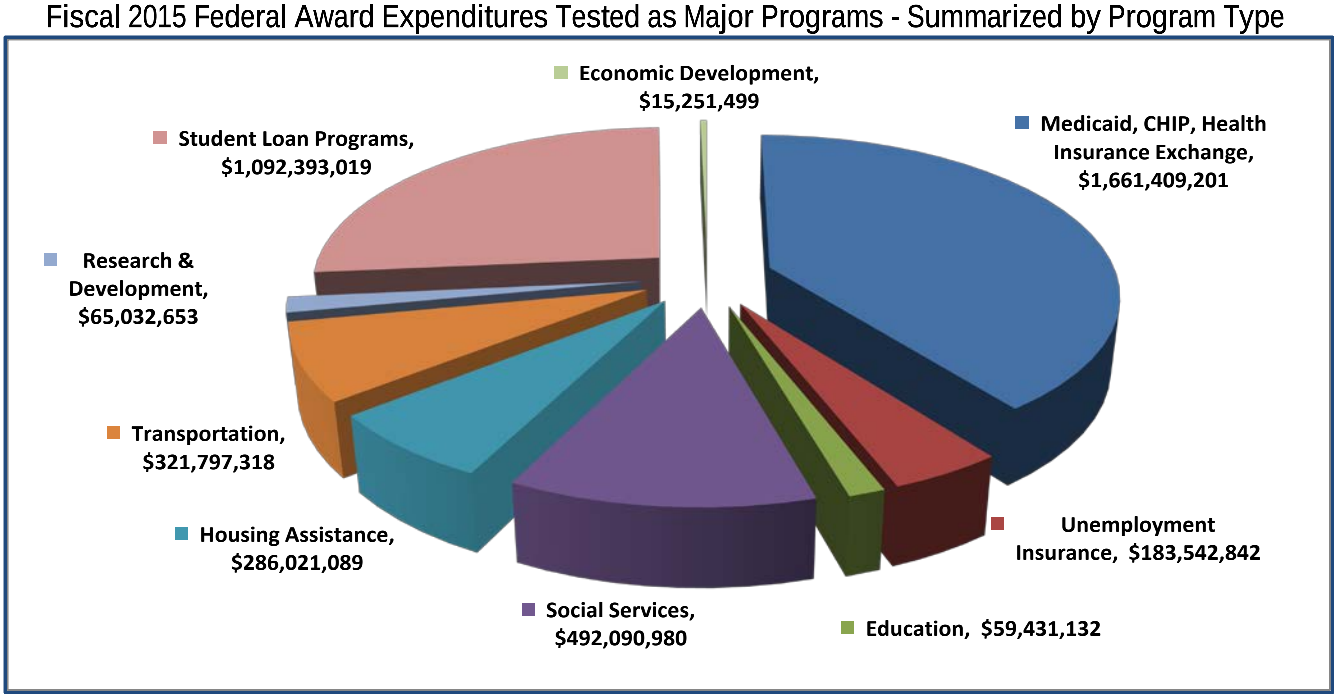
The annual Single Audit is required by federal law as a condition of continued federal assistance. The report includes the State's financial statements, a detailed schedule of federal award expenditures and our reports outlining internal control deficiencies over financial reporting and the administration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

Federal funding represents more than 41% 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 2015. The general decrease in aggregate federal funding in years 2010 through 2014 is largely due to the phase-out of federal stimulus funding (American Recovery and Reinvestment Act – ARRA) which began in fiscal year 2009 but resulted in significant expenditures in fiscal years 2010 and 2011. More recently in fiscal 2015, reductions in federally insured student loan balances and reductions in unemployment insurance benefits are offset by increases in Medicaid funding due to the implementation of the Affordable Care Act. This resulted in a net increase of $137 million in total expenditures of federal awards compared to fiscal 2014.



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 fiscal 2015 expenditures totaling approximately $2.6 billion - the federal government shared $1.6 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.

Fiscal 2015 Federal Award Expenditures Tested as Major Programs - Summarized by Program Type



The Single Audit Report includes 76 findings as summarized in the following table.

Summary of findings included in the *2015 Single Audit Report*	Primary government	Component units	Total
Findings related to the financial statements			
Material weaknesses in internal control	6	4	10
Significant deficiencies in internal control	10	3	13
Other compliance matters	2	1	3
Findings related to the administration of federal programs			
Material weaknesses in internal control	16		16
Significant deficiencies in internal control	24	5	29
Material noncompliance / material weakness in internal control	3		3
Other noncompliance matters	2		2
Total	63	13	76

Highlighted Federal Program Findings

Medicaid:

- EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCO). Capitation payments to managed care organizations represent nearly 75% of all Medicaid outlays. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period. More stringent audit and financial monitoring procedures should be employed. *(Finding 2015-066)*

- Controls over Medicaid eligibility determined through UHIP were weakened during fiscal 2015 due to system design and implementation issues and ineffective oversight of eligibility determination activities. (*Finding 2015-059*)

- Governance for the UHIP development project can be enhanced to ensure contractual requirements are met by the lead development vendor and others and also to ensure that system defects and other implementation issues are identified, prioritized and corrected on a timely basis. *(Finding 2015-067)*

- Delays in the enrollment of Medicaid eligible newborns within UHIP have resulted in significant delays in related claims adjudication and payments to providers. These processing delays resulted in manual advances paid to providers. (*Finding 2015-062*)

Unemployment Insurance - DLT did not make the necessary changes to its system to allow the imposition of penalties on over-payments due to fraud, and to prohibit relief from charges to an employer's UC account when the overpayment was the result of the employer failure to respond timely or adequately to a request for information. *(Finding 2015-032)*

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 2015-036*)

HealthSource RI - HealthSource RI can enhance its controls and related documentation supporting the allowability of costs reimbursed through the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges program. (*Finding 2015-050*)

LIHEAP – the Department of Human Services (DHS) did not comply with the period of performance requirement for the LIHEAP grant - $5.4 million of awards were not expended or obligated by the required date. (*Finding 2015-053*)

Vocational Rehabilitation – the Office of Rehabilitative Services must implement procedures to identify, control and monitor expenditures meeting federal requirements for the mandated 15 percent pre-employment transition services to students with disabilities who are eligible, or potentially eligible, for vocational rehabilitation services. (*Finding 2015-043*)

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REQUIRED SUPPLEMENTARY INFORMATION

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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, 2015, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 1% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 3% of the revenues of the aggregate remaining fund information;
- the Convention Center Authority, a major fund, which also represents 48% 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 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.

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, 2015, 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(O), 1(T) and 17(F), the State implemented Governmental Accounting Standards Board (GASB) Statement No. 68 - *Accounting and Financial Reporting for Pensions,* Statement No. 71 - *Pension Transition for Contributions Made Subsequent to the Measurement Date,* and Statement No. 73 - *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Accordingly, beginning net position of the governmental activities, the business-type activities, and the aggregate discretely presented component units has been restated to recognize net pension liabilities and deferred outflows related to defined benefit pension plans covering employees.

Approximately 27% of the holdings in the pooled investment trust (Note 2) within the pension trust funds are hedge funds, private equity, real estate, and certain infrastructure investments. Because the fair value of these investments were not all 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.

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-25, the Budgetary Comparison Schedules on pages A-131 through

Finance Committee of the House of Representatives
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A-134, and information about the State's pension plans and other postemployment benefit plans on pages A-136 through A-153 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 17, 2015 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 17, 2015

State of Rhode Island

Fiscal Year Ended June 30, 2015

Management's

Discussion

and Analysis

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Rhode Island (State) for the fiscal year ended June 30, 2015. 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 was less than total liabilities plus deferred inflows of resources on June 30, 2015 by ($524.2) million. This amount is presented as "net position (deficit)" on the Statement of Net Position for the Total Primary Government. Of this amount, ($4,401.8) million was reported as unrestricted net position (deficit), $997.5 million as restricted net position, and $2,880.2 million as net investment in capital assets.

  Effective July 1, 2014 the State adopted Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions* and Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* As required by Statements No. 68 and 73 the State restated its beginning net position to record the Net Pension Liability for the pension plans it has funding responsibility for. This restatement reduced the net position for governmental activities at July 1, 2014 by $2.968 billion and the net position for business-type activities by $13.5 million. Please see the Notes to Basic Financial Statements for a complete discussion of the effect of Statements No. 68 and 73 and the disclosures required by the two standards.

- **Changes in Net Position:** In the Statement of Activities, the State's total net position increased by $473.0 million in fiscal year 2015. Net position of governmental activities increased by $352.3 million compared to an increase of $181.0 million in fiscal year 2014.

  This year to year increase in the change in net position for governmental activities is primarily attributable to greater general revenues and transfers which increased by approximately $231 million from the prior year. This increase is principally attributable to higher tax revenues due to the improving Rhode Island economy, which is discussed in more detail throughout this MD&A.

Fund Financial Statements

Governmental Funds

- The State's governmental funds reported a combined ending fund balance of $1,172.1 million, an increase of $160.8 million in comparison with the previous fiscal year. This is primarily a result of the increase in the General Fund's fund balance of $106.5 million, which was due principally to improved tax revenues, and new issuances of debt within the Historic Tax Credit and Certificates of Participation funds.

- As of June 30, 2015, the State's General Fund reported an ending fund balance of $501.9 million, an increase of $106.5 million as compared to the prior year. This change was primarily attributable to an increase in tax revenues in a number of significant categories due to the improving Rhode Island economy and actual expenditures being less than budgeted amounts.

- As of June 30, 2015, the State's Intermodal Surface Transportation Fund reported an ending fund balance of $112.5 million, a decrease of $6.0 million as compared to the prior year. The decrease was mainly due to spending of bond proceeds from prior years' issuances for road and bridge construction projects.

Proprietary Funds

- The Rhode Island State Lottery transferred $381.9 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $5.6 million in comparison with the previous fiscal year.

- The Employment Security Fund ended the fiscal year with a net position of $151.0 million, an increase of $123.1 million from fiscal year 2014. This favorable change is principally 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 ($60.3) million, a deficit increase of ($3.2) 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 pension obligations and progress in funding its obligation to provide 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 (deficit) (governmental and business-type activities) totaled ($524.2) million at the end of fiscal year 2015, compared to ($997.2) million (as restated) at the end of the prior fiscal year. Governmental activities reported unrestricted net position (deficit) of ($4,380.5) 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, 2015
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014*	2015	2014*	2015	2014*
Current and other assets	$ 2,180,618	$ 1,914,572	$ 187,869	$ 119,546	$ 2,368,487	$ 2,034,118
Capital assets	3,857,807	3,683,740	154,569	162,001	4,012,376	3,845,741
Total assets	6,038,425	5,598,312	342,438	281,547	6,380,863	5,879,859
Deferred outflows of resources	296,111	26,723	6,431	6,819	302,542	33,542
Long-term liabilities outstanding	5,451,838	5,535,725	228,954	239,463	5,680,792	5,775,188
Other liabilities	1,177,042	1,010,133	46,335	97,159	1,223,377	1,107,292
Total liabilities	6,628,880	6,545,858	275,289	336,622	6,904,169	6,882,480
Deferred inflows of resources	302,235	28,076	1,166		303,401	28,076
Net position (deficit):						
Net investment in capital assets	2,942,128	2,706,209	(61,956)	(62,060)	2,880,172	2,644,149
Restricted	841,777	799,274	155,682	33,795	997,459	833,069
Unrestricted	(4,380,484)	(4,454,382)	(21,312)	(19,991)	(4,401,796)	(4,474,373)
Total net position (deficit)	$ (596,579)	$ (948,899)	$ 72,414	$ (48,256)	$ (524,165)	$ (997,155)

* Restated

See Note 17 F for an explanation of the restatements.

As indicated above, the State reported a balance in unrestricted net position (deficit) of ($4,401.8) million as of June 30, 2015. Two primary factors, which are discussed below, contributed to this deficit.

As discussed at the beginning of Management's Discussion & Analysis, in fiscal year 2015 the State implemented Governmental Accounting Standards Board Statement No. 68 *Accounting and Financial Reporting for Pensions* and Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* As a result of the implementation of these two standards, at June 30, 2015 the net pension liability now recorded in the Statement of Net Position related to governmental activities was approximately $2.9 billion.

Also, another significant contributing factor is the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government's direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. As of June 30, 2015 approximately $559.2 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 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. See Note 6 B for a detailed explanation of the refunding bond issue that took place during fiscal year 2015. As of June 30, 2015 approximately $716.2 million of principal and $73.4 million of accreted interest are included in the State's debt.

- Historic Tax Credit Bonds - In fiscal years 2009 and 2015 the R.I. Commerce Corporation (RICC), on behalf of the State, issued $150.0 million and $75.0 million, respectively, of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee. 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, 2015, approximately $132.4 million of such bonds are 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, 2015, approximately $46.1 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 $473.0 million during fiscal year 2015. Total revenues of $7,945.8 million increased by $459.6 million compared to fiscal year 2014. 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 under the Affordable Care Act (ACA). The State's expenses, which cover a wide range of services, increased by $272.9 million. This net increase, which occurred primarily in the human services and education categories, was caused by a number of factors including significant expenditures for initiatives under the ACA and increased investments in education. Offsetting these costs were savings in employment insurance costs which decreased by approximately $90 million due to a significant 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, 2015
(Expressed in Thousands)

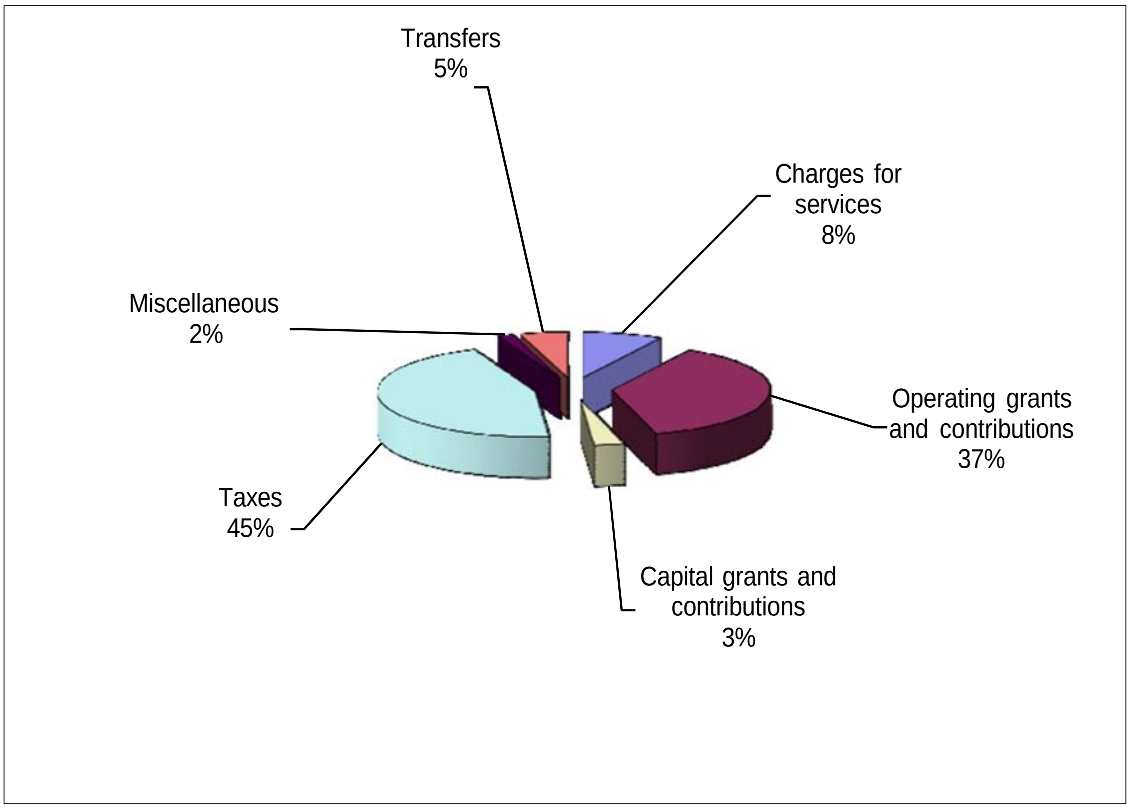
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	$ 577,157	$ 547,589	$ 1,163,752	$ 1,127,206	$ 1,740,909	$ 1,674,795
Operating grants and contributions	2,666,243	2,403,772	839	53,146	2,667,082	2,456,918
Capital grants and contributions	217,604	228,649			217,604	228,649
General revenues:						
Taxes	3,206,935	2,980,387			3,206,935	2,980,387
Interest and investment earnings	3,212	4,852	186	109	3,398	4,961
Miscellaneous	108,375	109,351	1,531	31,208	109,906	140,559
Total revenues	6,779,526	6,274,600	1,166,308	1,211,669	7,945,834	7,486,269
Program expenses:						
General government	695,611	736,911			695,611	736,911
Human services	3,631,236	3,302,590			3,631,236	3,302,590
Education	1,472,786	1,399,347			1,472,786	1,399,347
Public safety	478,854	478,826			478,854	478,826
Natural resources	83,979	80,690			83,979	80,690
Transportation	283,085	298,626			283,085	298,626
Interest and other charges	121,845	129,421			121,845	129,421
Lottery			484,293	462,153	484,293	462,153
Convention Center			48,628	49,255	48,628	49,255
Employment insurance			167,527	257,145	167,527	257,145
Total expenses	6,767,396	6,426,411	700,448	768,553	7,467,844	7,194,964
Excess (deficiency) before transfers	12,130	(151,811)	465,860	443,116	477,990	291,305
Transfers	345,190	332,824	(345,190)	(332,824)		
Special items	(5,000)				(5,000)	
Change in net position	352,320	181,013	120,670	110,292	472,990	291,305
Net position (deficit) - Beginning	2,006,755	1,825,742	(35,333)	(145,625)	1,971,422	1,680,117
Cumulative effect of prior period adjustments	(2,955,654)		(12,923)		(2,968,577)	
Net position (deficit) - Beginning, as restated	(948,899)	1,825,742	(48,256)	(145,625)	(997,155)	1,680,117
Net position (deficit) - Ending	$ (596,579)	$ 2,006,755	$ 72,414	$ (35,333)	$ (524,165)	$ 1,971,422

The fiscal year 2014 amounts presented above have not been restated for the implementation of GASB Statements 68 and 73 for pensions or other adjustments. Complete information to fully restate the fiscal year 2014 amounts was not available. For further information see Notes 13 and 17 F.

With the inclusion of the net pension liability in the Statement of Net Position as required by GASB Statement No. 68, changes in that liability due to changes in the fair value of investments and other actuarial or benefit related factors will affect the State's net position each year. For fiscal 2015, the net pension liability decreased by $309.5 million before deferred inflows of $268.6 million which will be recognized in future years.

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2015.

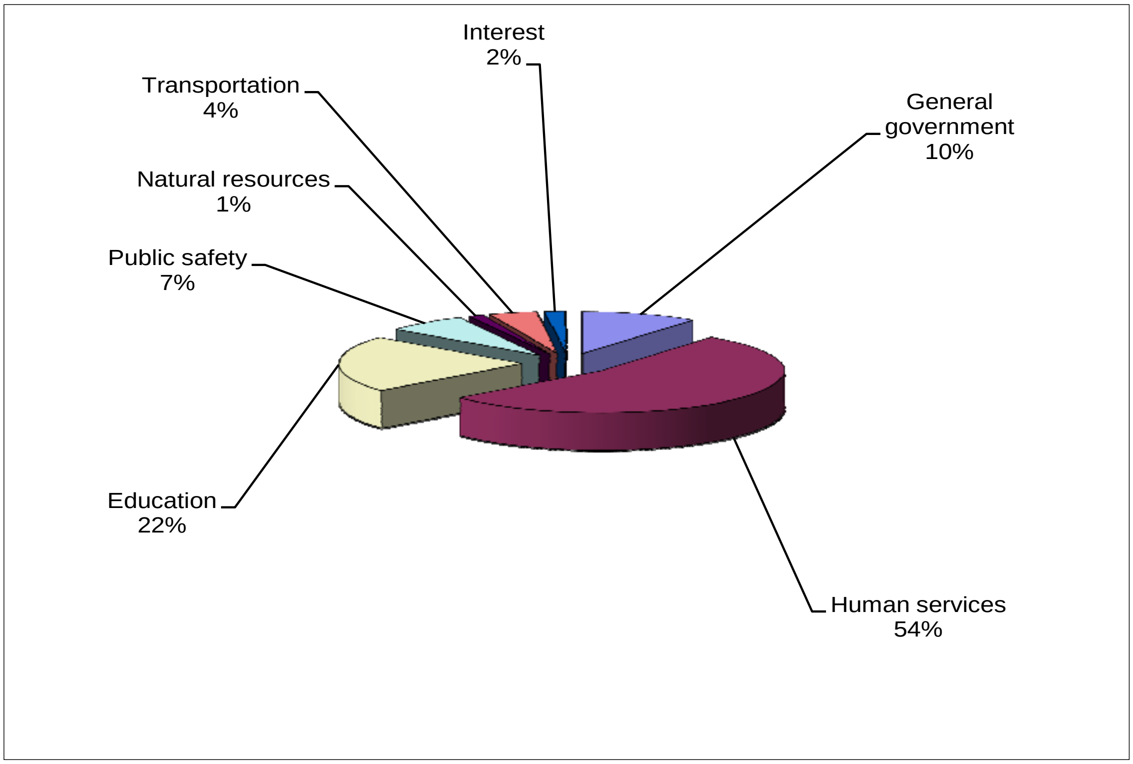
Chart 1 - Revenues and Transfers - Governmental Activities



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal year 2015 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 2015.

Chart 2 depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2015.

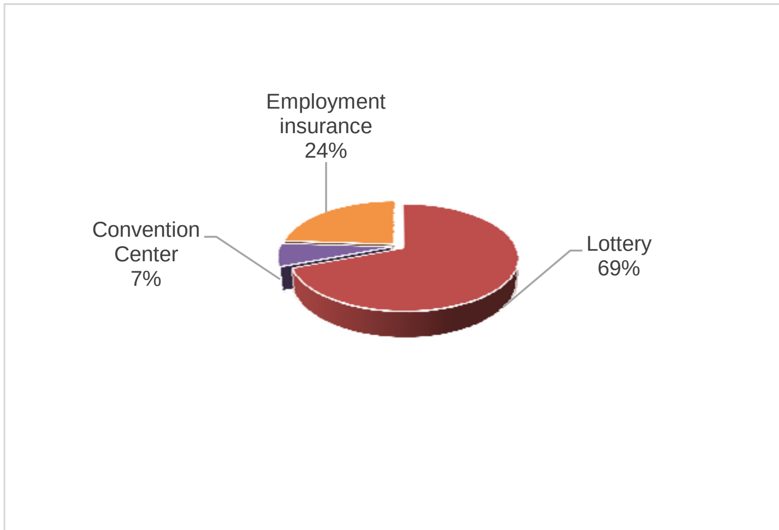
Chart 2 - Program Expenses - Governmental Activities



The relative mix of program expenses - governmental activities remained about the same in fiscal year 2015 as the prior fiscal year. The percent of total spending that is directed towards human services programs went from 52% to 54%.

Chart 3 depicts the program expenses related to Business Type Activities during the fiscal year ended June 30, 2015.

Chart 3 – Program Expenses – Business Type Activities



The relative mix of expenses – business type activities changed significantly due to a reduction in the amount of benefits paid under the employment insurance program.

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 $1,172.1 million, an increase of $160.8 million from June 30, 2014. A breakdown of the components follows (expressed in thousands):

			Increase (decrease) from 2014	
	2015	2014	Change	Percent
Governmental Funds				
Nonspendable	$ 174	$ 174	$	
Restricted	959,136	899,490	59,646	6.63%
Unrestricted				
Committed	9,652	22,682	(13,030)	-57.45%
Assigned	155,986	72,005	83,981	116.63%
Unassigned	47,199	16,959	30,240	178.31%
Total	$ 1,172,147	$ 1,011,310	$ 160,837	15.90%

See Note 17 F for an explanation of the 2014 reclassification.

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 $84 million increase in the assigned portion of the unrestricted fund balance is primarily attributable to an increase 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, 2014 this amount was approximately $72 million; it increased to approximately $156 million at June 30, 2015.

- The increase of $30.2 million in the unassigned portion of the unrestricted fund balance primarily resulted from the actual general fund balance remaining for appropriation in fiscal year 2016 being greater than expected at the time the fiscal year 2016 budget was enacted by the legislature.

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 2014	
	2015	2014*	Change	Percent
Restricted	$ 319,677	$ 297,617	$ 22,060	7.41%
Unrestricted				
Committed	2,561	4,770	(2,209)	-46.31%
Assigned	130,964	72,005	58,959	81.88%
Unassigned	48,685	20,987	27,698	131.98%
Total	$ 501,887	$ 395,379	$ 106,508	26.94%

*See Note 17 F for an explanation of the reclassification.

Revenues and transfers of the General Fund totaled $6,557.8 million in fiscal year 2015, an increase of $506.1 million or 8.36%, 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 2014	
	2015	2014	Amount	Percent
Taxes:				
Personal income	$ 1,225,561	$ 1,109,702	$ 115,859	10.44%
Sales and use	1,168,852	1,126,729	42,123	3.74%
General business	435,219	377,361	57,858	15.33%
Other	44,802	52,731	(7,929)	-15.04%
Subtotal	2,874,434	2,666,523	207,911	7.80%
Federal grants	2,619,412	2,345,942	273,470	11.66%
Restricted revenues	227,631	216,142	11,489	5.32%
Licenses, fines, sales, and services	326,003	330,565	(4,562)	-1.38%
Other general revenues	59,364	60,458	(1,094)	-1.81%
Subtotal	3,232,410	2,953,107	279,303	9.46%
Total revenues	6,106,844	5,619,630	487,214	8.67%
Transfer from Lottery	381,936	376,327	5,609	1.49%
Other transfers	69,007	55,722	13,285	23.84%
Total revenue and transfers in	$ 6,557,787	$ 6,051,679	$ 506,108	8.36%

Personal income taxes increased sharply between fiscal year 2014 and fiscal year 2015. Final payments, payments made with a return and extension payments, increased by 18.7 percent while estimated payments were up by 15.0 percent. The increases in final and estimated payments are likely due to the improvements in the state's economy between the two fiscal years. Personal income tax withholding payments showed accelerated growth of 4.6 percent in fiscal year 2015. The increase in withholding tax payments was contemporaneous with the decline in the state's unemployment rate and a third consecutive fiscal year of non-farm employment growth exceeding 1.0 percent. Personal income tax refunds and adjustments grew slightly at a rate of 0.8 percent continuing the trend of dampened growth in refunds and adjustments since the passage of the personal income tax reform in June 2010.

The State's unemployment rate continued its downward trajectory which, according to Moody's Analytics, fell from 8.5 percent in fiscal year 2014 to 6.7 percent in fiscal year 2015 while nominal personal income growth rose from 2.3 percent in FY 2014 to 4.6 percent in FY 2015. Sales and use taxes continued their strong upward trajectory increasing by 5.2 percent in FY 2015 after increasing by 5.0 percent in FY 2014. In FY 2015, motor vehicle use tax revenues increased by 4.0 percent below the rate of growth of 7.7 percent experienced for FY 2014. Sales taxes collected from the provision of prepared meals and beverages increased 7.0 percent in FY 2015.

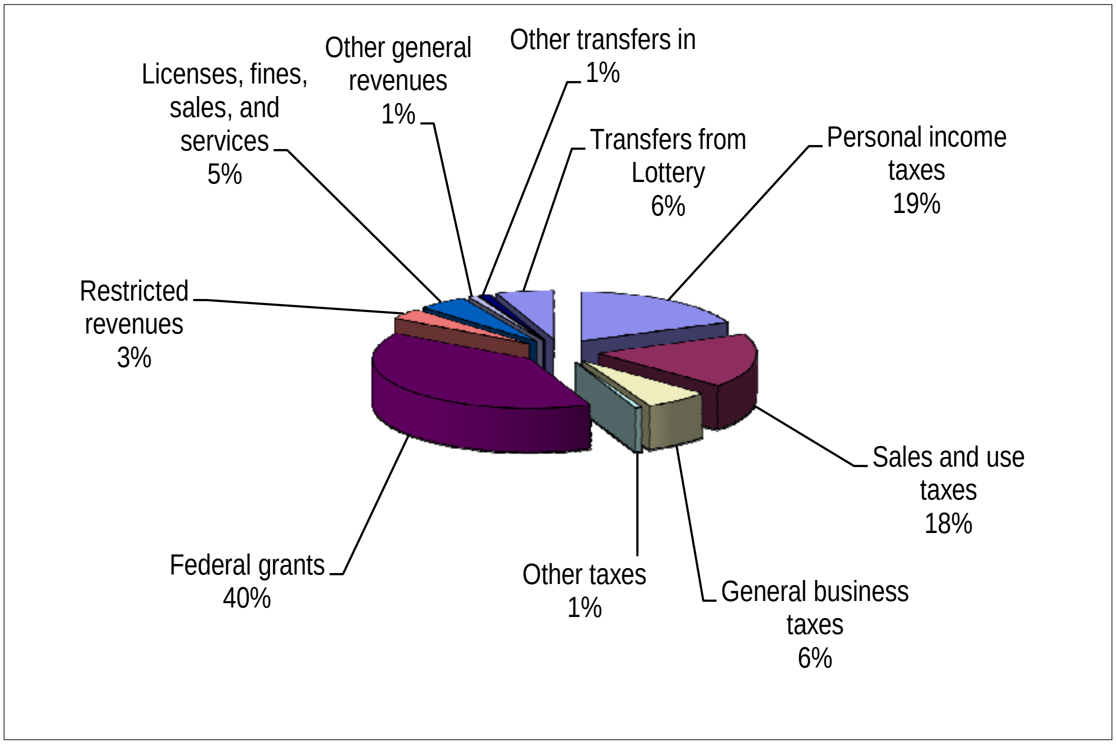
General business tax revenues grew significantly at 16.4 percent in FY 2015 driven primarily by substantial growth in business corporations tax payments of 29.6 percent, financial institutions tax revenues growth of 36.9 percent, and insurance companies gross premiums tax receipts of 17.5 percent. The strong growth in business corporations' tax revenues was attributable in part to the implementation of mandatory combined reporting for C corporations using single sales factor apportionment, market based sourcing of services and a reduced tax rate of 7.0 percent. The gain in insurance companies' gross premiums tax receipts reflected the continued expansion of health insurance coverage in the state via the Affordable Care Act.

Other taxes declined 15.0 percent year-over-year in FY 2015. Estate and transfer tax revenues fell 21.5 percent from FY 2014 levels. Much of this decline is attributable to the restructuring of the estate and transfer tax system from a cliff exemption amount of $921,655 to an estate and transfer tax credit amount of $64,400, the equivalent of a $1.5 million full exemption amount. Realty transfer taxes were also up strongly from FY 2014 at 19.5 percent. This increase primarily reflects the state's improved housing market.

Finally, the R.I. Lottery's transfer to the General Fund was up 1.5 percent in fiscal year 2015 from fiscal year 2014. Sales of traditional lottery products were down 2.2 percent year-over-year while casino gaming revenues were up 1.9 percent for the video lottery terminals in operation at Twin River and Newport Grand and 9.0 percent for the live table games in place at Twin River.

Chart 4 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2015.

Chart 4 – Revenues and Other Sources – General Fund



Expenditures and transfers out totaled $6,482.6 million in fiscal year 2015, an increase of $425.2 million, or 7.02%, 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 2014	
	2015	2014	Amount	Percent
General government	$ 518,101	$ 488,707	$ 29,394	6.01%
Human services	3,661,964	3,325,538	336,426	10.12%
Education	1,403,507	1,357,630	45,877	3.38%
Public safety	490,981	478,108	12,873	2.69%
Natural resources	79,897	76,118	3,779	4.96%
Debt Service:				
Principal	123,178	117,975	5,203	4.41%
Interest	61,727	67,113	(5,386)	-8.03%
Total expenditures	6,339,355	5,911,189	428,166	7.24%
Transfers out	143,266	146,245	(2,979)	-2.04%
Total expenditures and transfers out	$ 6,482,621	$ 6,057,434	$ 425,187	7.02%

The significant increase in Human Services function expenditures is primarily attributable to the first full year of the implementation of the Affordable Care Act and the new HealthSource RI health benefits exchange. Within the Medicaid program, both new enrollees and annualized costs for existing 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 from those individuals who were previously eligible for Medicaid, but not yet enrolled.

The primary driver of the increase in the Education function expenditures is the continued transition to the new Education Funding Formula, which required over $31.0 million in additional funding in fiscal year 2015. Also in this functional area, funding for the State's share of Teacher Retirement costs increased by over $8.0 million and state aid to the State's university and colleges increased by over $9.7 million.

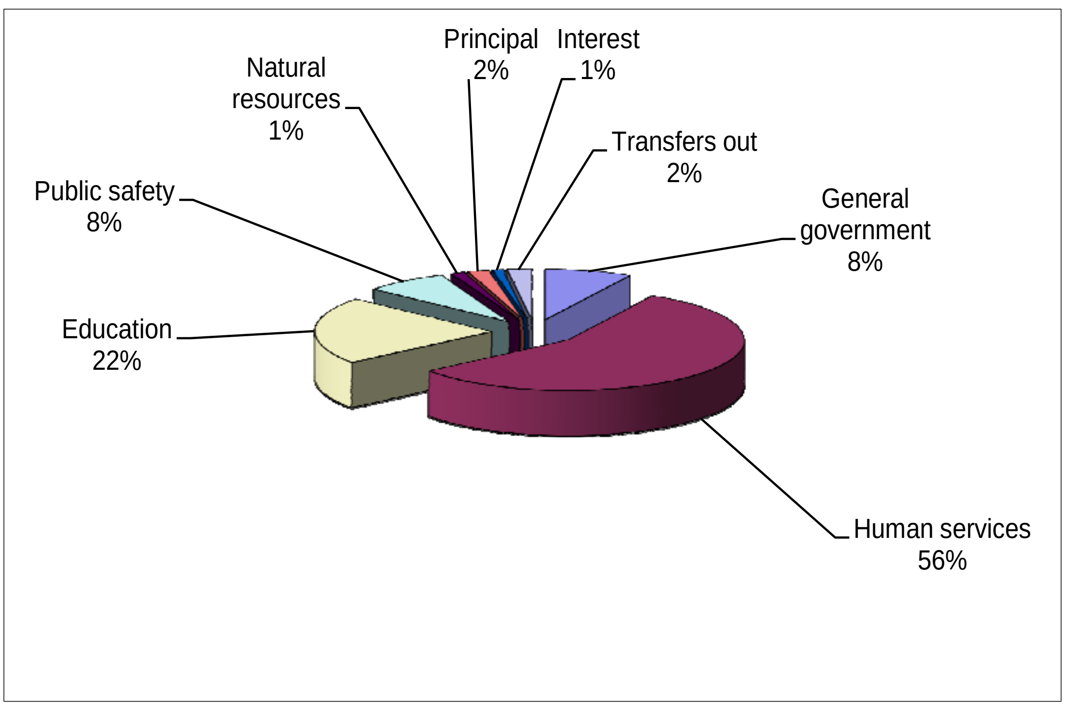
Within the General Government function, expenditures for the Payment In Lieu of Taxes aid program to cities and towns increased by $5.0 million compared to FY 2014; the Public Financing of General Elections program resulted in spending of $2.6 million in FY 2015 that did not occur in FY 2014; the Unclaimed Property and Retirement programs under the General Treasurer's Office each increased spending by over $1.8 million; and within the Department of Administration, the Technology Investment Fund expended approximately $2.2 million more in FY 2015 than the prior year due to increased investments for new software.

Within Public Safety, the Department of Corrections expended over $7.8 million more in FY 2015, including $4.4 million attributable to estimated contract settlement costs with the Correctional Officers' union. In the Department of Public Safety, expenditures from the Google Settlement received through the Department of Justice were approximately $2.2 million higher than the prior year.

The increase in Natural Resources is due to additional federal grant funds available to the Department of Environmental Management, including funds for capital improvements at recreational facilities.

Chart 5 depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2015.

Chart 5 – Expenditures and Other Uses – General Fund



Intermodal Surface Transportation Fund

The Intermodal Surface Transportation Fund (IST) is a special revenue fund that accounts for the collection of gasoline tax, fees, federal grants, Rhode Island Capital Fund Plan funds, 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, the Mission 360 Loan Program and related expenditures. The components of fund balance of the IST fund are as follows (expressed in thousands):

			Increase (decrease) from 2014	
	2015	2014	Change	Percent
Restricted	$ 106,961	$ 118,426	$ (11,465)	-9.68%
Unrestricted				
Committed	7,001	4,039	2,962	73.33%
Unassigned (deficit)	(1,486)	(4,028)	2,542	63.11%
Total	$ 112,476	$ 118,437	$ (5,961)	-5.03%

The decrease in fund balance for the IST Fund at June 30, 2015 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 $123.6 million between the original budget and the final budget. General revenue appropriations increased from the original budget by $31.5 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	$ 1,157,132	$ 1,226,800	$ 1,227,582	$ 782
General business	402,353	438,100	441,322	3,222
Sales and use	1,142,862	1,159,400	1,168,852	9,452
Other taxes	36,610	41,600	44,802	3,202
Departmental revenue	351,672	350,860	354,121	3,261
Other sources:				
Lottery transfer	384,500	378,600	381,936	3,336
Unclaimed property	10,500	12,300	13,712	1,412
Miscellaneous	7,475	9,085	8,778	(307)
Total revenues and other sources	3,493,104	3,616,745	3,641,105	24,360
Expenditures and other uses:				
General government	452,986	437,237	426,311	10,926
Human services	1,342,024	1,378,284	1,366,447	11,837
Education	1,199,219	1,194,741	1,194,336	405
Public safety	413,216	427,944	428,375	(431)
Natural resources	37,726	38,418	38,424	(6)
Total expenditures and other uses	3,445,171	3,476,624	3,453,893	22,731
Excess of revenues and other sources over expenditures and other uses	$ 47,933	$ 140,121	$ 187,212	$ 47,091

The strong positive variance between the fiscal year 2015 actual revenues to the fiscal year 2015 original budget for personal income taxes was reflected in positive variances across all personal income tax components. Personal income tax estimated payments were $21.3 million more than the original budget. Personal income tax final payments were $25.8 million above the original budget while personal income tax refunds and adjustments were $5.2 million less than the original budget, both indications of improved economic conditions in the state. Personal income tax withholding payments were slightly more than included in the original budget. The third largest contributor to the difference in actual total personal income tax revenues relative to the original budget was the net accrual which was $15.7 million more.

Actual fiscal year 2015 general business taxes came in above the original budget due primarily to actual business corporation tax revenues coming in 24.5 percent higher than the estimated amount included in the original budget. Similarly, actual financial institutions tax revenues were nearly double their originally estimated amount.

Sales and use tax revenues actually received in fiscal year 2015 outperformed estimated sales and use tax revenues included in the fiscal year 2015 original budget due to stronger than anticipated cigarette and other tobacco products excise tax revenues, general sales and use tax revenues and alcohol excise tax revenues exceeding the estimates included in the original budget.

Finally, the actual fiscal year 2015 Lottery transfer to the General Fund lagged the estimated Lottery transfer to the General Fund contained in the fiscal year 2015 original budget as both actual traditional lottery products revenues fell $2.6 million short of the estimated revenue included in the original FY 2015 budget. Actual revenues from both the video lottery terminals in operation at Twin River and Newport

Grand and the live table games in operation at Twin River were in line with the estimates included in the original budget.

The positive expenditure variance in the General Government function of approximately $10.9 million was primarily in two agencies, Administration and Legislature. Within Administration, the majority of the positive variance, $2.8 million, was in the Facilities Management program due to lower than anticipated energy and repair costs. 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 2016. These included, $450,750 for a classification and compensation study; $527,000 for the implementation of an e-permitting system; and $170,305 for the I-195 Commission. In the Legislature's budget, the positive variance of $4.4 million 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 2016.

The positive variance in the Human Services function of approximately $11.8 million was due to a positive variance of $9.2 million in the Office of Health and Human Services (OHHS) and $1.0 million in the Department of Children, Youth and Families. 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 2015. The DCYF positive variance was due to the availability of some federal resources to offset general revenue expenses.

The negative variance of $0.4 million in the Public Safety function is primarily due to a $0.8 million deficit in the Department of Public Safety due to retroactive payments to State Troopers based on the final arbitration award regarding their compensation contract.

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, 2015, amounts to $4,012.4 million, net of accumulated depreciation of $2,656.5 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 4.00% 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 $324.5 million for the year. Of this amount $201.0 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $176.6 million.

State of Rhode Island's Capital Assets as of June 30, 2015
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2015	2014*	2015	2014	2015	2014*
Capital assets not being depreciated or amortized						
Land	$ 392,753	$ 388,033	$ 46,808	$ 45,558	$ 439,561	$ 433,591
Works of Art	2,923	2,389			2,923	2,389
Intangibles	170,130	166,716			170,130	166,716
Construction in progress*	521,209	456,735	170	44	521,379	456,779
Total capital assets not being depreciated or amortized	1,087,015	1,013,873	46,978	45,602	1,133,993	1,059,475
Capital assets being depreciated or amortized						
Land improvements	3,700	3,700			3,700	3,700
Buildings	721,971	723,688	234,392	234,384	956,363	958,072
Building improvements	279,919	270,378			279,919	270,378
Equipment	294,897	265,842	31,255	30,145	326,152	295,987
Intangibles	14,040	14,040	175	175	14,215	14,215
Infrastructure*	3,954,550	3,747,835			3,954,550	3,747,835
	5,269,077	5,025,483	265,822	264,704	5,534,899	5,290,187
Less: Accumulated depreciation or amortization*	2,498,285	2,343,412	158,231	148,307	2,656,516	2,491,719
Total capital assets being depreciated or amortized	2,770,792	2,682,071	107,591	116,397	2,878,383	2,798,468
Total capital assets (net)	$ 3,857,807	$ 3,695,944	$ 154,569	$ 161,999	$ 4,012,376	$ 3,857,943

*Certain fiscal year 2014 balances have been restated.

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

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of $2,174.7 million, of which $1,022.9 million is general obligation debt, $435.6 million is special obligation debt and $716.2 million is debt of the blended component units. Additionally, accreted interest of $73.4 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 $60.8 million during fiscal year 2015. This decrease consists of a $51.9 million decrease in general obligation debt, an increase of $19.7 million in special obligation debt, and a decrease of $28.6 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 $367.5 million and $1,022.5 million are supported by pledged revenue. These are discussed in Note 6 and 17 G.

As of July 2015 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, 2015 amounted to $392.1 million; other obligations that are authorized but unissued totaled $224.2 million and are described in Note 6. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

Fiscal Year 2016 Budget

The first quarter report for fiscal year 2016 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2016, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2015 Caseload and Revenue Estimating Conferences. The fiscal year 2016 balance, based upon these assumptions, is estimated to reflect a $50.6 million general revenue surplus in the General Fund.

The Budget Office continues to review department and agency fiscal year 2016 expenditure plans in conjunction with the fiscal year 2017 budget process. In the first quarter report for fiscal year 2016 prepared by the State Budget Office a number of departments, primarily in the human service area as well as the Department of Corrections, are projecting deficits. All changes recommended by the Governor in the fiscal year 2016 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly in January 2016.

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 $52.4 million more than enacted for fiscal year 2016. Taxes are expected to exceed enacted estimates by $28.3 million, while departmental revenues and other sources, including lottery revenues, are expected to exceed enacted estimates by $24.1 million. The November Revenue Estimating Conference estimates that revenues will be $3,596.2 million as compared with the enacted estimate of $3,543.8 million for fiscal year 2016.

The November Caseload Estimating Conference estimates reflect, in comparison to the fiscal year 2016 enacted budget, increased general revenue funding for fiscal year 2016 of $14.9 million. This is due to a number of factors including increased costs for managed care and Rhody Health Options which were offset to an extent by savings in other programs.

Lottery Revenue

The General Fund derives more than 10% of general revenue from the Rhode Island Lottery.

The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. In addition, both neighboring States have already approved or are considering additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

Pension Benefits

The State's fiscal 2015 financial statements, as required by the implementation of GASB Statement No. 68, include the net pension liability for the various defined benefit pension plans covering state employees.

Legal challenges to pension reforms initiated in prior years have been largely resolved through settlement and legislative enactment of those settlement provisions at the close of fiscal 2015. The changes to benefit provisions resulting from the settlement and subsequent amendment of the statutory provisions regarding pension benefits have been reflected in the actuarially determined contribution rates for fiscal 2017. The terms of the settlement maintained the majority of the future savings projected in the initial enactment of the Rhode Island Retirement Security Act.

With the implementation of GASB Statement No. 68, the accounting measures of pension expense and related liabilities will differ from those used for funding purposes. The accounting measures are likely to be more volatile year to year since the net pension liability reflects the fair value of pension plan assets at June 30 whereas the funding measures use a five-year smoothed actuarial value of assets.

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

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 2015, the State funded the retiree health care program in accordance with law by contributing the actuarially required contribution. At June 30, 2015 the OPEB Trust's net position was $147.4 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 Initiative

In order to address Rhode Island's continuing issues with deteriorating roads and bridges in May 2015 a new initiative called Rhode Works was proposed. Rhode Works calls for investing an additional $1 Billion above current plans in transportation infrastructure to fix more than 150 structurally deficient bridges and make repairs to another 500 bridges to prevent them from becoming structurally deficient. The plan also refocuses efforts to expand transit. The plan would be financed by 1) new revenue bonds that will be paid for by user fees on large commercial trucks 2) an application for $400 million in matching federal funds and 3) $120 million of federal funds made available sooner by restructuring existing federally funded debt. The plan is expected to save nearly $1 billion over 10 years by addressing transportation infrastructure problems on a more proactive basis. It is expected that the General Assembly will consider the plan in its 2016 session.

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, 2015 the State had spent approximately $21.9 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 through 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. In March 2015 it was determined that the fiscal health of the City improved to a level that such oversight was no longer necessary.

The State is continually monitoring the financial status of all municipalities and other governmental entities with the goal of avoiding 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, 2015
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business - Type Activities	Totals	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 925,921	$ 23,943	$ 949,864	$ 295,737
Funds on deposit with fiscal agent	189,434	71,881	261,315	
Investments				11,115
Receivables (net)	752,093	84,998	837,091	69,648
Restricted assets:				
Cash and cash equivalents	52,374	4,712	57,086	225,347
Investments				74,175
Receivables (net)				2,312
Other assets				42,666
Due from primary government				27,470
Due from component units	4,683		4,683	1,935
Internal balances	1,136	(1,136)		
Due from other governments and agencies	166,977	1,272	168,249	30,029
Inventories	3,110	912	4,022	10,493
Other assets	6,546	515	7,061	11,288
Total current assets	2,102,274	187,097	2,289,371	802,215
Noncurrent assets:				
Investments				180,642
Receivables (net)	14,750		14,750	45,401
Due from other governments and agencies	11,796		11,796	
Restricted assets:				
Cash and cash equivalents				56,791
Investments				330,971
Other assets				1,428,860
Due from component units	51,798		51,798	1,380
Capital assets - nondepreciable	1,087,015	46,978	1,133,993	298,892
Capital assets - depreciable (net)	2,770,792	107,591	2,878,383	1,677,104
Other assets		772	772	157,306
Total noncurrent assets	3,936,151	155,341	4,091,492	4,177,347
Total assets	6,038,425	342,438	6,380,863	4,979,562
Deferred outflows of resources	296,111	6,431	302,542	38,909
Liabilities				
Current Liabilities:				
Accounts payable	638,694	19,586	658,280	104,808
Due to primary government				4,683
Due to component units	27,470		27,470	1,935
Due to other governments and agencies		1,599	1,599	
Accrued expenses		4,559	4,559	
Unearned revenue	128,463		128,463	
Other current liabilities	115,944	254	116,198	228,943
Current portion of long-term debt	266,471	14,757	281,228	201,861
Obligation for unpaid prize awards		5,580	5,580	
Total current liabilities	1,177,042	46,335	1,223,377	542,230
Noncurrent Liabilities:				
Due to primary government				51,798
Net pension liability	1,917,169	13,315	1,930,484	242,356
Net pension liability-special funding situation	990,129		990,129	
Net OPEB obligation	8,520		8,520	61,628
Unearned revenue		4,894	4,894	15,629
Due to component units				1,380
Notes payable	1,375		1,375	17,175
Loans payable				46,674
Obligations under capital leases	229,751		229,751	4,914
Compensated absences	12,768	301	13,069	21,925
Bonds payable	2,223,224	210,444	2,433,668	1,908,681
Other liabilities	68,902		68,902	334,560
Total noncurrent liabilities	5,451,838	228,954	5,680,792	2,706,720
Total liabilities	6,628,880	275,289	6,904,169	3,248,950
Deferred inflows of resources	302,235	1,166	303,401	25,331
Net position (deficit)				
Net investment in capital assets	2,942,128	(61,956)	2,880,172	1,262,764
Restricted for:				
Budget reserve	185,446		185,446	
Capital Projects	123,737		123,737	
Debt	76,715	4,712	81,427	252,749
Assistance to other entities	56,011		56,011	
Employment insurance programs	151,572	150,970	302,542	
Other	248,122		248,122	175,011
Nonexpendable	174		174	107,528
Unrestricted	(4,380,484)	(21,312)	(4,401,796)	(53,862)
Total net position (deficit)	$ (596,579)	$ 72,414	$ (524,165)	$ 1,744,190

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, 2015
(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	$ 695,611	$ 209,005	$ 119,805	$ 637	$ (366,164)	$	$ (366,164)	$
Human services	3,631,236	246,604	2,227,519	1,221	(1,155,892)		(1,155,892)	
Education	1,472,786	29,775	204,304	31	(1,238,676)		(1,238,676)	
Public safety	478,854	39,709	35,201	2,414	(401,530)		(401,530)	
Natural resources	83,979	29,258	24,431	5,343	(24,947)		(24,947)	
Transportation	283,085	22,806	54,983	207,958	2,662		2,662	
Interest and other charges	121,845				(121,845)		(121,845)	
Total governmental activities	6,767,396	577,157	2,666,243	217,604	(3,306,392)		(3,306,392)	
Business-type activities:								
State Lottery	484,293	865,995				381,702	381,702	
Convention Center	48,628	23,768				(24,860)	(24,860)	
Employment security	167,527	273,989	839			107,301	107,301	
Total business-type activities	700,448	1,163,752	839			464,143	464,143	
Total primary government	$ 7,467,844	$ 1,740,909	$ 2,667,082	$ 217,604	(3,306,392)	464,143	(2,842,249)	
Component units:	$ 1,269,656	$ 722,200	$ 453,057	$ 149,167				54,768
General Revenues:								
Taxes:								
Personal income					1,221,754		1,221,754	
General business					436,064		436,064	
Sales and use					1,168,781		1,168,781	
Gasoline					146,007		146,007	
Other					234,329		234,329	
Interest and investment earnings					3,212	186	3,398	9,416
Miscellaneous revenue					107,382	1,531	108,913	25,471
Gain on sale of capital assets					993		993	
Special items					(5,000)		(5,000)	(1,357)
Transfers (net)					345,190	(345,190)		
Total general revenues and transfers					3,658,712	(343,473)	3,315,239	33,530
Change in net position					352,320	120,670	472,990	88,298
Net position (deficit) - beginning as restated					(948,899)	(48,256)	(997,155)	1,655,892
Net position (deficit) - ending					$ (596,579)	$ 72,414	$ (524,165)	$ 1,744,190

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, 2015
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 571,479	$ 37,233	$ 278,638	$ 887,350
Funds on deposit with fiscal agent		72,578	116,856	189,434
Restricted cash equivalents			52,374	52,374
Receivables (net)	670,406	15,445	70,507	756,358
Due from other funds	3,993	3,273	783	8,049
Due from component units		907		907
Due from other governments and agencies	135,060	41,418		176,478
Loans to other funds	18,866		102,541	121,407
Other assets	580			580
Total assets	$ 1,400,384	$ 170,854	$ 621,699	$ 2,192,937
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable	563,088	27,024	27,456	617,568
Due to other funds			6,657	6,657
Due to component units	3,939	6,798	16,843	27,580
Loans from other funds	102,541		12,396	114,937
Unearned revenue	128,463			128,463
Other liabilities	86,672	14,587	563	101,822
Total liabilities	884,703	48,409	63,915	997,027
Deferred inflows of resources	13,794	9,969		23,763
Fund Balances				
Nonspendable			174	174
Restricted	319,677	106,961	532,498	959,136
Unrestricted				
Committed	2,561	7,001	90	9,652
Assigned	130,964		25,022	155,986
Unassigned	48,685	(1,486)		47,199
Total fund balances	501,887	112,476	557,784	1,172,147
Total liabilities, deferred inflows of resources and fund balances	$ 1,400,384	$ 170,854	$ 621,699	$ 2,192,937

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, 2015
(Expressed in Thousands)

Fund balance - total governmental funds		$	1,172,147
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	6,349,574		
Accumulated depreciation	(2,494,557)		
			3,855,017
Deferred outflows of resources			296,111
Bonds, notes, certificates of participation, accrued interest, net pension liabilities and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.			
Compensated absences	(75,736)		
Bonds payable	(2,248,075)		
Net premium/discount	(139,869)		
Obligations under capital leases	(235,130)		
Premium	(20,451)		
Interest payable	(19,599)		
Net pension liabilities	(2,907,298)		
Other liabilities	(82,799)		
			(5,728,957)
Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
Receivables	2,293		
Due from component units	55,574		
Unavailable revenue	23,763		
			81,630
Deferred inflows of resources			(302,235)
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.			29,708
Net position - total governmental activities		$	(596,579)

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, 2015
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,874,434	$ 158,707	$ 176,982	$ 3,210,123
Licenses, fines, sales, and services	326,003	20,918	1,293	348,214
Departmental restricted revenue	227,631	1,861		229,492
Federal grants	2,619,412	270,551		2,889,963
Income from investments	809	387	1,960	3,156
Other revenues	58,555	3,257	45,060	106,872
Total revenues	6,106,844	455,681	225,295	6,787,820
Expenditures:				
Current:				
General government	518,101		179,188	697,289
Human services	3,661,964			3,661,964
Education	1,403,507		300	1,403,807
Public safety	490,981			490,981
Natural resources	79,897		44	79,941
Transportation		372,013	1,702	373,715
Capital outlays			171,469	171,469
Debt service:				
Principal	123,178	38,345	29,261	190,784
Interest and other charges	61,727	17,217	61,784	140,728
Total expenditures	6,339,355	427,575	443,748	7,210,678
Excess (deficiency) of revenues over (under) expenditures	(232,511)	28,106	(218,453)	(422,858)
Other financing sources (uses):				
Bonds and notes issued			121,125	121,125
Proceeds from refundings and other escrow assets			830,139	830,139
Proceeds from the sale of certificates of participation			49,495	49,495
Premium			82,553	82,553
Transfers in	450,943	26,078	145,499	622,520
Payment to refunded bonds and other escrow agent			(866,168)	(866,168)
Proceeds from termination of investment contracts			26,361	26,361
Transfers out	(143,266)	(60,145)	(73,919)	(277,330)
Total other financing sources (uses)	307,677	(34,067)	315,085	588,695
Special items	31,342		(36,342)	(5,000)
Net change in fund balances	106,508	(5,961)	60,290	160,837
Fund balances - beginning	395,379	118,437	497,494	1,011,310
Fund balances - ending	$ 501,887	$ 112,476	$ 557,784	$ 1,172,147

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, 2015
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 160,837
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	327,792	
Depreciation expense	(166,081)	
		161,711
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	190,785	
Debt redeemed and defeased in refunding	798,215	
Accrued interest and other charges	(11,227)	
Proceeds from sale of debt	(953,670)	
Deferral of premium/discount	(82,553)	
Amortization of premium/discount	19,367	
Proceeds from early termination of debt related investment contracts	(26,361)	
Accreted interest paid	13,600	
Deferral of refunding gains/losses	19,694	
Amortization of refunding gains/losses	(2,970)	
		(35,120)
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	598	
Pension expenses, net of related deferred outflows	48,857	
Program expenses	29,909	
Program revenue	(548)	
Capital grant revenue	(6,125)	
General revenue - taxes	(3,186)	
General revenue-miscellaneous	1,494	
		70,999
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.		(6,107)
Change in net position - total governmental activities		$ 352,320

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, 2015
(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	$ 19,720	$ 3,414	$ 809	$ 23,943	$ 38,571
Restricted cash and cash equivalents		4,712		4,712	
Funds on deposit with fiscal agent			71,881	71,881	
Receivables (net)	5,423	827	78,748	84,998	10,487
Due from other funds		60	197	257	955
Due from other governments and agencies			1,272	1,272	
Inventories	912			912	3,111
Other assets	42	473		515	5,993
Total current assets	26,097	9,486	152,907	188,490	59,117
Noncurrent assets:					
Capital assets - nondepreciable		46,978		46,978	
Capital assets - depreciable (net)	455	107,136		107,591	2,790
Other assets		772		772	
Total noncurrent assets	455	154,886		155,341	2,790
Total assets	26,552	164,372	152,907	343,831	61,907
Deferred outflows of resources	1,183	5,248		6,431	
Liabilities					
Current liabilities:					
Accounts payable	14,265	5,276	45	19,586	21,126
Due to other funds	1,393			1,393	1,211
Due to other governments and agencies			1,599	1,599	
Loans from other funds					6,470
Accrued expenses	4,559			4,559	
Unearned revenue	625	2,309	288	3,222	
Other current liabilities	249		5	254	3,392
Bonds payable		11,330		11,330	
Compensated absences	205			205	
Obligation for unpaid prize awards	5,580			5,580	
Total current liabilities	26,876	18,915	1,937	47,728	32,199
Noncurrent liabilities:					
Net pension liability	13,315			13,315	
Unearned revenue	4,375	519		4,894	
Bonds payable		210,444		210,444	
Compensated absences	301			301	
Total noncurrent liabilities	17,991	210,963		228,954	
Total liabilities	44,867	229,878	1,937	276,682	32,199
Deferred inflows of resources	1,166			1,166	
Net Position (Deficit)					
Net investment in capital assets	455	(62,411)		(61,956)	2,790
Restricted for:					
Debt		4,712		4,712	
Employment insurance programs			150,970	150,970	
Unrestricted	(18,753)	(2,559)		(21,312)	26,918
Total net position (deficit)	$ (18,298)	$ (60,258)	$ 150,970	$ 72,414	$ 29,708

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, 2015
(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	$	$ 23,313	$ 268,800	$ 292,113	$ 304,761
Lottery sales	243,092			243,092	
Video lottery, net	516,262			516,262	
Table games	106,641			106,641	
Federal grants			839	839	
Miscellaneous		455	5,189	5,644	
Total operating revenues	865,995	23,768	274,828	1,164,591	304,761
Operating expenses:					
Personal services	9,277	14,947		24,224	12,855
Supplies, materials, and services	327,470	11,375		338,845	297,914
Prize awards, net of prize recoveries	147,444			147,444	
Depreciation and amortization	102	10,263		10,365	170
Benefits paid			167,177	167,177	
Total operating expenses	484,293	36,585	167,177	688,055	310,939
Operating income (loss)	381,702	(12,817)	107,651	476,536	(6,178)
Nonoperating revenues (expenses):					
Interest revenue	107	79		186	55
Other nonoperating revenue	952		579	1,531	16
Interest expense		(12,043)	(350)	(12,393)	
Total nonoperating revenue (expenses)	1,059	(11,964)	229	(10,676)	71
Income (loss) before transfers	382,761	(24,781)	107,880	465,860	(6,107)
Transfers in		21,559	15,350	36,909	
Transfers out	(381,936)		(163)	(382,099)	
Change in net position	825	(3,222)	123,067	120,670	(6,107)
Net position (deficit) - beginning as restated	(19,123)	(57,036)	27,903	(48,256)	35,815
Net position (deficit) - ending	$ (18,298)	$ (60,258)	$ 150,970	$ 72,414	$ 29,708

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, 2015
(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	$ 863,816	$	$	$ 863,816	$
Cash received from customers		23,029	265,258	288,287	304,406
Cash received from grants			2,826	2,826	
Cash payments for gaming activities	(467,611)			(467,611)	
Cash payments to suppliers	(4,473)	(10,448)		(14,921)	(296,433)
Cash payments to employees	(9,441)	(15,154)		(24,595)	(11,845)
Cash payments for benefits			(164,806)	(164,806)	
Other operating revenue (expense)			61	61	16
Net cash provided by (used for) operating activities	382,291	(2,573)	103,339	483,057	(3,856)
Cash flows from noncapital financing activities:					
Loan from federal government			44,242	44,242	
Payment of interest on loan from federal government			(2,263)	(2,263)	
Loans from other funds					6,453
Loans to other funds					(5,590)
Repayment of loans to other funds					3,453
Repayment of loans from other funds					(7,343)
Transfers in		22,567	19,026	41,593	
Transfers out	(381,144)		(53)	(381,197)	
Net transfers from (to) fiscal agent			(164,588)	(164,588)	
Net cash provided by (used for) noncapital financing activities	(381,144)	22,567	(103,636)	(462,213)	(3,027)
Cash flows from capital and related financing activities:					
Proceds from bond issue		31,900		31,900	
Principal paid on capital obligations		(43,633)		(43,633)	
Interest paid on capital obligations		(7,937)		(7,937)	
Acquisition of capital assets	(97)	(1,859)		(1,956)	(194)
Net cash provided by (used for) capital and related financing activities	(97)	(21,529)		(21,626)	(194)
Cash flows from investing activities:					
Interest on investments	106	83		189	55
Net cash provided by investing activities	106	83		189	55
Net increase (decrease) in cash and cash equivalents	1,156	(1,452)	(297)	(593)	(7,022)
Cash and cash equivalents, July 1	18,564	9,578	1,106	29,248	45,593
Cash and cash equivalents, June 30	$ 19,720	$ 8,126	$ 809	$ 28,655	$ 38,571
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	381,702	(12,817)	107,651	476,536	(6,178)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	102	10,263		10,365	170
Other revenue (expense) and transfers in (out)	327		61	388	16
Net changes in assets and liabilities:					
Receivables, net	1,121	293	(3,434)	(2,020)	(879)
Operating revenue deposited directly with the fiscal agent			(939)	(939)	
Inventory	(216)			(216)	(1,300)
Deferred outflows of resources	(56)			(56)	
Prepaid items	3	43		46	
Due to / due from transactions	61			61	
Accounts and other payables	1,742	676		2,418	3,300
Accrued expenses	(29)			(29)	1,015
Net pension liability	(1,310)			(1,310)	
Deferred inflows of resources	1,166			1,166	
Unearned revenue	5	(1,031)		(1,026)	
Prize awards payable	(2,327)			(2,327)	
Total adjustments	589	10,244	(4,312)	6,521	2,322
Net cash provided by (used for) operating activities	$ 382,291	$ (2,573)	$ 103,339	$ 483,057	$ (3,856)

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, 2015
(Expressed in Thousands)

	Pension and Other Employee Benefit Trusts	Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue	Agency
Assets				
Cash and cash equivalents	$ 11,658	$ 106	$	$ 16,003
Deposits held as security for entities doing business in the State				54,841
Advance held by claims processing agent	775			
Receivables				
Contributions	35,808			
Due from State for teachers	17,656			
Due from other plans	335			
Miscellaneous	997			2,881
Total receivables	54,796			2,881
Prepaid expenses	4,194			
Investments, at fair value				
Equity in short-term investment fund		5,833		
Equity in pooled trust	8,110,441			
Other investments	411,231		2,655	
Total investments	8,521,672	5,833	2,655	
Total assets	8,593,095	5,939	2,655	$ 73,725
Liabilities				
Accounts payable	6,226	128		3,283
Due to other plans	335			
Incurred but not reported claims	1,838			
Unearned revenue	1,185			
Deposits held for others				70,442
Total liabilities	9,584	128		$ 73,725
Net position				
Restricted for:				
Pension benefits	8,436,125			
Other postemployment benefits	147,386			
Pool participants		5,811		
Other			2,655	
Total net position	$ 8,583,511	$ 5,811	$ 2,655	

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, 2015
(Expressed in Thousands)

	Pension and Other Employee Benefit Trusts	Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue
Additions			
Contributions			
Member contributions	$ 191,324	$	$
Employer contributions	428,076		
Supplemental employer contributions	414		
State contributions for teachers	84,944		
Interest on service credits purchased	290		
Service credit transfer payments	38		
From participants		2,056	
Total contributions	705,086	2,056	
Amortization of advance contributions	3,033		
Other income	1,380		
Investment income			
Net appreciation in fair value of investments	139,153		(83)
Interest	58,619	13	
Dividends	14,008		40
Other investment income	8,600		206
	220,380	13	163
Less: investment expense	14,293	8	
Net income from investing activities	206,087	5	163
Total additions	915,586	2,061	163
Deductions			
Retirement benefits	899,296		
Death benefits	4,009		
Distributions	5,333	1,567	113
Refund of contributions	10,220		
Administrative expense	9,249		
Service credit transfers	38		
OPEB benefits	41,107		
Total deductions	969,252	1,567	113
Change in net position:			
Pension benefits	(91,378)		
Other postemployment benefits	37,712		
Other		494	50
Net position - beginning	8,637,177	5,317	2,605
Net position - ending	**$** 8,583,511	**$** 5,811	**$** 2,655

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, 2015
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA
Assets					
Current Assets:					
Cash and cash equivalents	$ 28,423	$ 2,035	$ 161	$ 4,351	$ 1,313
Investments				741	
Receivables (net)	2,936	1,397		2,492	51
Restricted assets:					
Cash and cash equivalents	22,841	20,899	128		7,006
Investments	11,704	3,312			49,309
Receivables (net)	1,582	92			599
Other assets	93				
Due from primary government		800	111	6,758	1,317
Due from other governments	18,065	456	47		
Due from other component units		708			
Inventories				1,738	109
Other assets	545	69	45	338	175
Total current assets	86,189	29,768	492	16,418	59,879
Noncurrent Assets:					
Investments		1,385		2,159	7,193
Receivables (net)	504	4,288			
Restricted assets:					
Cash and cash equivalents	38,491	12,777			
Investments		21,559			1,323
Receivables (net)		1,423			
Other assets		478			
Capital assets - nondepreciable	98,051	129		16,382	406
Capital assets - depreciable (net)	459,399	43		130,281	170,781
Due from other component units					
Other assets, net of amortization	1,389		262		
Total noncurrent assets	597,834	42,082	262	148,822	179,703
Total assets	684,023	71,850	754	165,240	239,582
Deferred outflows of resources	4,953	158		14,904	
Liabilities					
Current liabilities:					
Cash overdraft					
Accounts payable	8,182	146	132	5,508	9,394
Due to primary government				1,048	154
Due to other component units	235				
Other liabilities	14,799	3,742	269	6,836	3,850
Current portion of long-term debt	10,888	10,386			62,855
Total current liabilities	34,104	14,274	401	13,392	76,253
Noncurrent liabilities:					
Due to primary government	495			12,990	753
Due to other component units	1,380				
Unearned revenue		14,910			
Notes payable					
Loans payable	41,541				
Obligations under capital leases					
Net pension liability	1,973	274		48,783	
Net OPEB obligation				50,291	
Other liabilities		14,228		9,928	
Compensated absences				623	
Bonds payable	281,984	24,144	38,400		55,435
Total noncurrent liabilities	327,373	53,556	38,400	122,615	56,188
Total liabilities	361,477	67,830	38,801	136,007	132,441
Deferred inflows of resources	173	382		5,096	56
Net position (deficit)					
Net investment in capital assets	247,478	172		132,625	80,206
Restricted for:					
Debt					58,231
Other	39,488				
Other nonexpendable		4,952			
Unrestricted	40,360	(1,328)	(38,047)	(93,584)	(31,352)
Total net position (deficit)	$ 327,326	$ 3,796	$ (38,047)	$ 39,041	$ 107,085

(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, 2015
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets					
Current Assets:					
Cash and cash equivalents	$ 133,347	$ 25,494	$ 18,878	$ 81,735	$ 295,737
Investments				10,374	11,115
Receivables (net)	39,354	7,086	2,560	13,772	69,648
Restricted assets:					
Cash and cash equivalents				174,473	225,347
Investments				9,850	74,175
Receivables (net)				39	2,312
Other assets				42,573	42,666
Due from primary government	5,962	8,300	1,534	2,688	27,470
Due from other governments	7,108	699	607	3,047	30,029
Due from other component units				1,227	1,935
Inventories	3,556	497	1,117	3,476	10,493
Other assets	4,938	52	150	4,976	11,288
Total current assets	194,265	42,128	24,846	348,230	802,215
Noncurrent Assets:					
Investments	139,576	27,097	3,232		180,642
Receivables (net)	25,045	4,168	3	11,393	45,401
Restricted assets:					
Cash and cash equivalents	731	483		4,309	56,791
Investments				308,089	330,971
Receivables (net)					1,423
Other assets	20,930	1,166		1,404,863	1,427,437
Capital assets - nondepreciable	78,215	9,098	10,177	86,434	298,892
Capital assets - depreciable (net)	558,825	122,237	69,999	165,539	1,677,104
Due from other component units				1,380	1,380
Other assets, net of amortization	402	6		155,247	157,306
Total noncurrent assets	823,724	164,255	83,411	2,137,254	4,177,347
Total assets	1,017,989	206,383	108,257	2,485,484	4,979,562
Deferred outflows of resources	8,870	3,122	2,282	4,620	38,909
Liabilities					
Current liabilities:					
Cash overdraft					
Accounts payable	42,465	9,478	2,782	26,721	104,808
Due to primary government	1,840	986	655		4,683
Due to other component units				1,700	1,935
Other liabilities	18,829	8,749	8,161	163,708	228,943
Current portion of long-term debt	10,317	875	257	106,283	201,861
Total current liabilities	73,451	20,088	11,855	298,412	542,230
Noncurrent liabilities:					
Due to primary government	13,750	20,175	3,635		51,798
Due to other component units					1,380
Unearned revenue				719	15,629
Notes payable		1,128		16,047	17,175
Loans payable	628			4,505	46,674
Obligations under capital leases	4,621			293	4,914
Net pension liability	100,312	35,621	26,224	29,169	242,356
Net OPEB obligation				11,337	61,628
Other liabilities	10,602	3,639	13	296,150	334,560
Compensated absences	16,878	1,469	398	2,557	21,925
Bonds payable	215,927	16,878	2,349	1,273,564	1,908,681
Total noncurrent liabilities	362,718	78,910	32,619	1,634,341	2,706,720
Total liabilities	436,169	98,998	44,474	1,932,753	3,248,950
Deferred inflows of resources	8,784	3,119	2,296	5,425	25,331
Net position (deficit)					
Net investment in capital assets	406,822	98,775	73,461	223,225	1,262,764
Restricted for:					
Debt				194,518	252,749
Other	84,687	6,919	3,425	40,492	175,011
Other nonexpendable	84,251	16,429	1,896		107,528
Unrestricted	6,146	(14,735)	(15,013)	93,691	(53,862)
Total net position (deficit)	$ 581,906	$ 107,388	$ 63,769	$ 551,926	$ 1,744,190

(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, 2015
(Expressed in Thousands)

	RIAC	RICC	I-195 RDC	RIPTA	RITBA	URI	RIC	CCRI	Other Component Units	Totals
Expenses	$ 87,291	$ 36,782	$ 1,407	$ 118,454	$ 25,000	$ 485,070	$ 140,415	$ 121,123	$ 254,114	$ 1,269,656
Program revenues:										
Charges for services	68,486	2,421	18	24,588	20,073	317,316	68,467	39,588	181,243	722,200
Operating grants and contributions		2,587	1,565	66,837		164,997	71,442	80,353	65,276	453,057
Capital grants and contributions	45,195			3,381	15,357	72,231	7,184	4,433	1,386	149,167
Total program revenues	113,681	5,008	1,583	94,806	35,430	554,544	147,093	124,374	247,905	1,324,424
Net (Expenses) Revenues	26,390	(31,774)	176	(23,648)	10,430	69,474	6,678	3,251	(6,209)	54,768
General revenues:										
Interest and investment earnings	135	2,236		44	360	(97)	635	338	5,765	9,416
Miscellaneous revenue	415	19,782		1,036	339		554		3,345	25,471
Total general revenue	550	22,018		1,080	699	(97)	1,189	338	9,110	34,887
Special items									(1,357)	(1,357)
Change in net position	26,940	(9,756)	176	(22,568)	11,129	69,377	7,867	3,589	1,544	88,298
Net position (deficit) - beginning as restated	300,386	13,552	(38,223)	61,609	95,956	512,529	99,521	60,180	550,382	1,655,892
Net position (deficit) - ending	$ 327,326	$ 3,796	$ (38,047)	$ 39,041	$ 107,085	$ 581,906	$ 107,388	$ 63,769	$ 551,926	$ 1,744,190

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.

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

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

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.

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

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

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

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

Rhode Island Public Rail Corporation (RIPRC)

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

Rhode Island Refunding Bond Authority (RIRBA)

The RIRBA was created by law in 1987 and has a number of powers, including being allowed to issue bonds and notes when authorized by the General Assembly. It was dormant for several years until August 2014 when it issued debt in connection with a refinancing transaction discussed in Note 6. RIRBA is legally separate and exists exclusively for the benefit of the primary government.

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. 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. RICC has one component unit, the Small Business Loan Fund Corporation, which was created for the purpose of granting secured and unsecured loans to Rhode Island's small business community. RICC's activities are largely supported by State appropriations and RICC has used its debt issuance authority to finance various economic development initiatives on behalf of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Commerce Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.commerceri.com.

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 I-195 RDC will oversee the sale of the land in an attempt to maximize the economic benefits to the State. The I-195 RDC 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 I-195 RDC 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. RITBA is responsible for the maintenance and operation of the Claiborne Pell, Mount Hope, Jamestown, and Sakonnet River Bridges which are a vital segment of the State's infrastructure. Title relating to the Jamestown and Sakonnet River bridges has remained with the State, thus those capital assets are reported within the primary government on the State's government-wide financial statements. The Claiborne Pell and Mount Hope bridges are reported as capital assets of RITBA. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437, or at www.ritba.org.

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 District effective July 1, 1991. In June 2002, Chapter 16-2 of the Rhode Island General Laws established the board of trustees to govern the District in a manner consistent with most local school committees. In addition, the Commissioner of 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. RIHEAA 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.

In July 2015, pursuant to a law enacted by the General Assembly in the 2015 session, RIHEAA ceased operations and transferred certain of its assets and functions to the newly created Division of Higher Education Assistance within the Office of the Postsecondary Education Commissioner. The CollegeBoundfund Program administered by RIHEAA was transferred to the Office of the General Treasurer.

Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)

This corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State. It has the power to issue notes and bonds to achieve its corporate purpose. Certain debt issued by RIHMFC is secured in part by capital reserve funds. The General Assembly may, but is not required to, appropriate funding of any deficiencies in such reserves. For more detailed information, 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 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. RIIRBA's insurance of first mortgages and first security agreements is backed by a pledge of the full faith and credit of the State. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, R.I. Industrial-Recreational Building Authority, 315 Iron Horse Way, Suite 101, Providence, RI 02903, or at www.commerceri.com.

Rhode Island Resource Recovery Corporation (RIRRC)

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

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 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 R.I. Water Resources Board Corporate, One Capitol Hill, Providence, RI 02908.

In June 2015 pursuant to a law enacted by the General Assembly, RIWRBC ceased operations and transferred its remaining assets and functions to the RI Clean Water Finance Agency (now known as the RI Infrastructure Bank), a related organization.

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 (effective September 1, 2015, the name of this agency was changed to the Rhode Island Infrastructure Bank). 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 Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated or when financial resources are being accumulated for principal and interest maturing in future years.

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

Proprietary Fund Types

Internal Service Funds **-** These funds account for, among other things, employee medical benefits, State fleet management, unemployment and workers' compensation for State employees, 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 Employee Benefit Trust Funds

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

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

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

Private Purpose Trust 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, Rhode Island Capital Plan funds, and certain motor vehicle registration and licensing surcharges, that are used in maintenance, upgrading, and construction of the State's highway system. It also accounts for the proceeds from the Grant Anticipation Revenue Vehicle (GARVEE) bonds, the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, the Mission 360 Loan Program 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 (amounts not expected to be collected in the next twelve months) is also reflected.

I. Due From Other Governments and Agencies

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

J. Interfund Activity

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

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

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

K. Inventories

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

L. Capital Assets

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

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

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

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

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

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

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

M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances-Governmental Funds, bond discounts, premiums, and issuance costs are recognized in the current period. In the government-wide financial statements bond discounts, premiums, 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 6E).

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Employees' Retirement System (ERS) cost-sharing plan and the single–employer plans administered by the Employees' Retirement System of Rhode Island (System) and the additions to and deductions from the plans' net position have been recognized on the same basis as they are reported by the System. For this purpose, benefit payments, (including refunds of employee contributions) are recognized when due and payable and in accordance with the benefit terms. Investments are recorded at fair value.

As more fully explained in Note 13, a special funding situation exists with respect to local teachers for which the State funds 40% of actuarially determined contributions to the ERS plan. Accordingly, the financial statements reflect the State's proportionate share of the net pension liability, pension expense and deferred inflows/outflows related to this special funding situation.

For the State's two non-contributory (pay-as-you-go) plans covering certain judges and state police, the provisions of GASB Statement No. 73 have been implemented which is largely consistent with the provisions of GASB Statement No. 68, regarding recognition of the pension liability, pension expense and deferred inflows/outflows except there is no fiduciary net position accumulated to offset the total pension liability and no employer contributions are made other than the amount needed to provide benefits on a pay-as you-go basis.

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

P. 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.

Q. 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.

R. 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, 2015 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	$ 42,638	$ 5,248	$ 47,886	$ 4,778
Deferred pension costs	253,473	1,183	254,656	32,888
Derivatives				1,243
Total deferred outflows of resources	$ 296,111	$ 6,431	$ 302,542	$ 38,909
Deferred inflows of resources:				
Deferred pension credit	$ 268,644	$ 1,166	$ 269,810	$ 25,275
Deferred gain on refunding of debt	33,591		33,591	56
Total deferred inflows of resources	$ 302,235	$ 1,166	$ 303,401	$ 25,331

The components of the deferred outflows of resources and deferred inflows of resources related to the governmental funds as of June 30, 2015 are as follows (expressed in thousands):

	General Fund	IST Fund	Other Governmental Funds	Total Governmental Funds
Deferred inflows of resources:				
Taxes	$ 6,287	$	$	$ 6,287
Other general revenue	7,507			7,507
Federal revenue		9,969		9,969
Total deferred inflows of resources	$ 13,794	$ 9,969	$	$ 23,763

S. Fund Balances

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

- Nonspendable – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by constitutional provisions, 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.

T. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2015, the State adopted the following new accounting standards issued by GASB:

- GASB Statement No. 68, *Accounting and Financial Reporting Pensions – an amendment of GASB Statement No. 27*

- GASB Statement No. 69 , *Government Combinations of Disposals of Government Operations*

- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*

- GASB Statement No. 73*, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The State early implemented this standard, which is effective for reporting periods beginning after December 15, 2015, for the fiscal year ending June 30, 2015.

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- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The State early implemented this standard, which is effective for reporting periods beginning after December 15, 2015, for the fiscal year ending June 30, 2015.

The implementation of GASB Statements No. 68, 71 and 73 represented a significant change in the accounting and reporting of pension expense and the related liability. In general, the statements revise and establish new financial reporting requirements for governments that provide their employees with pension benefits. Among other requirements, the statements require governments providing defined benefit pension benefits to recognize their long term obligation for pension benefits as a liability and the related recognition of pension expense. The implementation of these statements also significantly expanded pension related note disclosures and the required supplementary information. As a result of these changes in accounting principles, the State has restated its beginning net position at July 1, 2014. See Note 17 F Restatements for more information about the impact of the implementation of these statements.

The implementation of GASB Statement No. 69 had no material reporting impact on the State's financial statements.

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

GASB Statement No. 72, *Fair Value Measurement and Application*, will be effective for financial statements for periods beginning after June 15, 2015. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, will be effective for financial statements for periods beginning after June 15, 2016. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective for financial statements for periods beginning after June 15, 2017. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, will be effective for financial statements for periods beginning after June 15, 2015. The objective of this statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted account principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

GASB Statement No. 77, *Tax Abatement Disclosures*, will be effective for financial statements for periods beginning after December 15, 2015. This statement requires disclosure of tax abatement information about a reporting government’s own tax abatement agreements and those that are entered into by other governments and that reduce the reporting government’s tax revenues in order to better allow users to understand how tax abatements affect a government’s future ability to raise resources and meet its financial obligations and the impact those abatements have on a government’s financial position and economic condition.

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

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

A. Primary Government-Governmental and Business-Type Activities

Cash Deposits

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

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to 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, 2015 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, 2015, of the $274.4 million invested, $62.3 million were Collateralized Repurchase Agreements.

With the exception of $874,755 in bank balances of the R.I. Convention Center Authority, as of June 30, 2015 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, 2015 are as follows:

Pooled cash equivalents (at amortized cost)	
Financial company commercial paper	$ 106,152
Other commercial paper	26,986
Asset backed commercial paper	33,102
Government agency repurchase agreement	29,281
Other repurchase agreements	33,000
Certificates of deposit	15,000
Other Municipal Debt	1,900
Other notes	7,000
Other Instruments	22,000
Total investments	274,421
Plus: other assets in excess of other liabilities	(1,021)
Total investment pool	273,400
Funds held by fiduciary funds and discretely presented component units	
Less:	
Amounts categorized as funds on deposit with fiscal agent	2
Amounts held by fiduciary trust funds:	
Pension trusts	5,406
OPEB trust	2,281
RIPTA health fund	36
Amounts held by discretely presented component units:	
URI	10,138
RIHEAA	209
RIIRBA	2,509
Amounts held for external parties	5,811
Primary government pooled cash equivalents	247,009
Other primary government cash equivalents and investments	
Repurchase agreements	2,221
Money Market Mutual Funds	58,707
Total primary government cash equivalents and investments	$ 307,937
Cash equivalents and investments	$ 307,937
Cash	699,013
Total cash, cash equivalents and investments	$ 1,006,950
Statement of Net Position	
Cash and cash equivalents	$ 949,864
Restricted cash and cash equivalents	57,086
Total cash, cash equivalents and investments	$ 1,006,950

Of the State's restricted cash and cash equivalents totaling $57,086,000, $52,374,000 is held by the Tobacco Settlement Financing Corporation and $4,712,000 is held by the R.I. Convention Center Authority. Both entities are blended component units.

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, 2015, information about the State's exposure to interest rate risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

Investment Type	At Fair Value	Total Amortized Cost	Investment Maturities (in days) (At Amortized Cost) 0-30	31-90	91-180	181-397
Financial Company Commercial Paper	$ 106,163	$ 106,152	$ 19,799	$ 51,376	$ 34,977	$
Other Commercial Paper	26,987	26,986	17,000		9,986	
Asset Backed Commercial Paper	33,103	33,102	19,104	13,998		
Gov't Agency Repurchase Agreements	29,281	29,281	29,281			
Other Repurchase Agreements	33,004	33,000	20,000	11,000	2,000	
Certificates of Deposit	15,000	15,000	15,000			
Other Municipal Debt	1,900	1,900				1,900
Other Notes	7,000	7,000		1,000	6,000	
Other Instruments	22,000	22,000	22,000			
Grand Total	$ 274,438	$ 274,421	$ 142,184	$ 77,374	$ 52,963	$ 1,900

Non-pooled Cash Equivalents and Investments:

Investment Type	Fair Value
Money Market Mutual Funds	58,707
Repurchase agreements	2,221
Cash equivalents and investments	$ 60,928

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

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, 2015, 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	$ 106,163	$ 106,152	$ 13,995	$ 92,157	$
Other Commercial Paper	26,987	26,986	9,986	13,000	4,000
Asset Backed Commercial Paper	33,103	33,102	3,000	30,102	
Gov't Agency Repurchase Agreements	29,281	29,281	28,281	1,000	
Other Repurchase Agreements	33,004	33,000		33,000	
Certificates of Deposit	15,000	15,000	13,000	2,000	
Other Municipal Debt	1,900	1,900	1,900		
Other Notes	7,000	7,000	6,000		1,000
Other Instruments	22,000	22,000		9,000	13,000
Grand Total	$ 274,438	$ 274,421	$ 76,162	$ 180,259	$ 18,000

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:

Funds on Deposit with Fiscal Agent

Issuer		Fair Value	Type of Investment	Moody's Rating	Average Maturities in Days
Money market mutual funds					
Fidelity Institutional Money Market Gvt. Port Class III	$	5,269	Money Market	Aaa-mf	52
Goldman Sachs Treasury Instruments Fund		53,438	Money Market	Aaa-mf	58
	$	58,707			

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, 2015 and the breakdown by maturity are as follows:

Investment Type		Fair Value
Money Market Mutual Funds	$	183,436
Investment Contracts		5,998
Investments	$	189,434

All of the investments have a maturity date of less than one year.

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	$	943	Aaa-mf	48
Federated Govt. Obligation Tax Managed Fund		15,337	Aaa-mf	58
Fidelity Institutional Money Market Gvt. Port Class III		91,519	Aaa-mf	33
First American Government Obligations Fund		38,630	Aaa-mf	46
Goldman Sachs Financial Square Money Market Fund		36,032	Aaa-mf	41
Wells Fargo Advantage 100% Treasury Money Market Fund		328	Aaa-mf	48
Morgan Stanley Prime Portfolio		645	Aaa-mf	14
Ocean State Investment Pool		2	N/A	N/A
Investment Contracts				
FSA Capital Management GIC		5,998	N/A	N/A
	$	189,434		

Funds on deposit with fiscal agent also include approximately $71,881,000 held by the Federal Unemployment Insurance Trust Fund.

B. Concentration of Credit Risk

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

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

Type	Issuer	Amount	Percentage
Money Market Funds	Fidelity Institutional Money Market Gvt. Port Class III	$ 96,788	19.46%
Money Market Funds	First American Government Obligations Fund	38,630	7.77%
Money Market Funds	Goldman Sachs Treasury Instruments Fund	53,438	10.74%
Money Market Funds	Goldman Sachs Financial Square Money Market Fund	36,032	7.24%

C. Pension Trusts

The Employees' Retirement System (the System) consists of six plans: the Employees' Retirement System (ERS), 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, 2015, the carrying amount of the System cash deposits was $5,633,000 and the bank balance was $5,797,000. 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, $5,562,000, and the remainder representing interest-bearing collateralized bank deposits totaling $135,000, 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, 2015 (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 RIJRFT 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 plan's respective contributions to, or withdrawals from, the trust. Investment expense is allocated to each plan based on the plan's units in the Pooled Trust at the end of each month.

The following table presents the fair value of investments by type that are held within the Pooled Trust for the defined benefit plans at June 30, 2015 (expressed in thousands):

Pooled Investment Trust Investment Type		Fair Value
Cash and Cash Equivalents	$	44,685
Foreign Currencies		2,604
Money Market Mutual Funds		207,045
US Government Securities		334,504
US Government Inflation Linked Bonds		291,732
US Government Agency Securities		328,489
Collateralized Mortgage Obligations		33,141
Corporate Bonds		469,246
International Government Bonds		3,407
Term Loans		305,942
Domestic Equity Securities		832
International Equity Securities		243
Commingled Funds - Domestic Equity		1,899,731
Commingled Funds - International Equity		1,862,564
Private Equity		545,080
Real Estate		393,750
Hedge Funds		1,171,344
Infrastructure Investments		156,766
Derivative Investments		620
Investments at Fair Value	$	8,051,726
Receivable for investments sold		58,934
Payable for investments purchased		(142,465)
Total	$	7,968,194

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

- Barclays US Aggregate Index
- Barclays 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, 2015, no fixed income manager was outside of the policy guidelines.

The following table shows the System's fixed income investments by type, fair value and the effective duration at June 30, 2015 (expressed in thousands):

Investment Type:		Fair Value (in thousands)	Effective Duration
US Government Securities	$	626,236	5.26
US Government Agency Obligations		328,489	3.60
Collateralized Mortgage Obligations		33,141	1.45
Corporate Bonds		469,246	6.16
International Government Bonds		3,407	6.83
Term Loans		305,942	1.01
Total Fixed Income	$	1,766,461	4.39

The System had investments at June 30, 2015 totaling $5,406,191 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 2% of the total OSIP at June 30, 2015.

OSIP operates in a manner consistent with an 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, 50 Service Avenue, Warwick, RI 02886.

The System also invested $201,638,354 in a short-term money market mutual fund that held investments with a weighted average maturity of 54 days at June 30, 2015.

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

The System may invest in interest-only and principal-only strips in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to 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 System manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for their portfolios and by establishing limits on the percentage of the portfolios that are invested in non-investment grade securities. The System's exposure to credit risk as of June 30, 2015 is as follows (expressed in thousands):

Rating	US Government Agency Obligations	Collateralized Mortgage Obligations	Corporate Bonds	International Government Bonds	Term Loans
Aaa	$ 328,489	$ 16,268	$ 17,401		
Aa		3,279	16,946		
A		10,933	99,091	513	
Baa		2,661	222,340	2,894	9,568
Ba			56,258		85,759
B			38,943		143,169
Caa			16,970		18,157
Ca			81		-
C					-
D					373
Not Rated			1,219		48,916
Fair Value	$ 328,489	$ 33,141	$ 469,246	$ 3,407	$ 305,942

Concentration of Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2015, all securities were registered in the name of the System (or in the nominee name of its custodial agent) and were held in the possession of the System's custodial bank, Bank of New York Mellon.

Foreign Currency Risk

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

The System's exposure to foreign currency risk at June 30, 2015, was as follows (expressed in thousands):

Currency	Commingled Funds	Currency	Equities	Private Equity	Derivatives	Total
Australian Dollar	$ 87,764	$ 143	$	$	$ 35	$ 87,942
Brazilian Real	29,484					29,484
Canadian Dollar	129,020	52	165	16,798	30	146,065
Chilean Peso	5,170					5,170
Colombian Peso	2,440					2,440
Czech Republic Koruna	793					793
Danish Krone	21,414					21,414
Egyptian Pound	1,021					1,021
Euro Currency	386,939	1,978		67,846	(73)	456,691
Great Britain Pound	261,965	308	78		105	262,457
Hong Kong Dollar	148,995					148,995
Hungarian Forint	995					995
Indian Rupee	32,381					32,381
Indonesia Rupiah	11,052					11,052
Israeli Shekel	7,799					7,799
Japanese Yen	297,981	88			112	298,180
Malaysian Ringgit	13,622					13,622
Mexican Peso	19,447					19,447
New Zealand Dollar	1,690					1,690
Norwegian Krone	8,277					8,277
Philippine Peso	5,804					5,804
Polish Zloty	6,356					6,356
Qatari Real	4,054					4,054
Russian Ruble	3,459					3,459
Singapore Dollar	19,000					19,000
Swedish Krona	38,011	35			11	38,057
Swiss Franc	115,769					115,769
South African Rand	34,019					34,019
South Korean Won	61,711					61,711
Taiwan Dollar	53,598					53,598
Thailand Baht	9,534					9,534
Turkish Lira	6,373					6,373
United Arab Emirates Dirham	2,720					2,720
Total	$ 1,828,657	$ 2,604	$ 243	$ 84,644	$ 221	$ 1,916,369
United States	33,907					
Grand Total	$ 1,862,564					

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 System's investment managers are allowed to invest in derivative type transactions consistent with the terms and limitations governing their investment objective and related contract specifications.

Derivatives and other similar investments are financial contracts whose value depends on one or more underlying assets, reference rates, or financial indices.

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

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

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

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

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

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

The following summarize the System's exposure to specific derivative investments at June 30, 2015 (expressed in thousands):

Investment Derivative Instruments	Change in fair value included in investment income	Fair Value at June 30, 2015	Notional Amount
Fixed income futures - long	$ (21)	$ 5	$ 3,284
Fixed income futures - short	(13)	(44)	6,796
Equity index futures - long	630	1,112	(57,428)
Equity index futures - short	680	(217)	11,311
Credit default swaps	(5)	80	1,287
Interest rate swaps	(772)	(316)	4,093
Total	$ 499	$ 620	
Foreign currency forward contracts:			
Pending Payable (liability)		$ (262)	
Pending Receivable (asset)		141	
		$ (122)	

The System is exposed to counterparty risk on foreign currency contracts that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2015 was $141,000. This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

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 the 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 System executes (through its investment managers) derivative instruments with various counterparties. The credit ratings of these counterparties were Baa1 (Moody's) or better. One counterparty 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, 2015 are as follows (expressed in thousands):

Investment Type		Fair Value	% of Total	Duration (years)	Weighted Average Maturity (days)
Annuities					
TIAA Stable Value	$	4,980	1.2%		
TIAA Real Estate - variable annuity		2,332	0.6%		
Total	$	7,312	1.8%		
Money Market					
Vanguard Prime Money Market Fund	$	498	0.1%		43
Fixed Income Funds					
Pimco Real Return Institutional Class		3,114	0.8%	4.84	
Vanguard Total Bond Market Index Admiral		2,606	0.6%	5.70	
Total	$	5,720	1.4%		
Target Retirement Funds					
Vanguard Target Retirement 2010 Trust II		7,289	1.8%		
Vanguard Target Retirement 2015 Trust II		30,134	7.3%		
Vanguard Target Retirement 2020 Trust II		56,630	13.8%		
Vanguard Target Retirement 2025 Trust II		60,889	14.8%		
Vanguard Target Retirement 2030 Trust II		60,933	14.8%		
Vanguard Target Retirement 2035 Trust II		57,088	13.9%		
Vanguard Target Retirement 2040 Trust II		44,884	10.9%		
Vanguard Target Retirement 2045 Trust II		32,939	8.0%		
Vanguard Target Retirement 2050 Trust II		17,735	4.3%		
Vanguard Target Retirement 2055 Trust II		4,518	1.1%		
Vanguard Target Retirement 2060 Trust II		430	0.1%		
Vanguard Target Retirement Income Trust II		2,228	0.5%		
Total	$	375,697	91.5%		
Equity Mutual Funds					
TIAA-CREF International Equity Index Fund Institutional		2,235	0.5%		
TIAA-CREF Social Ch Equity Institutional		360	0.1%		
Vanguard Institutional Index Fund		9,289	2.3%		
Vanguard Emerging Markets Stock Index Fund Admiral		1,853	0.5%		
Vanguard Mid-Cap Index Fund Admiral		4,180	1.0%		
Vanguard Small Cap Index Fund Admiral		3,631	0.9%		
Total	$	21,549	5.2%		
Total	$	410,776	100.0%		

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the plan 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, 2015, 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, 2015, 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, 2015, the carrying amount of the OPEB System's cash deposits was approximately $3,746,000 and the bank balance was $3,740,000. 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, 2015, the System's cash deposits were either federally insured or collateralized.

In addition, at June 30, 2015, the System also had cash equivalent investments consisting of approximately $2,281,000 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for 0.8% of the total investment in OSIP at June 30, 2015. 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 an 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, 2015 (expressed in thousands):

Investment Type	Fair Value
Money Market Mutual Fund	$ 4,832
US Government Securities	18,878
US Government Agency Securities	15,044
Corporate Bonds	14,552
Commingled Funds - Domestic Equity	92,038
	145,343
Net investment payable	(3,098)
Investments at Fair Value	$ 142,245

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, 2015 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
US Government Agency Securities	$ 15,044	3.52
US Government Securities	18,878	5.89
Corporate Bonds	14,552	6.51
Total Fixed Income	$ 48,473	4.86

The OPEB System's investment in Dreyfus Institutional Cash Advantage Fund, a money market mutual fund, had an average maturity of 67 days at June 30, 2015.

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, 2015 is as follows (expressed in thousands):

Rating(1)	US Government Agency Obligations	Corporate Bonds
Aaa	$ 15,044	$ 812
Aa		439
A		4,454
Baa		8,564
Ba		282
Fair Value	$ 15,044	$ 14,551

(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, 2015, 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 $2,655,000 in the Fidelity Balanced Fund as of June 30, 2015.

F. Agency Funds

As of June 30, 2015, all of the bank balances of Agency Funds were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

Note 3. Receivables

Receivables at June 30, 2015 (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	$ 490,197	$ 501,529	$ 3,800	$ 995,526	$ 178,773	$ 56,481
Less: Allowance for Uncollectibles	116,464	109,375	2,844	228,683		
Governmental receivables, net	373,733	392,154	956	766,843	178,773	56,481
Business-type receivables	79,682	28,928		108,610	1,272	
Less: Allowance for Uncollectibles	4,082	19,530		23,612		
Business-type receivables, net	75,600	9,398		84,998	1,272	
Receivables, Net of Allowance for Uncollectibles	449,333	401,552	956	851,841	180,045	56,481
Less: Current Portion						
Governmental receivables	367,447	384,646		752,093	166,977	4,683
Business-type receivables	75,600	9,398		84,998	1,272	
Noncurrent Receivables, Net	$ 6,286	$ 7,508	$ 956	$ 14,750	$ 11,796	$ 51,798

Note 4. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2015 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	$ 3,993	$	Operating expenses
Intermodal Surface Transportation	3,273		Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		647	Debt service and administrative costs
Bond Capital	605		State match for transportation
RI Capital Plan		4,527	Primarily for transportation State match
Certificates of Participation	178		Fees restricted for COPS debt service
Debt service		1,483	Debt service
Total Non-Major Funds	783	6,657	
Total Governmental Funds	8,049	6,657	
Proprietary Funds			
Enterprise			
RI Lottery		1,393	Net income owed to General Fund
RI Convention Center Authority	60		Project funding
Employment Security Trust	197		Benefit payments
Total Enterprise Funds	257	1,393	
Internal Service	955	1,211	Settlement of services rendered
Total primary government	$ 9,261	$ 9,261	

Note 5. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2015 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	$ 388,033	$ 5,251	$ (531)	$ 392,753
Works of Art	2,389	534		2,923
Intangibles	166,716	3,414		170,130
Construction in progress *	456,735	294,162	(229,688)	521,209
Total capital assets not being depreciated or amortized	1,013,873	303,361	(230,219)	1,087,015
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings	723,688	3,164	(4,881)	721,971
Building Improvements	270,378	9,541		279,919
Furniture and equipment	265,842	37,145	(8,090)	294,897
Intangibles	14,040			14,040
Infrastructure	3,747,835	206,715		3,954,550
Total capital assets being depreciated or amortized	5,025,483	256,565	(12,971)	5,269,077
Less accumulated depreciation or amortization for:				
Land improvements	3,473	28		3,501
Buildings	240,228	13,995	(3,340)	250,883
Building Improvements	191,291	8,953		200,244
Furniture and equipment	227,201	15,581	(8,038)	234,744
Intangibles	13,686	356		14,042
Infrastructure*	1,667,533	127,338		1,794,871
Total accumulated depreciation or amortization	2,343,412	166,251	(11,378)	2,498,285
Total capital assets being depreciated or amortized, net	2,682,071	90,314	(1,593)	2,770,792
Governmental activities capital assets, net	$ 3,695,944	$ 393,675	$ (231,812)	$ 3,857,807

* 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	$ 8,402
Human services	6,595
Education	4,983
Public safety	13,631
Natural resources	5,349
Transportation	127,291
Total depreciation or amortization expense - governmental activities	$ 166,251

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$ 1,250	$	$ 46,808
Construction in progress	44	170	(44)	170
Total capital assets not being depreciated	45,602	1,420	(44)	46,978
Capital assets being depreciated:				
Buildings	234,384	8		234,392
Machinery and equipment	30,145	1,551	(441)	31,255
Intangibles	175			175
Total capital assets being depreciated	264,704	1,559	(441)	265,822
Less accumulated depreciation for:				
Buildings	125,654	8,182		133,836
Machinery and equipment	22,613	2,158	(441)	24,330
Intangibles	40	25		65
Total accumulated depreciation	148,307	10,365	(441)	158,231
Total capital assets being depreciated, net	116,397	(8,806)		107,591
Business-type activities capital assets, net	$ 161,999	$ (7,386)	$ (44)	$ 154,569

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 119,474	$ 9,715	$ (6,338)	$ 122,851
Construction in progress	125,534	154,870	(104,613)	175,791
Other	250			250
Total capital assets not being depreciated or amortized	245,258	164,585	(110,951)	298,892
Capital assets being depreciated or amortized:				
Buildings	1,985,002	81,121	8,251	2,074,374
Land improvements	215,932	2,864	417	219,213
Machinery and equipment	415,241	27,399	(10,319)	432,321
Infrastructure	209,619	20,805	(500)	229,924
Total capital assets being depreciated or amortized	2,825,794	132,189	(2,151)	2,955,832
Less accumulated depreciation or amortization for:				
Buildings	740,292	64,440	(570)	804,162
Land improvements	124,914	5,307		130,221
Machinery and equipment	251,106	29,987	(7,128)	273,965
Infrastructure	62,675	8,218	(513)	70,380
Total accumulated depreciation or amortization	1,178,987	107,952	(8,211)	1,278,728
Total capital assets being depreciated or amortized, net	1,646,807	24,237	6,060	1,677,104
Total capital assets, net	$ 1,892,065	$ 188,822	$ (104,891)	$ 1,975,996

Note 6. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2015 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)	$ 1,074,750	$ 208,240	$ (260,095)	$ 1,022,895	$ 83,720	$ 939,175
RICC Grant Anticipation Revenue Bonds	279,030		(34,160)	244,870	40,080	204,790
RICC Rhode Island Motor Fuel Tax Revenue Bonds	62,525		(4,185)	58,340	4,375	53,965
Tobacco Settlement Asset-Backed Bonds	744,821	620,935	(649,555)	716,201	11,150	705,051
Accreted interest on TSFC bonds	101,654	11,166	(39,441)	73,379		73,379
RICC Historic Tax Credit Bonds	74,400	75,000	(17,010)	132,390	25,395	106,995
Net unamortized premium/discount	62,718	75,900	1,251	139,869		139,869
Bonds Payable, net	2,399,898	991,241	(1,003,195)	2,387,944	164,720	2,223,224
Obligation under capital leases (see section E)	207,595	49,495	(21,960)	235,130	25,830	209,300
Net unamortized premium/discount	16,611	6,653	(2,813)	20,451		20,451
Obligation under capital leases, net	224,206	56,148	(24,773)	255,581	25,830	229,751
Net pension liability (see note 13)	2,093,707		(176,538)	1,917,169		1,917,169
Net pension liability-special funding situation (see note 13)	1,121,734		(131,605)	990,129		990,129
Net OPEB Obligation (see note 14 C)	8,485	35		8,520		8,520
Job Creation Guaranty Program Obligation (see section H)	82,673		(18,576)	64,097	2,306	61,791
Compensated absences (see section K)	77,649	65,826	(65,575)	77,900	65,132	12,768
Special obligation notes (see section C)	5,110		(2,035)	3,075	1,700	1,375
Pollution remediation (see section I)	4,522	3,215	(2,238)	5,499	3,215	2,284
Other (see section N)	21,179	3,630	(16,414)	8,395	3,568	4,827
Total Governmental Long-term Liabilities	$ 6,039,163	$ 1,120,095	$ (1,440,949)	$ 5,718,309	$ 266,471	$ 5,451,838
Business-type Activities						
Revenue bonds (see section B)	$ 226,900	$ 31,900	$ (43,590)	$ 215,210	$ 11,330	$ 203,880
Net unamortized premium/discount	3,938	4,791	(2,164)	6,565		6,564
Revenue bonds, net	230,838	36,691	(45,754)	221,775	11,330	210,444
Net pension liability	14,626		(1,310)	13,315		13,315
Notes payable (see section C)	43		(43)			
Unearned Revenue	9,484	288	(1,656)	8,116	3,222	4,894
Compensated absences (see section K)	496	350	(340)	506	205	301
Due to Other Governments and Agencies (see Section J)	52,024	20,559	(72,583)			
Total Business-type Long-term Liabilities	$ 307,511	$ 57,888	$ (121,686)	$ 243,712	$ 14,757	$ 228,954
Component Units						
Bonds payable (see section B)	$ 2,071,339	$ 222,350	$ (333,283)	$ 1,960,406	$ 64,221	$ 1,896,185
Net unamortized premium/discount	15,323	216	(2,299)	13,240	744	12,496
Bonds Payable, net	2,086,662	222,566	(335,582)	1,973,646	64,965	1,908,681
Notes payable (see section C)	107,901	310,500	(276,451)	141,950	124,775	17,175
Loans payable (see section D)	46,602	2,041	(1,034)	47,609	935	46,674
Obligations under capital leases	6,907	718	(1,393)	6,232	1,318	4,914
Net pension liability	261,102	3,785	(22,531)	242,356		242,356
Net OPEB obligation	54,462	7,172	(6)	61,628		61,628
Compensated absences (see section K)	32,355	883	(1,727)	31,511	9,586	21,925
Due to primary government (see section M)	55,028	7,466	(6,012)	56,482	4,684	51,798
Unearned Revenue	20,117	9,101	(4,711)	24,507	8,878	15,629
Due to Component Units	1,586	1,729		3,315	1,935	1,380
Other Long-term liabilities						
Arbitrage rebate (see section L)	1,265		(239)	1,026		1,026
Pollution remediation (see section I)	19,821	1,363		21,184	1,213	19,971
Other liabilities (see section N)	309,483	19,131	(5,764)	322,850	9,287	313,563
Total Component Units Long-term Liabilities	$ 3,003,291	$ 586,455	$ (655,450)	$ 2,934,296	$ 227,576	$ 2,706,720

*as restated

Certain beginning balances have been reclassified to conform to the current financial statement presentation.

B. Bonds Payable

At June 30, 2015, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government - Governmental Activities Principal	Primary Government - Governmental Activities Interest	Primary Government - Business Type Activities Principal	Primary Government - Business Type Activities Interest	Component Units Principal	Component Units Interest
2016	$ 164,720	$ 95,663	$ 11,330	$ 11,638	$ 64,221	$ 75,736
2017	172,280	88,181	11,440	11,025	79,426	71,339
2018	168,245	80,200	11,110	10,463	81,264	68,781
2019	137,805	72,032	11,660	9,906	84,133	66,051
2020	135,060	65,701	12,240	9,312	78,654	63,087
2021 - 2025	500,995	243,424	77,030	35,983	418,781	267,704
2026 - 2030	300,915	145,913	51,355	15,355	397,941	184,199
2031 - 2035	138,160	89,100	29,045	5,487	326,849	107,879
2036 - 2040	67,615	66,665			266,715	50,721
2041 - 2045	146,985	50,968			109,862	22,141
2046 - 2050	121,130	30,283			45,095	5,132
2051 - 2055	120,786	1,608,984 *			7,465	205
	$ 2,174,696	$ 2,637,114	$ 215,210	$ 109,169	$ 1,960,406	$ 982,975

* 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, 2015 the State issued $46,125,000 of general obligation bonds with interest rates ranging from 0.42% to 5.00%, maturing from 2016 through 2035. $12,500,000 of these bonds are federally taxable. Also, the State issued $162,115,000 of refunding bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2015 through 2028. These bonds, combined with the premium of $35,565,000, were used to advance refund $174,180,000 of bonds with interest rates from 4.00% to 6.00% and maturities from 2016 to 2028. The refunding resulted in a reduction of debt service of $17,821,000 and an economic gain (difference between the present value of the debt service payments on the old and new debt) of $16,168,000. A deferred loss on the refunding of approximately $19,694,000 was recorded.

At June 30, 2015, general obligation bonds authorized by the voters and unissued amounted to approximately $392,100,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved, unless extended by the General Assembly.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years: (1) Energy Conservation Certificates of Participation - $11,950,000 (2) Nursing Education Center Debt - $36,000,000, and (3) Garrahy Courthouse Garage - $45,000,000.

Historic Tax Credit Bonds - In fiscal years 2009 and 2015 the R.I. Commerce Corporation (RICC), on behalf of the State, issued $150,000,000 and $75,000,000, respectively, of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. 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 $131,200,000 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. 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 2015 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 Financing Corporation – The TSFC had previously issued $685,390,000 of Tobacco Settlement Asset-Backed Bonds (2002 Series) and $197,005,742 of additional Tobacco Settlement Asset-Backed Bonds (2007 Series). The bond proceeds were used to purchase the State's future rights in the Tobacco Settlement Revenues (TSRs) under the Master Settlement Agreement and the Consent Decree and Final Judgment (the "MSA"). The 2007 series bonds are Capital Appreciation Bonds, on which no periodic interest payments are made, but which are issued at a deep discount from par and accreting to full value at maturity in the year 2052.

The bonds were subject to early redemption provisions, in whole or in part, at the redemption price of 100% of the principal amount plus accrued interest, without premium.

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

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

The proceeds along with other sources were used to refund (and subsequently redeem in April 2015) all the remaining balance, $547,815,000, of the 2002 Series bonds and repurchase and retire $76,220,155 of the 2007 Series bonds. This resulted in a cash flow savings of $1,283,693,000 and an economic gain of $369,823,000. In addition, a portion of the proceeds and other resources were used to pay $31,342,127 to the State and $5,000,000 to the RI Clean Water Finance Agency, a related organization of the State. A deferred gain on refunding of debt in the amount of $33,589,000 is reflected as a deferred inflow of resources in the accompany Statement of Net Position. The proceeds from the early termination of the investment contracts for the 2002 Series bonds were included in the determination of the deferred amount on refunding.

Reserve accounts in the amount of $26,700,250 for the Series 2015A bonds and $12,175,975 for the Series 2015B bonds were established. The TSFC is required to maintain these reserve accounts to the extent of available funds. Amounts on deposit with the trustee in the reserve accounts are available to pay (i) the principal of, sinking fund installments of and interest on the Series 2015A and Series 2015B bonds to the extent revenues are insufficient for such purpose and (ii) upon the occurrence of an event of default, extraordinary prepayments. Unless an event of default has occurred, amounts withdrawn from the reserve accounts will be replenished from revenues.

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

Primary Government - *Business-Type Activities*

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2015, outstanding bond indebtedness totaled $215,210,000.

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 RICCA and the State covering all property purchased by 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.

During April, 2015, RICCA issued Refunding Revenue Bonds 2015 Series A, in an aggregate amount of $31,900,000 for the purpose of refunding RICCA's outstanding Refunding Revenue Bonds, 2005 Series A and refunding a portion of RICCA's outstanding Refunding Revenue Bonds 1993 Series B and to pay costs of issuance. The final principal and interest payment for the 1993 Series B occurred on May 15, 2015. The refunding bonds mature between 2015 and 2023 and bear interest at rates ranging from 2.00% to 5.00%. This refunding resulted in savings of debt service of approximately $5,651,000 with an economic gain of approximately $5,298,000.

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 RICCA's Bond Resolutions contains certain restrictive covenants. During fiscal year 2015, 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 total appropriations from the Rhode Island Capital Plan Fund (RICAP) of $6,475,000 for the purpose of funding the renewal and replacement requirement included in the 2006 Series A Bonds (DDC), and $5,500,000 for the purpose of funding renovations and repairs to the Convention Center.

The RICAP agreement continues not only as originally planned through June 30, 2018, but at June 30, 2015 is ongoing and additionally includes the Veterans Auditorium (Vets) - post renovation. 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 2019, with a subsequent increase to $1,850,000 through fiscal year 2021 (the current six year Capital Plan). Under the agreement for the Convention Center, RICCA was authorized to receive funding of $500,000 in fiscal year 2013, $1,000,000 in fiscal year 2014, $1,000,000 in fiscal year 2015, and will receive annual appropriations of $1,000,000 through fiscal year 2021. Under the agreement for the Vets, post renovation, RICCA was authorized to receive $250,000 through fiscal year 2021. Any unexpended funds from one fiscal year will be recommended to be re-appropriated to the subsequent fiscal year. During fiscal year 2015, RICCA received appropriations for the DDC totaling $26,334 and for the Convention Center totaling $552,443, which both included carryover funding from the prior fiscal year.

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, 2015 revenue bonds outstanding were approximately as follows: URI - $219,060,000, RIC - $17,070,000, and CCRI - $2,500,000.

R.I. Airport Corporation

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

Per its Master Indenture of Trust and Supplemental Indentures, RIAC has pledged net revenues derived from the operation by RIAC of the Airport and certain general aviation airports to repay approximately $241,329,000 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, were approximately $36,860,000 for the year ended June 30, 2015. Principal and interest payments for the year ended June 30, 2015 were approximately $20,950,000.

In March 2015, RIAC issued $42,980,000 of Series A Direct Placement Airport Revenue Refunding Bonds, which, along with a cash paydown of $6,598,000, enabled the defeasance of $48,625,000 in 2004 Series A General Airport Revenue Refunding Bonds. The 2015 Series A refund issue matures annually from 2015 through 2024 with interest coupons at 2%. RIAC's defeasance of the 2004 Series A Bonds resulted in economic present value savings of $5,884,000, or 12% of the refunded bonds. The cash savings of the difference was approximately $7,105,000. The refunding resulted in a deferred loss on refunding in the amount of approximately $1,659,000, which is included in the Deferred Outflows of Resources in the statements of net position.

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, for which the I-195 RDC is the obligor. The 2013 Series A Bonds mature in April 2033 and bear interest at the lesser of the 30-Day London InterBank Offered Rate (LIBOR) (0.184% at June 30, 2015) plus applicable margin, or 7.75%. Applicable margin is the rate that corresponds to the lesser of the two long-term bond ratings of the State from Moody's Investors Service (Moody's) and Standard & Poor's (S&P) in the following table:

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

At June 30, 2015, the State's general obligation bonds were rated AA and Aa2 by S&P and Moody's, respectively. As such, at June 30, 2015, the 2013 Series A Bonds bore interest at 1.184%.

Concurrently with the issuance of the 2013 Series A Bonds, RICC issued Economic Development Bonds, 2013 Series B (federally taxable), in the aggregate principal amount of $960,000, for which the I-195 RDC is the obligor. The 2013 Series B Bonds mature in April 2019 and bear interest at the lesser of the 30-Day LIBOR (0.184% at June 30, 2015) plus the lesser of the two long-term bond ratings of the State from Moody's and S&P in the following table:

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

Based on the State's most recent bond ratings, the 2013 Series B bonds bore interest at 1.334% at June 30, 2015.

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

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

Concurrently with the issuance of the 2013 Series A and B Bonds, the State entered into a separate Rate Cap Agreement with the Bank for each bond series (the 2013 Series A and B Rate Cap Agreements), Under the terms of the 2013 Series A Rate Cap Agreement, the State paid the Bank $658,500. In exchange, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.184% at June 30, 2015) to the extent 30-Day LIBOR exceeds the interest rate cap on the notional amount, which mirrors the scheduled principal balance of the 2013 Series A Bonds through April 1, 2023. The interest rate under the 2013 Series A Bonds Rate Cap Agreement is capped at 6.75%. Under the terms of the 2013 Series B Rate Cap Agreement, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.184% at June 30, 2015) to the extent 30-Day LIBOR exceeds the interest rate cap on the notional amount, which mirrors the scheduled principal balance of the 2013 B Bonds through April 1, 2019. The State made no payment to the Bank under the terms of the agreement. The interest rate under the 2013 Series B Rate Cap Agreement is capped at 6.85%. At June 30, 2015, the fair value of the 2013 Series A and B Cap agreements was $158,984, which is estimated as the amount the Bank would receive to terminate the Rate Cap Agreements at the reporting dates, taking into account current interest rates and the current credit worthiness of the counter parties.

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

The I-195 RDC has pledged and granted to RICC a security interest, which has been assigned to the bond trustee, in all pledged receipts and all deposits in the bond, project, expense, and credit facility funds established with the bond trustee. To the extent that the I-195RDC has insufficient funds to meet its payment obligations under the bonds, it shall seek appropriations from the State; however, there are no assurances that the State will appropriate amounts to fund the I-195RDC's payment obligations.

R.I. Turnpike and Bridge Authority

In 2010 the RI Turnpike and Bridge Authority (RITBA) issued $50,000,000 of series 2010A Revenue Bonds. The proceeds of the Series 2010A Bonds are being used to finance the renovation, renewal, repair, rehabilitation, retrofitting, upgrading, and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge, and other such activities as are authorized under the Authority Act authorizing the issuance of the bonds. The Series 2010A Bonds are fixed-rate bonds bearing interest at rates ranging from 3.5% to 5%, payable semi-annually on December 1 and June 1. Principal repayments of the bonds are due annually commencing December 1, 2018, with the final payment due on December 1, 2039. The Series 2010A Bonds maturing on or after December 1, 2021 are subject to redemption prior to maturity at the option of RITBA.

At June 30, 2015, RITBA had revenue bonds outstanding with principal amounts totaling $59,015,000. The State has authorized RITBA to issue approximately $68,000,000 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, 2015 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.	$	3,075

The special obligation note is subject to annual appropriation by the General Assembly. The note payable to a financial institution is being 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 2015 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, 2015 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.	$	1,240
R.I. Resource Recovery note payable to the host municipality with an interest rate of 1.4%, payable in equal installments over the next 13 years.		1,393
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 0.31% to 6.25% interest, payable through 2043.		79,272
R.I. Turnpike and Bridge Authority Bond Anticipation Note maturing on February 1, 2016 at interest at the thirty-day London InterBank Offered Rate (LIBOR) plus an applicable margin rate based on RITBA's debt rating payable monthly.		60,000
R.I. Airport Corporation note payable at 4.15% interest, payable through 2016		45
		141,950
Less: current portion		(124,775)
	$	17,175

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 InterLink Facility Project. RIAC was permitted under the Agreement to make requisition of funds for eligible project costs through fiscal year 2013. RIAC began making monthly payments of interest in fiscal year 2012, with interest at a rate of 5.26%. Payments are made on behalf of RICC (the borrower per the Agreement), and debt service payments commenced in fiscal year 2012 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink. As of June 30, 2015, RIAC had approximately $41,541,000 in borrowings under this agreement.

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 $807,000, $5,183,000, and $78,000, 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, 2015 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.

During the year, the State issued the following capital leases:

- $11,650,000 Series 2014A Pastore Center Energy Conservation Project with interest rates ranging between 0.50% and 5.00% and maturities from 2016 to 2025.
- $7,465,000 Series 2014B Rhode Island College Energy Conservation Project with interest rates ranging between 2.00% and 5.00% and maturities from 2018 to 2030.
- $30,380,000 Series 2014C Information Technology Project with interest rates ranging between 0.50% and 5.00% and maturities from 2016 to 2025.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2015:

Fiscal Year Ending June 30	Total
2016	$ 36,197
2017	36,298
2018	31,120
2019	31,232
2020	31,353
2021 - 2025	111,233
2026 - 2030	14,768
Total future minimum lease payments	292,201
Amount representing interest	(57,071)
Present value of future minimum lease payments	$ 235,130

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

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

F. Defeased Debt

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

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, was reactivated and 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 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 a new escrow account and are irrevocably held in trust and pledged as collateral for the loan and will be used to pay principal and interest payments on the bank loan as they come due. As a result of this transaction, after paying costs of issuance, RIRBA transferred to the State approximately $1.5 million which was used as a resource in fiscal year 2015.

As sufficient investments are held in trust to repay the loan, it has been treated as a defeased debt obligation and is not reflected in the accompanying financial statements as of June 30, 2015.

At June 30, 2015, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 271,555
Certificates of Participation	46,545
RI Refunding Bond Authority	22,926
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	83,915
R.I. Commerce Corporation	5,710
R.I. Turnpike and Bridge Authority	9,156

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, 2015 was $51,000,000 and $896,000,000 respectively, for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 12.

H. 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, 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 RICC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, RICC has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation by the General Assembly. The General Assembly may, but is not required to, appropriate such amounts.

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

It is estimated that the total remaining debt service on the bonds, after considering any existing reserves held by the trustee, will be approximately $74.3 million. The maturity dates on the bonds range from 2015 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 2016 enacted budget includes an appropriation of $12.5 million which will be used to pay the principal and interest on the bonds due in fiscal year 2016.

In November 2012, RICC sued various individuals and entities involved with the loan to 38 Studios including principals of 38 Studios, former employees of RICC and various advisors to RICC alleging fraud, negligence, breach of fiduciary duty and other charges. The suit 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 was used to pay a portion of the fiscal year 2015 debt service.

In addition, subsequent to June 30, 2015, a Rhode Island Superior Court ruling upheld a settlement entered into by RICC with four named defendants in connection with Rhode Island Economic Development Corporation v. Wells Fargo, et al., pending in Providence Superior Court. The settlement will result in the gross payment of $12,500,000. After payments of fees, costs and expenses, the net amount from the settlement is expected to be approximately $9,900,000 and will be paid to Bank of New York Mellon Trust Company, N.A., for the benefit of the bondholders of the "Rhode Island Economic Corporation's Job Creation Guaranty Program series 2010 (38 Studios LLC Project)" bonds.

The State has recorded a liability of $64.1 million relating to its moral obligation to the 38 Studios bondholders under the JCGP at June 30, 2015. This amount represents the current estimate of the amount of probable loss by the State and considers funds actually recovered as a result of the litigation discussed above. The $64.1 million, although recorded as a liability for financial statement purposes, is still subject to annual appropriation by the General Assembly. The estimated liability will be reduced in future years as the related debt is extinguished.

To the extent there are additional recoveries resulting from the lawsuit, such amounts, net of legal fees and other costs, 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.

The General Assembly repealed the authority for 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, 2015, 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 was payable on October 1 of each year. Additional amounts borrowed and the amounts outstanding were 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 7. Net Position/Fund Balances

Governmental Activities

Restricted Net Position

The Statement of Net Position-Governmental Activities reflects $841.8 million of restricted net position, of which $285.8 million 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	185,446			185,446
Purposes specified by enabling legislation	134,231			134,231
Debt Service		20,305	52,374	72,679
Capital Projects			252,938	252,938
Temporary Disability Insurance			151,572	151,572
Historic Tax Credit Redemption			73,132	73,132
Transportation-Infrastructure		84,955		84,955
Mission 360 Loan Program		1,701		1,701
Education			1,781	1,781
Other			701	701
Committed to:				
Transportation-Maintenance		7,001	90	7,091
Other	2,561			2,561
Assigned to:				
Subsequent Years Expenditures	126,242			126,242
Other	4,722		25,022	29,744
Unassigned:	48,685	(1,486)		47,199
Totals	$ 501,887	$ 112,476	$ 557,784	$ 1,172,147

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 2015, 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.

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

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

Note 8. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts and net of estimated refunds. Tax revenue on the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds is reported net of estimated refunds, uncollectible amounts and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred 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	$ 1,225,561	$ 1,221,754
General Business Taxes:		
Business Corporations	147,158	148,112
Public Utilities Gross Earnings	103,950	103,890
Financial Institutions	22,743	22,752
Insurance Companies	114,983	114,920
Bank Deposits	2,260	2,260
Health Care Provider Assessment	44,125	44,130
Sub-total - General Business Taxes	435,219	436,064
Sales and Use Taxes:		
Sales and Use	963,452	963,300
Motor Vehicle	49,117	49,108
Motor Fuel	(125)	(122)
Cigarettes	138,045	138,132
Alcoholic Beverages	18,363	18,363
Sub-total - Sales and Use Taxes	1,168,852	1,168,781
Other Taxes:		
Inheritance and Gift	34,202	34,047
Racing and Athletics	1,107	1,107
Realty Transfer	9,493	9,493
Sub-total - Other Taxes	44,802	44,647
Total - General Fund	2,874,434	2,871,246
Intermodal Surface Transportation Fund		
Gasoline	146,007	146,007
RI Highway Maintenance	12,700	12,700
Other Governmental Funds	176,982	176,982
Total Taxes	$ 3,210,123	$ 3,206,935

Note 9. Transfers

Transfers for the fiscal year ended June 30, 2015 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 58,459	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,820	Administrative cost
Historic Tax Credit	8,126	Tax credits claimed
Bond Capital	433	Interest earnings transfer
RI Capital Plan	6	Capital expenditures
Business-Type Activities		
Lottery	381,936	Net income transfer
Employment Security	163	Administrative cost
Intermodal Surface Transportation		
General Fund	2,380	Infrastructure funding
Bond Capital	4,837	Infrastructure funding
RI Capital Plan	18,861	Infrastructure funding
Nonmajor Funds		
COPs		
General	2,028	Debt service
RI Capital Plan		
General	102,541	Transfer statutory excess in budget reserve
Bond Capital	6,375	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,686	Operating assistance
Debt Service		
RI Refunding Bond Authority	1,527	Debt service
Tobacco Settlement Trust		
Tobacco Settlement Financing Corporation	31,342	Operating transfer
Total Governmental Activities	622,520	
Business-Type Activities		
Convention Center		
General	20,976	Debt service
RI Capital Plan	583	Capital Improvement
Employment Security		
General	15,350	Debt service
Total transfers primary government	$ 659,429	

Note 10. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $14,023,000 for the fiscal year ended June 30, 2015. 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, 2015:

Fiscal Year Ending June 30	
2016	$ 11,712
2017	5,186
2018	4,531
2019	4,232
2020	1,899
2021 - 2025	3,516
Total	$ 31,076

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

Note 11. Commitments

Primary Government

The primary government is committed at June 30, 2015 under various contractual obligations for transportation infrastructure improvements, construction and renovation of buildings, software development and implementation, and other capital projects which will be principally financed with debt proceeds, Rhode Island Capital Plan Funds and federal grants.

At June 30, 2015, the primary government had transportation infrastructure design, construction and other contract commitments of $410.8 million, and contract commitments for the design, construction and renovation of buildings, and certain improvements to land of $26.2 million. At June 30, 2015, the primary government had software development and implementation contract commitments of $77.7 million. These amounts include only purchase orders and related amendments generally processed through June 30, 2015. The State is also committed under multiple contracts for services which are not included in these commitment amounts.

The R. I. Public Rail Corporation (RIPRC), a special revenue fund, has obtained a letter of credit in the amount of $7.5 million in favor of AMTRAK to secure RIPRC's performance of its obligations arising under any South County Rail Service agreements. 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.

Performance-based Agreements

The R.I. Commerce Corporation (RICC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer through fiscal year 2021 of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3.7 million in the first five years and $3.6 million in years 6 through 20. In the year ended June 30, 2015, $3.6 million was paid to the developer.

RICC has issued economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State paid $3.2 million of the debt on the related economic development revenue bonds in fiscal year 2015. The State has commitments relating to this debt through fiscal year 2027.

Rhode Island Lottery – Master Contract Agreements

Gaming Systems Provider - GTECH

In May 2003 the Lottery 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. International Game Technology (IGT) and GTECH merged in April 2015, and all contractual requirements remain separate.

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 2015, Twin River was authorized and issued approximately $38 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 (61.04% for fiscal year 2015). 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 has been amended to reflect 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. Legislation increased the percentage of net terminal income by 2.25% effective July 1, 2013, and expiring June 30, 2015. Recent legislation increased the percentage of net terminal income by 1.9% to be used for approved marketing expenses at Newport Grand.

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 2015, Newport Grand was authorized and issued approximately $5.5 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 thousand multiplied by the Lottery's percentage of net terminal income (59.41% for fiscal year 2015). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred $560 thousand in qualified marketing expenses (with marketing expenses to be defined by the Lottery).

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 Protection Zone, and an airport service road. Approximately $12.911 million was expended in fiscal year 2015 and construction is expected to be complete by December 2017.

In addition, RIAC is constructing a Deicer Management System. In fiscal year 2015, approximately $12.906 million was expended on the Deicer Management System. The project includes online monitoring and diversion of deicing storm water 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, 2015, RIAC is obligated for the completion of certain airport improvements under commitments of approximately $31 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 $39.2 million 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, 2015, remaining commitments on these contracts total $13.324 million.

During 2015, R.I. Turnpike and Bridge Authority entered into contracts totaling $26.751 million for steel repairs and the placement of the median barrier on the Claiborne Pell Bridge, which is expected to take over a year to complete. As of June 30, 2015, remaining commitments on these contracts total $21.567 million.

University of Rhode Island

At June 30, 2015, the University had outstanding commitments for the construction and remodeling of its buildings of approximately $20.857 million.

Rhode Island College

At June 30, 2015, the College had outstanding commitments for the construction and remodeling of its buildings of approximately $1.608 million. The College awarded a $4.553 million contract for the construction of an addition to its Life Sciences building on July 30, 2015.

R.I. Resource Recovery Corporation

<u>Landfill closure and post-closure:</u>

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 RIRRC has been segregated into six distinct phases. Phases I, II and III were closed by RIRRC in prior years, while Phase IV reached capacity during fiscal year 2012, with final capping completed during fiscal year 2014. In 2005, RIRRC began landfilling in Phase V. As of June 30, 2015 RIRRC has not begun landfilling in phase VI.

A liability for closure and post-closure care of $64.271 million as of June 30, 2015 has been recorded in the statement of net position, as summarized by Phases below:

	Year ended June 30, 2015
Phase I	$ 9,903,198
Phase II and III	6,099,179
Phase IV	10,781,865
Phase V	37,486,467
	$ 64,270,709

Phase VI has been licensed by RIDEM; however it is not open to receive waste as of June 30, 2015.

As of June 30, 2015, 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	$ 4,005,471	90.35%	9 months

As of June 30, 2015 RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a $4.519 million increase of the corresponding liability from $80.936 million at June 30, 2014 to $85.455 million at June 30, 2015 and was primarily attributable to improved leachate flow data.

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, 2015 is $41.731 million placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. 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, 2015 is as follows:

Balance, June 30, 2014	Additions	Reductions	Balance, June 30, 2015	Current Portion
$ 19,821,265	$ 1,362,979	$ 0	$ 21,184,244	$ 1,213,298

Superfund site:

In prior years, the EPA issued administrative orders requiring RIRRC to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, RIRRC entered into a Consent Decree with the EPA concerning remedial actions taken by RIRRC for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of $27 million for remedial purposes. The balance of the trust fund totaled $42.588 million as of June 30, 2015.

In 2004, RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. RIRRC has recorded a liability for future remediation costs of approximately $21.184 million as of June 30, 2015.

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under various contracts in the amount of $3.033 million at June 30, 2015.

Other Component Units

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

Note 12. Contingencies

Primary Government

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

Challenges to Pension Reforms

Various legal challenges to enacted pension reforms initiated in recent years were settled in 2015. To carry out the settlement, the Rhode Island General Assembly passed legislation amending the Rhode Island Retirement Security Act ("RIRSA"), which was enacted into law on June 30, 2015 and which became generally effective July 1, 2015 ("New RIRSA"). On July 8, 2015, the Court entered final judgment. Four *pro se* appeals have been filed with respect to the final judgment. In addition, 65 public safety employees and 70 retirees have, through counsel, filed appeals. The appeals in the case do not affect the implementation of New RIRSA.

Several other legal challenges to RIRSA, which were not encompassed by the settlement, were dismissed without prejudice on the grounds that because RIRSA was amended by New RIRSA, the plaintiffs' claims were moot.

A lawsuit commenced by the Rhode Island Trooper's Association challenging the constitutionality of the RIRSA (prior to the amendments) remains outstanding. The benefits at issue are those to be paid from the State Police Retirement Benefits Trust.

Finally, on October 28, 2015, a retired state employee filed a charge of discrimination in the Rhode Island Commission for Human Rights alleging, *inter alia*, that she was discriminated against on the basis of her age through the enactment of the RIRSA. The State has responded and requested that the charge be dismissed because, *inter alia*, it is barred by the doctrine of *res judicata*.

The State intends to vigorously defend these matters and cannot presently estimate any potential loss, if any.

United States v. RIDOC

The Department of Justice (DOJ) filed a federal civil rights action against the RI Department of Corrections (DOC or the State) on February 10, 2014 alleging a disparate impact in the selection process of entry level corrections officers for the time period of 2000 through 2014. The DOJ claims that the DOC has engaged in an unintentional pattern or practice of employment discrimination against African Americans and Hispanics through use of testing procedures used during the selection process for admission to the Training Academy for entry-level Correctional Officer positions. The DOJ is seeking injunctive relief, which would enjoin the DOC from using these examinations in the screening and selection process, and (among other measures) may seek "make whole" relief for individuals who were not hired as a result of the use of these examinations. This may involve relief in the form of back pay, seniority hiring, benefits, and retroactive hiring reaching back to 2000. The State's Motion to dismiss the individual "make whole relief" sought by the United States and limit the State's potential liability was denied. The State's interlocutory appeal was denied by the District Court. Following settlement/mediation discussions, the DOC provided the DOJ with a counter settlement offer; the DOJ countered again. The parties are currently assessing whether further mediation is possible. Discovery continues to proceed.

Cassie M. et al. v. Chafee, EOHHS, and DCYF

Children's Rights Incorporated (CRI) brought suit against the Governor, Secretary of EOHHS, and the Director of DCYF in their official capacities (the State) in 2007. The then R.I. Child Advocate sought to put the State's foster care program administered by DCYF and EOHHS under federal court supervision through a class action seeking prospective relief. The State's second Motion to Dismiss was granted in part and denied in part in 2011. The U.S. District Court ordered mediation in the fall of 2011 and again in 2013 that was not successful. After mediation failed, the Court determined that, instead of considering dispositive motions, the

Court would hold a trial on the claims of the named Plaintiffs before reaching the issue of whether the case should continue by certifying a class. The trial of the individual claims of two remaining named Plaintiffs began on November 12, 2013. On January 9, 2014, after a sixteen day trial, Plaintiffs rested and the State promptly moved the Court to enter judgment on the record for all claims in the case. On April 30, 2014, the Court issued a Decision granting the State's motion, and Judgment entered on the same day in favor of the State dismissing the case. The First Circuit Court of Appeals reversed the dismissal and returned the case to the Court. Children's Rights Inc. has added four new Plaintiff children and has submitted its Fourth Amended Complaint. Discovery has commenced. Plaintiffs filed a Motion for Summary Denial which the State objected to. After a period of fact and expert discovery the parties will have a hearing on class certification, and dispositive motions.

RI Department of Transportation (RIDOT) Consent Decree with the EPA

The RIDOT has entered into a Consent Decree with the EPA concerning violations of the Clean Water Act by failing to comply with the conditions in the General Permit – Rhode Island Pollutant Discharge Elimination System Storm Water Discharge from Small Municipal Separate Storm Sewer Systems. The Consent Decree was lodged with the U.S. District Court on October 15, 2015 and is pending final approval by the Court. The Consent Decree requires RIDOT to implement remedial actions necessary in order to address discharges to impaired waters, illicit discharge detection and elimination, street sweeping pollution prevention and catch basin and other drainage system component inspection and maintenance. In addition to the remedial measures that must be implemented by RIDOT, upon approval by the Court RIDOT has agreed to pay a civil penalty in the amount of $315 thousand and complete two supplemental environmental projects that require the transfer of certain parcels of land for conservation purposes which have a value of $77 thousand and $157.6 thousand respectively. The Consent Decree also incorporates stipulated penalties for RIDOT's failure to meet specific compliance deadlines.

Other

The State was sued by an individual, who became a quadriplegic after diving into a pond at Veterans Memorial Park in Woonsocket. After the trial, a verdict was rendered for the State and two years later a motion for a new trial was granted. During the trial, the Plaintiff asserted damages in excess of $70 million, including over $2 million in past medical expenses and approximately $9 million in future expenses. The State has appealed the grant of the new trial and the denial of other motions, and intends to continue to contest this case. The case will likely be argued in the 2015-2016 judicial term.

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 loss of market share of more than two percent as compared to their collective market share in 1997, there is the potential of a Non-Participating Manufacturer Adjustment ("NPM Adjustment"), which would permit the tobacco manufacturers to reduce their MSA payments for that year. Whether such an adjustment is applicable depends on whether (1) an economic firm jointly selected by the Settling States and the PMs determines that the disadvantages experienced by the PMs as a result of the provisions of the MSA were a "significant factor" contributing to the market share loss ("Significant Factor Proceeding"); and (2) the State is found to not have diligently enforced its escrow statute. For calendar years 2003, 2004, 2005 and 2006, there have been four Significant Factor Proceedings in which the firm found in favor of the PMs. There will not be Significant Factor Proceedings for calendar years 2007, 2008, 2009, 2010, 2011, 2012, 2013 and 2014.

From April 2005 through April 2015, 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 total share of these disputed payments applicable to Rhode Island was $44.381 million at March 19, 2015 and $44.379 million at June 30, 2015.

Disputed payments funds received, if any, that relate to the balance at March 19, 2015 would be shared by the Corporation and the State in the following percentages: 70% to the Corporation and 30% to the State. The Corporation has agreed to use any disputed payment funds it receives to retire Series 2007 bonds.

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 calendar year 2003 ("2003 Dispute") (Rhode Island's Diligent Enforcement is no longer being challenged for 2003). 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.

Twenty-eight (28) MSA States and Territories ("States and Territories") have not accepted the terms of the Term Sheet, so the NPM Adjustment disputes between these States and Territories 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.

In addition to NPM Adjustment arbitration, litigation has been filed alleging, among other claims, that the MSA violates provisions of the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, and state consumer protection laws. These actions, if ultimately successful, could result in a determination that the MSA is void or unenforceable. The lawsuits seek to prevent the states from collecting any monies under the MSA, and/or a determination that prevents the tobacco manufacturers from collecting MSA payments through price increases to cigarette consumers. In addition, class action lawsuits have been filed in jurisdictions alleging violations of state Medicaid agreements. To date, no such lawsuits have been successful. The enforcement of the terms of the MSA may continue to be challenged in the future. In the event of an adverse court ruling, the Corporation may not have adequate financial resources to service its debt obligations.

Lottery

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

The Lottery's gaming operations currently compete with casinos in nearby Connecticut and Massachusetts. In addition, both neighboring States have already approved or are considering additional casino expansion likely to increase gaming competition in New England. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

The Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Rhode Island Superior Court on or about September 28, 2011, challenging, *inter alia*, the constitutionality of the Rhode Island Casino Gaming Act ("Act") on the grounds that it would not be "state-operated" and the Act "delegates unconstitutional authority to a private corporation." On or about June 29, 2012, the Rhode Island Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof beyond a reasonable doubt that the Act is facially unconstitutional. The Narragansett Indian Tribe filed a notice of appeal of that decision with the Rhode Island Supreme Court. On or about March 4, 2015, the Rhode Island Supreme Court issued a decision upholding the Superior Court. The remaining issues in the case relating to whether the State "operates" Twin River and Newport Grand facilities remain pending in the Superior Court.

In the event of default on an insurance annuity contract for a Rhode Island winner of the Lucky for Life® jackpot prize award, the Lottery may be contingently liable for any remaining prize amounts due the winner.

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, 2014 was issued in March 2015. That report identified approximately $2.2 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 2015 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bondholders. These bonds are considered "moral obligations" of the State when the General Laws require the executive director of the issuing agency to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget.

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

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) had $87.360 million outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to $26.180 million on June 30, 2015. Under the moral obligation provisions detailed in the preceding paragraph, upon request by the Governor, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. RIHMFC has never been required to request such appropriations. Such reserve funds relate solely to select multi-family issues of RIHMFC.

R.I. Commerce Corporation (RICC)

At June 30, 2015 in addition to the State's moral obligation under the Job Creation Guaranty Program (JCGP) for the bonds discussed in Note 6 H, certain bonds secured by RICC's capital reserve fund carry a moral obligation of the State. If at any time, certain reserve funds of RICC pledged fall below their funding requirements, a request will be made to the General Assembly to appropriate the amount of the deficiency. Additional outstanding moral obligations relating to these bonds total $26.5 million at June 30, 2015.

Component Units

R.I. Industrial-Recreational Building Authority

The R.I. Industrial-Recreational Building Authority (RIIRBA) is authorized to insure contractual principal and interest payments required under first mortgages and first security agreements issued to private sector entities by financial institutions and the Rhode Island Industrial Facilities Corporation (RIIFC), a component unit of the State, on industrial or recreational projects in the State up to a maximum of $60 million of outstanding principal balances under such insured mortgages and security agreements.

Losses, if any, are first payable from RIIRBA's available resources. The Authority must then request appropriations of the General Assembly for any losses in excess of insured amounts. The Authority's insurance guarantee is backed by the full faith and credit of the State.

At June 30, 2015, the Authority has insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by the Authority at June 30, 2015 are $11.335 million.

The Authority insures 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. At June 30, 2015, the Authority has determined that it is likely that it will incur a loss under the insured commitment. The Authority has accrued an insured commitment payable of $2.047 million equal to the estimated loss at June 30, 2015. No request has been made to the General Assembly at June 30, 2015 for appropriations to satisfy any liability under the insurance guarantee.

R.I. Higher Education Assistance Authority (RIHEAA)

In its 2015 session the Rhode Island General Assembly determined that the higher education financial assistance needs of Rhode Islanders will be better served by transferring all of the functions and programs handled by RIHEAA to the Rhode Island Division of Higher Education Assistance and the Office of the General Treasurer. The Division of Higher Education Assistance was established within the Office of the Postsecondary Commissioner to assume some of the duties of RIHEAA. In addition, the CollegeBoundfund® and CollegeBound Baby programs, which were previously managed by RIHEAA, were transferred to the General Treasurer.

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

As of June 30, 2015, RIHMFC may borrow up to a maximum of $90 million under various revolving loan agreements expiring between August 2015 and December 2016. Borrowings under the lines of credit are payable on demand and are unsecured.

RIHMFC is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose RIHMFC to credit risk in excess of the amounts recognized in the statements of net position. RIHMFC's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2015 is $86 million.

Other Component Units

Other component units have various contingent liabilities that have arisen in the normal course of their operations. These contingencies are not significant to the State's financial statements.

Note 13. Employer Pension Plans

A. Summary of Employer Plans

The State provides pension benefits for its employees through multiple retirement benefit plans as outlined below:

	Plan	Plan type	Covered employees	FY 2015 pension expense	Net pension liability at June 30, 2014 measurement date
A	Employees' Retirement System (*ERS*)	Cost-sharing multiple-employer defined benefit plan – advance funded through a trust	State employees excluding state police and judges		
			Governmental activities	$117,061,000	$1,585,647,000
			Business-type activities	$983,000	$13,315,000
			Special funding – teachers - state share (see Note Section 13-E.)	$68,829,880	$990,129,000
B	State Police Retirement Benefits Trust *(SPRBT)*	Single-employer defined benefit plan – advance funded through a trust	State Police hired after July 1,1987	$2,447,000	$3,339,000
C	Judicial Retirement Benefits Trust *(JRBT)*	Single-employer defined benefit plan -– advance funded through a trust	Judges appointed after December 31, 1989	$1,649,000	$3,762,000
D	RI Judicial Retirement Fund Trust *(RIJRFT)*	Single-employer defined benefit plan - – advance funded through a trust	Covers 7 active judges appointed prior to January 1, 1990	$1,335,000	$17,188,000
E	State Police Non-Contributory Retirement Plan *(SPNCRP)*	Single employer defined benefit – non trusteed – pay-as-you-go plan	State Police hired before July 1, 1987	$10,795,000	$253,580,000
F	Judicial Non-Contributory Retirement Plan *(JNCRP)*	Single employer defined benefit – non trusteed – pay-as-you-go plan	Judges appointed before January 1, 1990 who retired before July 1, 2012	$2,334,000	$53,653,000
G	LIUNA – union plan for members of the LIUNA bargaining units	Cost-sharing multiple employer defined benefit plan – “Taft-Hartley” non-governmental plan	Members of the LIUNA bargaining unit	Not applicable (see note below)	Not applicable (see note below)
H	ERS – Defined Contribution Plan	Multiple employer defined contribution plan	State employees subject to the “hybrid” defined benefit/defined contribution plan provisions	$5,368,000	Not applicable
I	FICA Alternative Retirement Income Security Program	Single employer defined contribution plan	State employees not eligible to participate in the State’s other defined benefit plans	Not applicable	Not applicable

Employer pension expense and related liabilities and deferred inflows/outflows for defined benefit plans A-D as identified above is recognized in the financial statements based on the provisions of GASB Statement No. 68, newly effective for fiscal 2015.

Employer pension expense and related liabilities and deferred inflows/outflows for defined benefit plans E and F as identified above is recognized in the financial statements consistent with the provisions of GASB Statement No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The State has early implemented this standard which affords similar accounting treatment to GASB Statement No. 68 for plans that are not specifically subject to the provisions of GASB Statement No. 68 because they are not provided through a qualifying trust. The State provides these benefits on a pay-as-you-go basis rather than through an advance funding arrangement and a qualifying trust.

The LIUNA sponsored, cost-sharing, multiple-employer pension plan (plan G) is not a state or local government pension plan. The State has early implemented GASB Statement No. 78 – *Pensions Provided though Certain Multiple-Employer Defined Benefit Pension Plans.* As there is no required employer contribution for covered employees, no employer pension expense reflected in these financial statements. Consistent with the requirements of GASB Statement No. 78, there is no recognition of an employer proportionate net pension liability, if any.

Pension expense recognized for the defined contribution plans (H and I) – is recognized based on actual employer contributions required and made during the fiscal year consistent with the requirements of GASB Statement No. 68 regarding defined contribution plans. There is no required employer contribution to the FICA Alternative Income Security Program.

Plan membership is summarized in the table below:

	Retirees and beneficiaries	*Terminated plan members entitled to but not yet receiving benefits*	*Active Vested*	*Active Non-vested*	*Total by Plan*
ERS - State Employees	11,103	2,898	8,652	2,649	25,302
SPRBT	26	25	42	208	301
JRBT	13	-	18	38	69
RIJRFT	0	0	7	0	7
JNCRP	58	0	0	0	58
SPNCRP	276	0	0	0	276

B. Defined Benefit Plan Descriptions – Advance Funded Plans

EMPLOYEES' RETIREMENT SYSTEM (ERS) - The ERS was established and placed under the management of the Retirement Board for the purpose of providing retirement allowances for employees of the State of Rhode Island under the provisions of chapters 8 to 10, inclusive, of Title 36, and public school teachers under the provisions of chapters 15 to 17, inclusive, of Title 16 of the Rhode Island General Laws.

Plan members - The plan covers most State employees other than certain personnel at the State colleges and university (principally faculty and administrative personnel). The plan also covers teachers, including superintendents, principals, school nurses, and certain other school officials in the public schools in the cities and towns. Membership in the plan is mandatory for all covered state employees and teachers. Elected officials may become members on an optional basis and legislators may participate if elected to office prior to January 1, 1995.

Certain employees of the Rhode Island Airport Corporation (hired before July 1, 1993), the Rhode Island Commerce Corporation (active contributing members and employees of the Department of Economic Development before October 31, 1995 who elected to continue membership) and, the Narragansett Bay Commission (members of a collective bargaining unit) are also covered and have the same benefits as State employees.

Plan vesting provisions – *after five years of service.*

Retirement eligibility and plan benefits – are summarized in the following table:

Schedule		Retirement Eligibility	Benefit accrual rates	Maximum benefit
(A)	Completed 10 years of service on or before July, 1, 2005 and eligible to retire as of September 30, 2009	Age 60 with 10 years of service or after 28 years of service at any age	Effective until June 30, 2012: 1.7% for each of first ten years 1.9% for each of next ten years 3.0% for each of next fourteen years 2% for the 35th year Effective July 1, 2012: 1.0% per year	80% of final average (3 consecutive highest years) earnings and 35 years of service
(AB)	Completed 10 years of service on or before July, 1, 2005 but ineligible to retire as of September 30, 2009	Minimum retirement age of 62 and ten years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Effective until June 30, 2012: Same accrual rates as (A) above to September 30, 2009 and then Schedule B rates (below) thereafter Effective July 1, 2012: 1.0% per year	80% of final average (5 consecutive highest years) earnings
(B)	Less than 10 years of service before July 1, 2005 and eligible to retire as of September 30, 2009	Age 65 with 10 years of service or after 29 years of service and age 59	Effective until June 30, 2012: 1.6% for each of first ten years 1.8% for each of next ten years 2.0% for each of next five years 2.25% for each of next five years 2.5% for each of next seven years 2.25% for the 38th year Effective July 1, 2012: 1.0% per year	75% of final average earnings (3 consecutive highest years) and 38 years of service
(B1)	Less than 10 years of service before July 1, 2005 and ineligible to retire as of September 30, 2009	Age 65 with ten years of service, or age 62 with at least 29 years of service with a downward adjustment of the minimum retirement age based on the years of service credit as of September 30, 2009	Same as Schedule B	75% of final average earnings (5 consecutive highest years) and 38 years of service
(B2)	Less than 5 years of service as of July 1, 2012	Social Security Normal Retirement Age not to exceed age 67 and 5 years of contributory service	1.6% for each of first ten years Effective July 1, 2012: 1.0% per year	75% of final average earnings (5 consecutive highest years) and 38 years of service

State correctional officers may retire at age 50 with 20 years of service. However, if not eligible to retire as of September 30, 2009, the minimum retirement age was modified to 55 with 25 years of service credit for correctional officers and registered nurses at the Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals.

The plan provides for survivor's benefits for service-connected death and certain lump sum death benefits.

Joint and survivor options are available to members. The Service Retirement Allowance (SRA) Plus option provides for the payment of a larger benefit before the attainment of age sixty-two (62) and a reduced amount thereafter. The reduced amount is equal to the benefit before age sixty-two (62), including cost-of-living increases, minus the member's estimated social security benefit payable at age sixty-two (62).

Vested members who have 10 or more years of contributing service credit on June 30, 2012, may choose to retire at a retirement eligibility date that was calculated as of September 30, 2009, if the member continues to work and make retirement contributions until that date. If the member chooses this option, their retirement benefits will be calculated using the benefit that they have accrued as of June 30, 2012 - members will accumulate no additional defined benefits after this date, but the benefit will be paid without any actuarial reduction.

State employees and public school teachers may retire with a reduced pension benefit if they have 20 years of service credit and they are within five years of their retirement date as prescribed in the Rhode Island Retirement Security Act (RIRSA). The actuarially reduced benefit will be calculated based on how close the member is to their RIRSA eligibility date.

Cost of Living Adjustments – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

Disability retirement provisions - The plan also provides nonservice-connected disability benefits after five years of service and service-connected disability pensions with no minimum service requirement. Effective for applications filed after September 30, 2009, accidental disability will be available at 66 2/3% for members who are permanently and totally disabled as determined by the Retirement Board. If the disability is determined to be partial and the member is able to work in other jobs, the benefit will be limited to 50%. Disability benefits are subject to annual review by the Retirement Board.

Other plan provisions - Service credit purchases, excluding contribution refund paybacks and military service, requested after June 16, 2009 are calculated at full actuarial cost.

Changes in plan benefits and contributions after June 30, 2015 - Changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in Note 18 – Subsequent Events.

JUDICIAL RETIREMENT BENEFITS TRUST (JRBT) - The Judicial Retirement Benefits Trust was established under Rhode Island General Laws 8-8.2-7; 8-3-16; 8-8-10.1; 28-30-18.1; and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to Justices of the Traffic Tribunal, Supreme, Superior, Family, District and Workers Compensation courts.

Plan members – The plan covers all Judges appointed after December 31, 1989.

Retirement eligibility and plan benefits – are summarized in the following table:

	Retirement benefit
Judges appointed after December 31, 1989 but before July 2, 1997	75% of the final salary at the time of retirement after 20 years of service, or 10 years of service and attainment of age 65. Judges retiring after 20 years of service after age 65 or 15 years of service after age 70 receive full retirement benefits, which is the final salary at time of retirement.
Judges appointed after July 2, 1997 but before January 1, 2009	Same as above, except salary is the average highest three (3) consecutive years of compensation rather than final salary.
Judges appointed after January 1, 2009 but before July 1, 2009	Judges with 20 years of service after age 65 or judges with 15 years of service after age 70 will receive 90% of the average of the highest three consecutive years of compensation. Judges appointed on or after January 1, 2009 with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 70% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 80% of the average highest three consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 60% of the average highest three consecutive years of compensation.
Judges appointed after July 1, 2009	Judges with 20 years of service after age 65 or with 15 years of service after age 70 will receive 80% of the average of the highest five consecutive years of compensation. Judges with 10 years of service and age 65 or 20 years of service at any age are entitled to a reduced benefit of 65% of the average highest five consecutive years of compensation. Judges designating a survivor benefit with 20 years of service and age 65 or 15 years of service and age 70 receive a reduced benefit equal to 70% of the average highest five consecutive years of compensation. Judges designating a survivor benefit with 10 years of service after age 65 or 20 years of service at any age receive a reduced benefit equal to 55% of the average highest five consecutive years of compensation.

Certain survivor benefits are also provided to judges who are plan members, which is 50% of the benefit amount payable to the judicial member.

Cost of Living Adjustments – *The* Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of age 55 or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

Changes in plan benefits and contributions after June 30, 2015 - Changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in Note 18 – Subsequent Events.

STATE OF RHODE ISLAND JUDICIAL RETIREMENT FUND TRUST (RIJRFT) - Effective July 1, 2012, under the direction of Rhode Island General Law 8-3-16, the retirement board established a trust to collect proceeds for the purpose of paying retirement benefits to participating judges or their beneficiaries.

Plan members – The plan covers seven (7) judges appointed prior to January 1, 1990. These members are active judges (as of June 30, 2012) appointed prior to January 1, 1990 who do not participate in the Judicial Retirement Benefit Trust. Prior to creating the trust, benefits for these members were intended to be funded on a pay-as-you-go basis. To the extent assets in the trust are insufficient to fund member benefits, the State would also fund retirement benefits on a pay-as-you-go basis as it does for sixty-five (65) retired judges and surviving beneficiaries who were not members of either judicial plan. The employee contribution rate is 12% of salary (except for members of the Supreme Court who contribute 8.75%).

Retirement eligibility and plan benefits – The plan generally provides retirement benefits for members who have served as a justice of the supreme court, the superior court, the family court, the district court, or any combination of them for 20 years and have reached the age of 65 years, or have served 15 years, and reached the age of 70 years may retire from regular service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement. Members of the traffic tribunal who served as a justice for 20 years, or have served for 10 years and reached age 65 years may retire from regular service and receive a benefit equal to the 75% of the annual salary at the time of retirement. However, any traffic tribunal judge who has served 20 years and has reached age 65 years, or has served for 15 years and has reached age 70 years may retire from active service and receive a benefit equal to the annual salary the justice was receiving at the time of their retirement.

Cost of Living Adjustments – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of the Social Security Normal Retirement Age or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed.

Changes in plan benefits and contributions after June 30, 2015 - Changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in Note 18 – Subsequent Events.

STATE POLICE RETIREMENT BENEFITS TRUST (SPRBT) - The State Police Retirement Benefits Trust was established under Rhode Island General Law Section 42-28-22.1 and was placed under the management of the Retirement Board for the purpose of providing retirement allowances to State Police.

Plan members – The plan covers all State Police and Superintendents hired after July 1, 1987.

Retirement eligibility and plan benefits – Prior to June 30, 2012 the plan generally provides retirement benefits equal to 50% of final salary after 20 years of service, plus 3.0% of final salary times service in excess of 20 years through 25 years to a maximum of 65% of final salary. Such benefits are available to members after 20 years of service regardless of age. The Superintendent of the State Police will receive 50% of his/her final salary and may retire after attainment of age 60 and 10 years of service.

The General Laws were amended such that any member of the state police, other than the superintendent, who is hired on or after July 1, 2007 and who has served for twenty-five (25) years shall be entitled to a retirement allowance of 50% of the final salary. In addition, any member may serve up to a maximum of 30 years and shall be allowed an additional amount equal to 3.0% for each completed year served after 25 years to a maximum retirement allowance not to exceed 65% of the final salary.

Benefits are based on the final base salary earned at retirement including longevity increment, holiday pay, clothing allowance and up to 400 overtime hours.

Effective July 1, 2012 state police officers are eligible to retire once they have accrued a retirement benefit equal to 50% of their whole salary, with mandatory retirement once they have accrued a retirement benefit equal to 65% of their whole salary. State police officers will earn a 2% accrual rate for each year of contributing service. Benefits will be calculated on the average of the highest five consecutive years of salary, including up to 400 hours of mandatory overtime service. Benefits accrued as of June 30, 2012 will be protected under the Rhode Island Retirement Security Act.

Cost of Living Adjustments – The Cost of Living Adjustment (COLA) has been suspended until the collective ERS, SPRBT, and JRBT plans reach a funded status of 80%. The COLA provision can be reviewed in a five-year interval. When the collective funding level of the plans exceeds 80%, eligible retirees may receive a

COLA annually effective on their date of retirement plus one month. The COLA will be calculated as the five (5) year smoothed investment rate of return less 5.50%, with a 0.00% floor and a 4.00% cap. COLA will be delayed until the later of age 55 or three years after retirement. The COLA will be applied to the first $25,000 of benefits indexed annually.

Disability retirement provisions - The plan provides nonservice-connected disability benefits after 10 years of service and service-connected disability pensions with no minimum service requirement.

Changes in plan benefits and contributions after June 30, 2015 - Changes to benefit or contribution provisions due to settlement of the pension litigation and subsequent enactment of those provisions by the General Assembly are summarized in Note 18 – Subsequent Events.

C. Defined Benefit Advance Funded Plans - Summary of Significant Accounting Policies

The Fiduciary Net Position presented for defined benefit plans which are advance funded and accounted for in a trust has been determined on a basis consistent with that used by the respective plans in preparing their financial statements. ERS issues a publicly available financial report that includes financial statements and required supplementary information for the plans. The report may be obtained at http://www.ersri.org. The plans' basis of accounting and accounting policies, including those related to benefit payments and valuation of plan investments is summarized below.

Basis of Accounting

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

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. ERSRI management considers the fair values reported by the general partners at June 30 in addition to the audited net asset values at December 31 adjusted for cash flows for the period January 1 to June 30 in determining the fair value of private equity and real estate investments on the financial statements of ERSRI.

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

Certain 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.

D. Defined Benefit Plan Descriptions – Non-Contributory (pay-as-you-go) Pension Plans

In addition to the defined benefit plans administered by the ERS, the State also administers two other non-trusteed single employer defined benefit pension plans that are closed to new members. The Judicial Non-Contributory Retirement Plan (JNCRP) provides retirement benefits to judges appointed before January 1, 1990 and who retired before July 1, 2012. The State Police Non-Contributory Retirement Plan (SPNCRP) provides retirement benefits to members of the State Police hired before July 1, 1987. Both plans were created by statute and have historically been funded by the State on a pay as you basis. Accordingly, no assets have been accumulated to pay benefits under these two non-trusteed plans.

Pension benefits paid under the JNCRP and SPNCRP are generally determined based on years of service at retirement and are payable to the retiree or their beneficiary. JNCRP members, in general, are eligible for full retirement benefits equal to their final annual compensation at age 65, if the member has served for 20 years, or at age 70 with 15 years of service. For SPNCRP members, in general, benefits are equal to 50% of salary after 20 years of service; for those who retired after July 1, 1972 an additional 3% annual increment is added until attaining a maximum benefit of 65% of salary after 25 years of service. Both plans have provisions that allow survivors, upon the death of the participant, to continue to receive a portion of the participant's benefit.

E. Special Funding Situation – ERS Plan – Teachers

The State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation. The total net pension liability for teachers covered by the Employees' Retirement System measured as of June 30, 2014 is approximately $2,434,000,000 and the State' share of the net pension liability is approximately $990,129,000. The State's share of the net pension liability for teachers has been allocated based upon the statutory contribution percentage and is reflected in the Statement of Net Position as of June 30, 2015 as Net Pension Liability-Special Funding Situation. Benefit provisions, contribution requirements, and other information related to the measurement and proportionate share of the net pension liability under a special funding situation for teachers are described in other sections of this Note relating to the ERS plan.

F. Contributions and Funding Policy

Contribution requirements for plan members and participating employers are established pursuant to the Rhode Island General Laws. With the exception of the RIJRFT, employers are required by statute to contribute at an actuarially determined rate for the respective defined benefit plans.

The fiscal 2015 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, 2012. The fiscal year 2015 actuarially determined contribution for the Judicial Retirement Fund Trust was also based on the actuarial valuation of that plan performed as of June 30, 2012. However, while members contribute to the RIJRFT, the State as employer has not opted to make contributions. The non-contributory judges (JNCRP) and state police (SPNCRP) plans are financed on a pay as you go basis.

A summary of the contribution rates by both the participating employers and members and the State's annual pension plan contributions (expressed in thousands) for the fiscal year ended June 30, 2015 is provided in the table below:

	ERS	JRBT	RIJRFT*	SPRBT	JNCRP	SPNCRP
Contribution:						
State	23.33%	28.32%	$1,623	17.24%	-	-
Plan members	3.75%	8.75% and 12.00%	8.75% and 12.00%	8.75%	-	-
State contribution for teachers	8.77% to 9.19%					
Contributions made for state	$138,689	$2,709	-	$3,432	$6,020	$17,512
Contribution made for teachers	$84,944					

*- Actuarially determined contribution not expressed as a rate.

ERS Plan Supplemental Contributions - The General Laws (Section 36-10-2(a) 1 and 2) also require, in addition to the contributions provided for by the funding policy, for each fiscal year in which the actuarially determined state contribution rate for state employees and teachers is lower than that for the prior fiscal year, the governor shall include an appropriation to that system equivalent to 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 2015, no contribution to the System was required in accordance with this provision of the General Laws.

The Retirement Security Act provides for additional contributions to the System based on 5.5% of the value of contracts where the services performed by the contractor were previously performed by state employees. A supplemental contribution of $414 thousand was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

Employer contributions to the defined contribution plan are also prescribed by statute. In addition, plan member contributions for both the defined benefit and defined contribution plans are set by statute. Member and employer contribution rates can be changed by the General Assembly.

ERS Plan Special funding situation for local teachers - the State is required by law to contribute 40% of the cost of providing retirement benefits for teachers covered by the Employees' Retirement System. Because the State deferred certain payments to the System in 1990/1991 and 1991/1992 the State's actual share of the total annual contributions is approximately 40.7%. Under GASB Statement No. 68, for teachers, the State is considered to be a non-employer contributing entity under a special funding situation.

G. Net Pension Liability

The net pension liability of the State and other participating employers in the Employees' Retirement System, a multiple employer cost-sharing plan, has been apportioned based on the percentage share of total contributions made by each employer in fiscal year 2014.

Following is a summary of the net pension liability of the State and other employers participating in the Employees' Retirement System as well as the State's liability related to the five single employer defined benefit plans it sponsors, all measured as of June 30, 2014 (expressed in thousands and excluding amounts related to teachers under the special funding arrangement discussed above):

Total Net Pension Liability - Employees' Retirement System (ERS) - State Employees		$ 1,781,905
Less portion attributable to other entities:		
Enterprise Fund - RI Lottery		(13,315)
Discretely Presented Component Units		
University of Rhode Island	$ 100,312	
Rhode Island College	35,621	
Community College of Rhode Island	26,224	
RI Higher Education Assistance Authority	2,985	
RI Commerce Corporation	274	
RI Airport Corporation	1,973	(167,389)
Related organization -- Narragansett Bay Commission		(15,554)
ERS - Net Pension Liability - Governmental Activities		$ 1,585,647
Net Pension Liability - Single Employer Defined Benefit Pension Plans		
JRBT		3,762
RIJRFT		17,188
SPRBT		3,339
JNCRP		53,653
SPNCRP		253,580
Total Net Pension Liability		$ 1,917,169

Further details regarding the State's total pension liability and net pension liability for the single employer trusteed defined benefit pension plans (expressed in thousands) which was measured as of June 30, 2014 is presented below:

	JRBT	RIJRFT	SPRBT
Total pension liability	$ 59,934	$ 17,506	$ 113,018
Plan Fiduciary net position	56,172	318	109,679
Net Pension Liability	$ 3,762	$ 17,188	$ 3,339
Plan Fiduciary Net Position as a percentage of total pension liability	93.7%	1.8%	97.0%

a. Actuarial assumptions used in determining total pension liability

The total pension liability was determined by actuarial valuations performed as of June 30, 2013 and rolled forward to June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement.

	ERS						
	State Employees	Teachers	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
Valuation Date	6/30/2013 rolled forward to 6/30/2014	6/30/2013 rolled forward to 6/30/2014	6/30/2013 rolled forward to 6/30/2014	6/30/2013 rolled forward to 6/30/2014	6/30/2013 rolled forward to 6/30/2014	6/30/2014	6/30/2014
Actuarial Cost Method	Entry Age Normal-the Individual Entry Age Actuarial Cost methodology is used						
Assumptions							
Investment Rate of Return	7.50%	7.50%	7.50%	4.29%	7.50%	4.29%	4.29%
Projected Salary Increases	3.50% to 6.50%	3.50% to 13.50%	3.50%	4.00%	3.75% to 8.00%	N/A	N/A
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%	2.75%
Mortality	Male employees: 115% of RP-200 Combined Healthy For Males with White Collar adjustments, projected with Scale AA from 2000. Female employees: 95% of RP-200 Combined Healthy For Females with White Collar adjustments, projected with Scale AA from 2000. Male and Female Teachers: 97% and 92%, respectively of rates in a GRS table based on male and female teacher experience, projected with Scale AA from 2000.						
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 plan will not achieve the targeted 80% funded status for 15 years.						

The actuarial assumptions used in the June 30, 2013 valuations rolled forward to June 30, 2014 and the calculation of the total pension liability at June 30, 2014 were consistent with the results of an actuarial experience study performed as of June 30, 2013.

The long-term expected rate of return best-estimate on pension plan investments was determined by the actuary using a building-block method. The actuary started by calculating best-estimate future expected real rates of return (expected returns net of pension plan investment expense and inflation) for each major asset class, based on forward-looking medium-term (10 year) capital market return assumptions developed by eight investment consulting firms. The June 30, 2014 expected arithmetic returns over the medium term by asset class as developed by the State Investment Commission's investment consultant, which are generally consistent with the averages utilized by the actuary, are summarized in the following table:

Asset Class	Target allocation	Medium-term expected real rate of return
Global Equity	38%	6.05%
Private Equity	7%	9.05%
Equity Hedge funds	8%	4.75%
Absolute return hedge	7%	2.95%
Real Return	14%	3.85%
Real Estate	8%	4.45%
Core Fixed	15%	0.25%
Cash	3%	-0.50%
	100%	

These return assumptions are then weighted by the target asset allocation percentage, factoring in correlation effects, to develop the overall medium-term expected rate of return best-estimate on an arithmetic basis. To arrive at the long-term expected return estimate, the actuary adjusts the medium-term number to reflect the longer 30-year time frame required for actuarial calculations. This process produces the actuarial expected return, which is based on a 30-year horizon, and can differ from the medium-term, 10-year-horizon return expectations.

b. Discount rate

The discount rate used to measure the total pension liability of the plans was 7.5 percent for all plans except the RIJRFT, JNCRP and SPNCRP plans. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

For the RIJRFT, JNCRP and SPNCRP plans, the State has not opted to make actuarially determined employer contributions and based on those assumptions, the pension plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Consequently, for those plans, the municipal bond index rate, based on the 20-year Bond Buyer GO Index, (4.29% at June 30, 2014) was applied to all periods of projected benefit payments to determine the total pension liability.

c. Sensitivity of the net pension liability (asset) to changes in the discount rate

The following presents the net pension liability (asset) of the employers calculated using the discount rate of 7.5 percent (for all plans except the RIJRFT, JNCRP and SPNCRP), as well as what the employers' net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate. The RIJRFT, JNCRP and SPNCRP plans' fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members and consequently the municipal bond index rate of 4.29% at June 30, 2014 was used in the determination of the net pension liability for those plans with a similar +1/-1 % sensitivity analysis (expressed in thousands):

	1.00% Decrease (6.50%)	Current Discount Rate (7.5%)	1.00% Increase (8.50%)
ERS - State employees	$ 1,958,415	$ 1,585,647	$ 1,205,236
ERS - Teachers (State share)	$ 1,240,014	$ 990,129	$ 735,116
JRBT	$ 9,317	$ 3,762	$ (1,906)
SPRBT	$ 13,684	$ 3,339	$ (7,214)

	1.00% Decrease (3.29%)	Municipal Bond Index Discount Rate (4.29%)	1.00% Increase (5.29%)
RIJRFT	$ 19,777	$ 17,188	$ 16,188
JNCRP	$ 57,799	$ 53,653	$ 50,039
SPNCRP	$ 284,995	$ 253,580	$ 227,768

H. Changes in the Net Pension Liability

Information on the State's net pension liability for single employer plans is as follows (expressed in thousands):

	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
Total Pension Liability					
Service Cost	$ 3,002	$ 498	$ 5,122	$ -	$ -
Interest	4,134	710	7,768	2,334	10,795
Differences between expected and actual experience		1,617			
Changes of assumptions	(672)	(1,160)	(364)		
Benefit payments	(1,631)		(1,767)	(6,173)	(17,700)
Net change in Total Pension Liability	4,833	1,665	10,759	(3,839)	(6,905)
Total pension liability - beginning	55,101	15,841	102,259	57,492	260,485
Total pension liability - ending	$ 59,934	$ 17,506	$ 113,018	$ 53,653	$ 253,580
Plan Fiduciary Net Position					
Employer contributions	$ 2,543		$ 3,331		
Employee contributions	1,093	153	2,034		
Net investment income	7,221	12	14,124		
Benefit payments	(1,631)		(1,767)		
Administrative expenses	(43)		(83)		
Other			5		
Net change in fiduciary net position	$ 9,183	$ 165	$ 17,644	$ -	$ -
Plan Fiduciary net position - beginning	$ 46,989	153	92,035	-	-
Plan Fiduciary net position - ending	$ 56,172	$ 318	$ 109,679	$ -	$ -
Net Pension Liability	$ 3,762	$ 17,188	$ 3,339	$ 53,653	$ 253,580

*These two plans are non-trusteed plans which historically have been funded on a pay as you go basis; therefore no assets have been accumulated and total pension liability and net pension liability are the same.

I. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

Employees' Retirement System of Rhode Island

For the fiscal year ended June 30, 2015 the State recognized pension expense of $117,060,528 related to State employees who are covered by ERS. In addition, it recognized an Education expense of $68,829,880 in the Statement of Activities relating to the State's share of the pension expense for teachers who are covered by the ERS.

At June 30, 2015 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the ERS from the following sources (expressed in thousands):

	State Employees	Teachers
Deferred Outflows of Resources		
State contributions subsequent to the measurement date	$ 138,689	84,944
Total	$ 138,689	$ 84,944
Deferred Inflows of Resources		
Change of assumptions	$ 17,222	$ 35,072
Net difference between projected and actual earnings on pension plan investments	121,632	85,261
Total	$ 138,854	$ 120,333

The $138,689,000 reported as deferred outflows of resources related to pensions resulting from State contributions to ERS subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2016. In addition, the $84,944,000 reported as deferred outflows of resources related to pensions resulting from State contributions to ERS for the teachers plan subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

Year ended June 30:	State Employees	Teachers
2016	$ 34,331	$ 26,281
2017	34,331	26,281
2018	34,331	26,281
2019	34,331	26,281
2020	1,530	4,966
Thereafter	-	10,243

Other Single Employer Pension Plans

For the fiscal year ended June 30, 2015 the table below provides information about pension expense recognized for each of the State's five single employer plans (expressed in thousands):

Plan	Annual Pension Expense
JRBT	$ 1,649
RIJRFT	1,335
SPRBT	2,447
JNCRP	2,334
SPNCRP	10,795

At June 30, 2015 the State reported deferred outflows of resources and deferred inflows of resources related to its participation in the single employer plans from the following sources (expressed in thousands):

Deferred Outflows of Resources	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
Employer contributions subsequent to the measurement date	$ 2,709	$ -	$ 3,432	$ 6,020	$ 17,512
Change of assumptions	-	166	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	1	-	-	-
Total	$ 2,709	$ 167	$ 3,432	$ 6,020	$ 17,512
Deferred Inflows of Resources					
Change of assumptions	$ 558	$ -	$ 5,672	$ -	$ -
Net difference between projected and actual earnings on pension plan investments	2,898	-	329	-	-
Total	$ 3,456	$ -	$ 6,001	$ -	$ -

$29,673,000 reported as deferred outflows of resources related to pensions resulting from State contributions to the single employer plans subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows/ (inflows) of resources related to pensions will be recognized in the determination of pension expense as follows (expressed in thousands):

Year Ending December 31,	JRBT	RIJRFT	SPRBT	JNCRP	SPNCRP
2015	$ (839)	$ 167	$ (1,453)	$	$
2016	(839)		(1,453)		
2017	(839)		(1,453)		
2018	(839)		(1,453)		
2019	(100)		(35)		
Thereafter	-		(154)		
Total	$ (3,456)	$ 167	$ (6,001)	$ -	$ -

J. Defined Benefit Plan - LIUNA

All State employees who are members of the Laborers' International Union of North America (LIUNA), in addition to participating in ERSRI, also participate in the Laborers' International Union of North America National Pension Fund (the "Plan"), a cost sharing multi-employer defined benefit plan subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended. The Plan is administered by the Fund's Board of Trustees. Eligibility and benefit provisions are defined in the Plan document adopted by the Board of Trustees. As of June 30, 2015, 865 employees of the State were members of the Plan.

All Employees who are members of LIUNA are eligible to participate in the Plan. An employee is eligible for a regular pension if they have attained age 62, have five or more years of pension credits and have had at least one pension credit in a year after contributions paid to the Fund by an employer on their behalf began. Vesting of benefits is attained for participants who have five or more years of vesting service, at least one year of which was earned during the period in which the employer paid contributions to the Plan on behalf of the participant. Participants who pay their own contributions are immediately and fully vested in their accrued benefits, plus interest credited to their account. Benefit amounts for employees of the same age with the same years of service may be different because their employers' contribution to the Pension Fund may have been at different levels. The Plan allows for an optional immediate 25% partial lump sum for all surviving spouses of participants who died pre-retirement with an actuarially reduced monthly benefit to be paid at age 55. Information regarding the Plan can be obtained from the Fund Office maintained by the Board of Trustees at the following address: Laborers' International Union of North America National (Industrial) Pension Fund, 905 16th Street, N.W., Washington, DC 20006-1765, or at www.lnipf.org.

The contribution requirements of the State and employees are established by contract and may be amended by union negotiation. Employees are required to contribute $0.51 to $1.17 per hour up to a maximum of 1820 hours per year to the Plan for calendar year 2015. The State is not required to contribute to the Plan.

The Multiemployer Pension Plan Amendments Act of 1980 imposes certain liabilities upon employees associated with multiemployer pension plans who withdraw from such a plan or upon termination of said plan. The State has no plans to withdraw or partially withdraw from the plan.

K. Defined Contribution Plan - ERS

Plan Description - Employees participating in the Employees Retirement System (ERS) defined benefit plan, as described above, also participate in a defined contribution plan of the Employees' Retirement System as authorized by General Law Chapter 36-10.3. The defined contribution plan is established under IRS section 401(a) and is administered by TIAA-CREF. The Retirement Board is the plan administrator and plan trustee. The employees ("members") may choose among various investment options available to plan participants. The State Investment Commission is responsible for implementing the investment policy of the plan and selecting the investment options available to members.

Plan contributions - Members contribute 5% of their annual covered salary and employers contribute 1% of annual covered salary. Member contributions are immediately vested while employer contributions are vested after three years of contributory service. Contributions required under the plan by both the members and employers are established by the General Laws, which are subject to amendment by the General Assembly. As previously indicated in the disclosure of recently-enacted pension legislation, the employer contribution for certain qualifying members will increase slightly beginning in fiscal 2016.

The State contributed and recognized as pension expense $5,368,000 for the fiscal year ended June 30, 2015, equal to 100% of the required contributions for the fiscal year.

Plan vesting and contribution forfeiture provisions – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The total amount contributed by the employer, including associated investment gains and losses, vests with the employee and is non-forfeitable upon completion of three (3) years of contributory service. Non-vested employer contributions are forfeited upon termination of employment. Such forfeitures can be used by employers to offset future remittances to the plan.

Retirement benefits – Benefits may be paid to a member after severance from employment, death, plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which the member attains age 70 ½ or terminates employment, if later.

The System issues a publicly available financial report that includes financial statements and required supplementary information for plans administered by the system. The report may be obtained at http://www.ersri.org.

L. Defined Contribution Plan - FICA Alternative Retirement Income Security Program

The State of Rhode Island FICA Alternative Retirement Income Security Program (the "FARP") is a defined contribution (money purchase) plan that operates under Section 401(a) of the Internal Revenue Code. The FARP was established under Rhode Island General Law section 36-7-33.1 and was placed under the management of the State's Department of Administration (DOA), which also serves as the FARP plan sponsor. The FARP took effect on December 15, 2013. TIAA-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 Provision described below, participation in the FARP is mandatory for these employees. Part-time, seasonal, or temporary employees hired prior to July 1, 2013, who do not participate in the ERSRI may opt to continue contributing to Social Security for the duration of their continuous employment.

One-time opt-out provision – The FARP contains a provision which allows a FARP-eligible employee, hired after July 1, 2013, to opt-out or elect to not participate in the FARP. An employee who opts to not participate will continue to make FICA contributions and the State will continue to make FICA contributions on behalf of the employee. An employee who opts to not participate in the FARP may subsequently, without penalty, choose to participate in the FARP; this election is irrevocable as long as the employee is a FARP-eligible employee.

Plan vesting provisions – The total amount contributed by the member, including associated investment gains and losses, shall immediately vest in the member's account and is non-forfeitable. The State does not make matching contributions to the FARP.

Member accounts – Each member's account is credited with the member's contribution and an allocation of the plan's earnings. Allocations are based on a relationship of the member's account balance in each investment fund to the total of all account balances in that fund. The retirement benefit to which a member is entitled is the benefit that can be provided from the member's account.

Contributions – FARP benefits are funded by contributions from the participants as specified in RI General Law section 36-7-33.1. FARP participants make mandatory payroll deduction contributions to the FARP equal to 7.5% of the employee's gross wages for each pay period.

Investment options – Member and employer contributions must be invested in one of the Vanguard Target Retirement Trusts, which are age-appropriate.

Retirement benefits – Benefits may be paid to a member after termination from employment, death, total disability, or upon attaining age 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.

M. Other Pension Plans – Component Units

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (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 $16,579,000 during the year ended June 30, 2015.

The Rhode Island Public Transit Authority has a single employer defined benefit pension plan that covers eligible employees. The plan provides retirement, disability and death benefits to plan members and beneficiaries. 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 June 30, 2015 the plan's total pension liability exceeded the plan's fiduciary net position by $48,782,731. Accordingly, a net pension liability of that amount has been recorded as of June 30, 2015. For the fiscal year ended June 30, 2015 pension expense of $6,465,308 was recorded related to the plan. Other information about the plan can be found in the audited financial statements of RIPTA which are available at www.ripta.com.

The Rhode Island Commerce Corporation (RICC) sponsors a cost sharing multiple employer pension plan for all employees, who were hired before January 1, 2006 who meet eligibility requirements. Eligible employees of Quonset Development Corporation, another component unit, who were hired before January 1, 2006 also participate in the plan. The plan provides retirement, disability and death benefits to plan members and beneficiaries. Benefits vest upon completion of five years of service. The plan assigns to RICC the authority to amend benefit provisions. At June 30, 2015, the plan fiduciary net position exceeded the total pension liability by $1,134,009. Accordingly, a net pension asset in that amount has been recorded as of that date. For the fiscal year ended June 30, 2015 pension expense of $65,866 was recorded related to this plan. Other information about the plan can be found in the audited financial statements of RICC which are available at www.commerceri.com.

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

Note 14. Other Post-Employment Benefits

A. Plan Descriptions

The Rhode Island State Employees' and Electing Teachers OPEB System (the "System") acts as a common investment and administrative agent for post-employment health care 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 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 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 and Teachers	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 retirees access their benefits through a Health Reimbursement Account that the OPEB Trust makes a monthly deposit to based on years of service.	May purchase active employee plan for member and dependents until age 65.	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.	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.
Other	Retired teachers can purchase coverage for themselves and dependents at active or early retirement rate, as applicable until they are Medicare eligible.				

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, 2015, the State and other participating employers paid $58,694,000 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	$ 47,769	$ 2,799	$ 13	$ 8,135	$ 0	$ 3,011
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	0	424	0	0
Less: Adjustment to ARC	0	N/A	0	389	0	0
Annual OPEB cost	47,769	2,799	13	8,170	0	3,011
Participating State and/or other employer contributions	45,695	2,321	13	8,135	0	2,530
Credit For Portion of Residual Balance From Predecessor Fund	2,074	478	0	0	0	481
Increase in OPEB obligation	0	0	0	35	0	0
Net OPEB obligation at beginning of year	0	0	0	8,485	0	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 0	$ 8,520	$ 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	2013	$ 45,800	100.00%	-
	2014	49,072	100.00%	-
	2015	47,769	100.00%	-
Teachers	2013	2,321	100.00%	-
	2014	2,799	100.00%	-
	2015	2,799	100.00%	-
Judicial	2013	802	97.01%	$ 2,891
	2014	13	100.00%	-
	2015	13	100.00%	-
State Police	2013	6,287	98.91%	8,450
	2014	7,874	99.56%	8,485
	2015	8,170	99.57%	8,520
Legislators	2013	0	N/A	-
	2014	0	N/A	-
	2015	0	N/A	-
BOE	2013	3,106	100.00%	-
	2014	3,095	100.00%	-
	2015	3,011	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 2015 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
Plan Type	Cost sharing multiple employer	Single Employer	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age					
Amortization Method	Level Percent of Payroll	Level Dollar	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
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					
Actuarial Assumptions						
Investment Rate of Return	5.00%					
Projected Salary Increases	3.50% to 6.50%	NA	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					

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

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

Note 15. Deferred Compensation

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

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

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

Note 16. Risk Management

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

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of $100,000 per person and $300,000 per accident for personal injury and $20,000 for property damage. During fiscal year 2015, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance carrier/administrator to provide health care benefits to active and certain retired employees. For coverage provided to active employees and retirees who are not eligible for Medicare, the State retains the risk of loss. The State reimburses the company for the costs of all claims paid plus administrative fees. Effective October 1, 2014 retirees who are Medicare eligible participate in a Health Reimbursement Account arrangement as more fully described in Note 14.

The estimated liability for incurred but not reported (IBNR) claims at June 30, 2015 and 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, 2014	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30, 2015
Health Insurance Internal Service Fund Unpaid claims	$ 16,328	$ 221,513	$ 219,209	$ 18,632

	Liability at July 1, 2013	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30, 2014
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 17. Other Information

A. Elimination Entries

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

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 8,049	$ 955	$ 9,004	$ (7,868)	$ 1,136
Loans to other funds	121,407		121,407	(121,407)	
Total assets	$ 129,456	$ 955	$ 130,411	$ (129,275)	$ 1,136
Liabilities					
Due to other funds	$ 6,657	$ 1,211	$ 7,868	$ (7,868)	$
Loans from other funds	114,937	6,470	121,407	(121,407)	
Total liabilities	$ 121,594	$ 7,681	$ 129,275	$ (129,275)	$
Program revenue					
General government	$	$ 294,033	$ 294,033	$ (294,033)	
Public safety		10,728	10,728	(10,728)	
Expenses					
General government		(294,765)	(294,765)	294,765	
Public safety		(9,996)	(9,996)	9,996	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Transfers in	$ 622,520	$	$ 622,520	$ (277,330)	$ 345,190
Transfers out	(277,330)		(277,330)	277,330	
Net transfers	$ 345,190	$	$ 345,190	$	$ 345,190

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 257	$	$ 257	$ (1,393)	$ (1,136)
Total assets	$ 257	$	$ 257	$ (1,393)	$ (1,136)
Liabilities					
Due to other funds	$ 1,393	$	$ 1,393	$ (1,393)	$
Total liabilities	$ 1,393	$	$ 1,393	$ (1,393)	$
Transfers					
Transfers in	$ 36,909	$	$ 36,909	$ (36,909)	$
Transfers out	(382,099)		(382,099)	36,909	(345,190)
Net transfers	$ (345,190)	$	$ (345,190)	$	$ (345,190)

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 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 was 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

	Expense	Description
Governmental activities		
General		
University of Rhode Island	$ 70,221	Operating assistance
Rhode Island College	42,767	Operating assistance
Community College of Rhode Island	45,677	Operating assistance
Central Falls School District	45,574	Operating assistance
The Met	11,034	Operating assistance
RI Commerce Corporation	21,974	Operating and capital assistance
R.I. Public Transit Authority	5,870	Operating assistance
IST		
R.I. Public Transit Authority	42,960	Operating assistance
Bond Capital		
University of Rhode Island	40,988	Construction, improvement or purchase of assets
Certificates of Participation		
Rhode Island College	7,635	Building improvements
R. I. Capital Plan		
University of Rhode Island	14,514	Construction, improvement or purchase of assets
Total Governmental Activities	$ 349,214	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2015:

- Assessed Fringe Benefits ($1,918,000)
- Central Utilities ($11,000)
- Central Mail ($574,000)
- State Telecommunications ($469,000)
- Records Center ($73,000)
- Capitol Police ($48,000)

The deficits will be eliminated through charges for services in fiscal year 2016.

F. Restatements – Net Position and Reclassifications

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

	Governmental Activities	Proprietary and Business-type Activities	Discretely Presented Component Units
Balances previously reported at June 30, 2014			
Net position	$ 2,006,755	$ (35,333)	$ 1,885,481
Restatement due to:			
1) *Eliminate prior net pension obligation*	3,469		
2) *GASB 68 NPL opening balance restatement*	(1,635,591)	(13,498)	(206,288)
3) *GASB 68 NPL opening balance restatement-Teachers Special Funding Arrangement*	(1,041,632)		
4) *GASB 73 opening balance restatement*	(294,104)		
5) *Correction of errors*		575	
6) *Adjustments to Carrying Value of Capital Assets*	12,204		
July 1, 2014 net position, as restated	$ (948,899)	$ (48,256)	$ 1,679,193

1) In conjunction with the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the net pension obligation at June 30, 2014 relating to the Judicial Retirement Fund Trust, one of the State's single employer plans, was written off.

2) In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State and its discretely presented component units have restated beginning net position to recognize their proportionate share of the net pension liability at June 30, 2014 (measurement date) as participating employers in the Employees' Retirement System, a cost sharing multiple employer plan, and for the other pension plans that the component units administer. In addition, the State has restated beginning net position for the net pension liability for the following single employer plans: 1) Judicial Retirement Benefits Trust, 2) Judicial Retirement Fund Trust and 3) State Police Retirement Benefits Fund Trust.

3) In accordance with the requirements of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the State has restated beginning net position to recognize its proportionate share under a special funding situation of the net pension liability at June 30, 2014 (measurement date) for teachers employed by local school districts who participate in the Employees' Retirement System, a cost sharing multiple employer plan.

4) In accordance with the requirements of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, the State has restated beginning net position to recognize the total pension liability at June 30, 2014 (measurement date) for the following single employer non-trusteed plans: 1) Judicial Non-Contributory Retirement Plan and 2) State Police Non-Contributory Retirement Plan.

5) During the fiscal year ended June 30, 2015, RICCA evaluated the classification and reporting of intangible assets and the application of GASB Statement No. 51 - *Accounting and Financial Reporting for Intangible Assets*. As a result of this evaluation, RICCA reclassified intangible assets previously reported as other assets and amortized, as capital assets, net of depreciation. As a result, capital assets and net position were restated.

6) To increase capital assets for amounts previously expensed.

Under a law that was effective until June 30, 2014, upon issuance of the audited financial statements, the State Controller was 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. For fiscal year 2014 the amount of such transfer was calculated to be $13,794,501, which was reflected in the committed category of fund balance at June 30, 2014. The transfer was to be made in fiscal year 2015 upon issuance of the audited financial statements. In the 2015 session of the General Assembly this law was repealed retroactive to July 1, 2014. Accordingly, the transfer of $13,794,501 to the Employees' Retirement System was not made.

G. Pledged Revenue

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

Revenue Bonds-Tobacco Settlement Financing Corporation		
Revenue:		
Tobacco settlement revenue-cash basis	$	45,295
Investment income		1,436
Total revenue		46,731
Operating expenses		126
Net revenue available for debt service	$	46,605
Debt service		
Interest (a)	$	35,633
Covered ratio before turbo principal payments		130.79%
Principal (b)		25,520
Total annual debt service	$	61,153
Coverage (c)		76.21%
Term of commitment - through June 2052		
Revenue Bonds-GARVEE (Federal Highway)		
Revenue - FHWA participation	$	48,356
Less: operating expenses		-
Net available revenue	$	48,356
Debt service		
Principal	$	34,160
Interest		14,196
Coverage (c)		100.00%
Term of commitment - through June 2021		
Revenue Bonds-GARVEE (Gas Tax)		
Revenue - 2 cents per gallon of the gasoline tax	$	8,793
Less: operating expenses		-
Net available revenue	$	8,793
Debt service		
Principal	$	4,185
Interest		3,006
Coverage (c)		122.28%
Term of commitment - through June 2027		
Division of Motor Vehicles Capital Lease		
Revenue - $1.50 surcharge per transaction	$	2,015
Less: operating expenses		-
Net available revenue	$	2,015
Debt service		
Principal - required	$	1,635
Interest		207
Coverage (c)		109.39%
Term of commitment - through March 2017		

(a) The amount reflected above is less than the amount included in the financial statements for the TSFC as the latter amount includes accreted interest paid in connection with the repurchase of certain capital appreciation bonds as discussed in Note 6.
(b) Debt service principal includes "Turbo Maturity" redemptions, whereby TSFC is required to apply 100% of all collections that are in excess of current funding requirements to the early redemption of the bonds. Annual revenues have been sufficient to meet scheduled debt service requirements.
(c) Coverage equals net available revenue divided by debt service.

H. Special Items

Primary Government

In March 2015, the Tobacco Settlement Financing Corporation, a blended component unit, refunded all of the outstanding 2002 bonds and a portion of its 2007 bonds. The proceeds from the sale of the 2015 Series A and Series B refunding bonds were sufficient to transfer $31,342,127 to the State's general fund and transfer $5,000,000 to a related organization. The funds transferred to the general fund have been reflected as a special item in the accompanying financial statements.

Discretely Presented Component Units

RI Water Resources Board Corporate

Under Article 5 of the 2010 Appropriations Act, with the maturity of all outstanding bonds, the financial functions of the Board Corporate are to be transferred to the Rhode Island Clean Water Finance Agency (RICWFA). In March 2015, the Board Corporate made its final bond payment. Management of the Board Corporate subsequently transferred all remaining assets. The transfer included accounts receivable of approximately $303,000 to the Rhode Island Infrastructure Bank (the RIIB), formerly the Rhode Island Clean Water Finance Agency, and cash of approximately $1,050,000, temporarily to the State of Rhode Island General Fund. When a formal agreement is in place, the cash portion will be transferred to the RIIB. In June 2015 the Board Corporate permanently ceased operations.

Note 18. Subsequent Events

Primary Government

Subsequent to June 30, 2015, the State issued $175,155,000 of General Obligation Refunding Bonds. The bonds mature from 2016 to 2027 and have yields ranging from .31% to 3.08%. The bonds were issued to restructure debt service for a portion of the State's outstanding general obligation bonds to achieve savings in fiscal years 2016 and 2017 to provide resources for economic development initiatives.

Employees' Retirement System

Subsequent to June 30, 2014 (the measurement date), litigation challenging the various pension reform measures enacted in previous years by the General Assembly (2009, 2010, and 2011) was settled. The final settlement approved by the Court on July 8, 2015 also included enactment of the pension settlement provisions by the General Assembly.

The amended benefit provisions in the newly enacted legislation and settlement agreement have not been reflected in the determination of the net pension liability at June 30, 2014 (the measurement date). These amended benefit provisions are summarized below:

- Employees with more than 20 years of service at July 1, 2012 will increase their employee contribution rate from 3.75% to 11% and participate solely in the defined benefit plan. Going forward, service credit accruals will increase from 1% to 2% per year.
- Employees with more than 10 but less than 20 years of service at July 1, 2012 will receive an increased employer contribution to the defined contribution plan.
- Retirees as of June 30, 2015 will receive two $500 stipends.
- A one-time 2% COLA was granted to all retirees and beneficiaries that retired on or before June 30, 2012 on the first $25,000 of their benefit. The COLA provided to retired members is contingent on the investment performance, the annual change in the CPI-U, and the funded status of the System.
- The interim cost of living increases will occur at 4 year intervals rather than 5 year intervals.
- Minor adjustments were made to the actuarial reduction for employees choosing to retire early.

These amendments are not considered to have a material effect on the net pension liability had they been retroactively applied to the calculation of the total pension liability at June 30, 2013 rolled forward to June 30, 2014. An actuarial analysis of the pension settlement provisions enacted by the General Assembly and approved by the Court indicated that the funded ratio at June 30, 2014 for state employees (determined on a funding basis) decreased from 57.4% to 56.1%.

The most recent valuation performed as of June 30, 2015 (for funding purposes) indicated that the funded ratio at that date was 56.6% for state employees and 58.8% for teachers.

Discretely Presented Component Units

In August 2015, the R.I. Housing & Mortgage Finance Corporation (RIHMFC) issued Homeownership Opportunity Bonds Series 66 in the amount of $75,000,000. On August 10, 2015, $29,635,000 in Homeownership Opportunity Bonds were redeemed prior to maturity, and on October 1, 2015, $41,935,000 in Homeownership Opportunity Bonds and $9,375,000 in Home Funding Bonds were redeemed prior to maturity, all under provisions in the bond resolutions that allow mortgage prepayments, excess revenues and refunded amounts to be used for such purpose.

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 in Pawtucket, RI. 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 Inspector General is conducting an ongoing review of RIHMFC’s administration of the HOME program for the period of March 1, 2010 through February 28, 2013. Based upon the information available, RIHMFC does not believe that the resolution of this matter will have a material impact on its operations, programs or financial condition.

State of Rhode Island

Fiscal Year Ended June 30, 2015

Required

Supplementary

Information

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,157,132	$ 1,226,800	$ 1,227,582	$ 782
General Business Taxes:				
Business Corporations	118,812	143,200	147,979	4,779
Public Utilities Gross Earnings	112,000	103,600	103,950	350
Financial Institutions	11,500	22,000	22,743	743
Insurance Companies	115,504	123,100	120,265	(2,835)
Bank Deposits	2,400	1,900	2,260	360
Health Care Provider Assessment	42,137	44,300	44,125	(175)
Sales and Use Taxes:				
Sales and Use	939,620	954,000	963,453	9,453
Motor Vehicle	49,500	49,900	49,117	(783)
Motor Fuel	500	(200)	(125)	75
Cigarettes	135,800	136,900	138,046	1,146
Alcohol	17,442	18,800	18,363	(437)
Other Taxes:				
Inheritance and Gift	27,010	31,500	34,202	2,702
Racing and Athletics	1,100	1,100	1,107	7
Realty Transfer Tax	8,500	9,000	9,494	494
Total Taxes *(1)*	2,738,957	2,865,900	2,882,561	16,661
Departmental Revenue	351,672	350,860	354,122	3,262
Total Taxes and Departmental Revenue	3,090,629	3,216,760	3,236,683	19,923
Other Sources:				
Lottery	384,500	378,600	381,936	3,336
Unclaimed Property	10,500	12,300	13,712	1,412
Other Miscellaneous	7,475	9,085	8,778	(307)
Total Other Sources	402,475	399,985	404,426	4,441
Total General Revenues	3,493,104	3,616,745	3,641,109	24,364
Federal Revenues	2,718,946	2,734,212	2,619,412	(114,800)
Restricted Revenues	270,059	280,756	253,973	(26,783)
Other Revenues	55,829	78,318	74,635	(3,683)
Total Revenues *(2)*	6,537,938	6,710,031	6,589,130	(120,902)
Expenditures *(4)*:				
General government	718,880	785,171	711,824	73,347
Human services	3,731,847	3,713,040	3,661,964	51,076
Education	1,449,050	1,451,829	1,433,035	18,794
Public safety	499,264	519,931	493,361	26,570
Natural resources	90,962	99,938	79,897	20,041
Total Expenditures *(2)*	6,490,003	6,569,909	6,380,081	$ 189,828
Transfer of Excess Budget Reserve to RI Capital Fund			102,541	
Total Expenditures and Transfers	$ 6,490,003	$ 6,569,909	6,482,622	
Change in Fund Balance			106,508	
Fund balance - beginning			395,379	
Fund balance - ending			$ 501,887	

(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, 2015
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures by Source:				
General Revenues	$ 3,445,170	$ 3,476,623	$ 3,453,893	$ 22,730
Federal Funds	2,718,945	2,734,212	2,621,118	113,094
Restricted Receipts	270,059	280,756	232,949	47,807
Other Funds	55,829	78,318	72,121	6,197
	$ 6,490,003	$ 6,569,909	$ 6,380,081	$ 189,828

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

Budgeted Surplus:		
Total Revenue - Final Budget	$ 6,710,032	
Total Expenditures - Final Budget	6,569,909	
Final Budget - Projected Surplus (3)		$ 140,123
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (120,902)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	189,828	
Surplus resulting from operations compared to final budget		$ 68,926
Total General Fund Surplus - Fiscal Year Ended June 30, 2015		$ 209,049
Transfer of Excess Budget Reserve to RICAP Fund		(102,541)
Net Change in General Fund - Fund Balance		$ 106,508
Fund Balance, Beginning		395,379
Fund Balance, Ending		$ 501,887

Notes:

Due to rounding, numbers presented may not add up precisely to the totals provided.

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

(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, 2015.

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

General government	$ 155,368
Education	29,537
	$ 184,905

(continued)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For Fiscal Year Ended June 30, 2015
(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 2016		Budgetary Perspective: Fund Balance Available for Appropriation in Fiscal 2016	
Restricted	$ 319,677	$ 319,677		$	
Committed	2,561	2,561			
Assigned	130,964	11,611	*(a)*	119,353	*(b)*
Unassigned	48,685			48,685	*(c)*
Total Fund Balance	$ 501,887	$ 333,849		$ 168,038	

(a) Assigned fund balance not available for appropriation in fiscal 2016 includes (1) centralized cost allocation surplus that requires offset through fiscal 2016 centralized charges and (2) general revenue appropriations carried forward by the Governor, Judiciary, and Legislature.

(b) Assigned fund balance available for appropriation in fiscal 2016 includes fiscal 2015 ending surplus amounts of $118.5 million appropriated as resources in the 2016 enacted budget, and fund balance amounts encumbered at June 30, 2015.

(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, 2015
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 135,297	$ 142,929	$ 158,707	$ 15,778
Licenses, fines, sales, and services		33,572	20,918	(12,654)
Departmental restricted revenue	12,353	2,250	1,861	(389)
Federal grants	352,115	309,681	270,551	(39,130)
Other revenues	160	33,697	2,957	(30,740)
Total revenues	499,925	522,129	454,994	(67,135)
Revenues and other Financing Sources (unbudgeted):				
Miscellaneous revenue			687	
Total revenues			455,681	
Other Financing Sources:				
Transfers from RI Capital Plan and Bond Capital Funds (State FHWA Match)			26,558	
Total Other Financing Sources			26,558	
Total Revenues and Other Financing Sources			482,239	
Expenditures (budgeted):				
Central Management				
Federal Funds	9,200	12,700	9,891	2,809
Gasoline Tax	1,771	2,187	1,025	1,162
Total - Central Management	10,971	14,887	10,916	3,971
Management and Budget				
Gasoline Tax	2,243	3,003	451	2,552
Total - Management and Budget	2,243	3,003	451	2,552
Infrastructure-Engineering-GARVEE/ Motor Fuel Tax Bonds				
Federal Funds	325,726	287,186	256,465	30,721
Federal Funds-Stimulus	17,188	9,794	1,299	8,495
Restricted Receipts	12,353	2,250	2,411	(161)
Gasoline Tax	68,065	72,902	69,691	3,211
Motor Fuel Tax Residuals		53		53
Land Sale Revenue	21,300	17,700	729	16,971
Total - Infrastructure - Engineering	444,632	389,885	330,595	59,290
Infrastructure - Maintenance				
Gasoline Tax	30,791	15,534	17,951	(2,417)
Non-Land Surplus Property	10	25		25
Outdoor Advertising	150	100		100
Rhode Island Highway Maintenance Account		33,572	33,047	525
Total - Infrastructure - Maintenance	30,951	49,231	50,998	(1,767)
Total Expenditures (budgeted)	$ 488,797	$ 457,006	$ 392,960	$ 64,046
Expenditures and Financing Uses (unbudgeted):				
Infrastructure Expenditures - State Match funded by RI Capital Plan and Bond Capital Funds			24,276	
Infrastructure Expenditures - GARVEE			15,732	
I-195 Redevelopment District Project			1,452	
Mission 360 Loan Program			470	
Transfers to General Fund - Gas Tax			53,310	
Total Expenditures and Financing Uses (unbudgeted)			95,240	
Total Expenditures and Other Financing Uses			488,200	
Net change in fund balance			(5,961)	
Fund balance, beginning			118,437	
Fund balance, ending			$ 112,476	

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 the preceding pages is summarized and does not present budget and actual amounts detailed at the legal level of budgetary control. The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. 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 the preceding page is presented at the legal level of budgetary control consistent with the legally adopted budget. Not all the activity reported within the IST fund financial statements is budgeted. Unbudgeted activity has been separately identified in the budget to actual comparison schedule to facilitate reconciliation to the IST fund financial statements.

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

State of Rhode Island and Providence Plantations
Pension Information
Defined Benefit Multiple Employer Cost-Sharing Plan

The Employees' Retirement System (ERS) Plan is a multiple-employer cost-sharing defined benefit plan covering state employees and local teachers. Separate actuarial valuations are performed for state employees and teachers but not for individual employers within those groups. The net pension liability and other pension related amounts are apportioned based on proportionate employer contributions to the plan.

By statute, the State funds 40% of the actuarially determined employer contribution for teachers. This constitutes a special funding situation as described in GASB Statement No. 68. Consequently, the State has recognized its proportionate share of the net pension liability and other related pension amounts for this special funding situation in its financial statements.

The amounts included in these schedules for fiscal 2015 reflect a June 30, 2014 measurement date.

Additional information for the ERS plan is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island and an additional report prepared to provide the GASB 68 related information for participating employers.

The following schedules are presented for the ERS cost-sharing plan with a special funding situation:

- **ERS – Schedule of State's Proportionate Share of the Net Pension Liability – State Employees**
- **ERS – Schedule of State Contributions**
- **ERS – Schedule of State's Proportionate Share of the Net Pension Liability – Teachers**
- **ERS – Schedule of State Contributions – Teachers**

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State's Proportionate Share
of the Net Pension Liability
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Employees' Retirement System-State Employees-Governmental Activities

State's proportion of the net pension liability		89.0%
State's proportionate share of the net pension liability	$	1,585,647
State's covered employee payroll	$	581,589
State's proportionate share of the net pension liability as a percentage of its covered employee payroll		272.6%
Fiduciary net position as a percentage of the total pension liability		58.6%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Employees' Retirement System-State Employees-Governmental Activities

Actuarially determined contribution	$ 138,689
Contributions in relation to the actuarially determined contribution	138,689
Contribution deficiency (excess)	$ -
Covered-employee payroll	$ 594,466
Contributions as a percentage of covered-employee payroll	23.33%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of the State's Proportionate Share
of the Net Pension Liability
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Employees' Retirement System-State Share-Teachers (Special Funding Situation)

State's proportion of the net pension liability		40.68%
State's proportionate share of the net pension liability	$	990,129
Plan fiduciary net position as a percentage of the total pension liability		61.40%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Employees' Retirement System-State Share-
Teachers (Special Funding Situation)

Statutorily required contribution	$	84,944
Contributions in relation to the statutorily required contribution		84,944
Annual contribution deficiency (excess)	$	-

State of Rhode Island and Providence Plantations
Pension Information
Single Employer Defined Benefit Plans

Certain state employees are covered by the following single-employer plans, separate from the ERS plan, which covers most state employees.

- State Police Retirement Benefits Trust (SPRBT)
- Judicial Retirement Benefits Trust (JRBT)
- Rhode Island Judicial Retirement Fund Trust (RIJRFT)

These plans are administered within the Employees' Retirement System of Rhode Island. Separate actuarial valuations are performed of each plan. Additional information for the plans is available in the separately issued audited financial statements of the Employees' Retirement System of Rhode Island.

The amounts included in these schedules for fiscal 2015 reflect a June 30, 2014 measurement date.
The following schedules are presented for each single-employer plan:

- **Schedule of Changes in the Net Pension Liability and Related Ratios**
    - SPRBT
    - JRBT
    - RIJRFT
- **Schedule of State Contributions**
    - SPRBT
    - JRBT
    - RIJRFT

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability
and Related Ratios
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

State Police Retirement Benefits Trust

Total Pension Liability		
Service cost	$	5,122
Interest		7,768
Differences between expected and actual experience		-
Changes of assumptions		(364)
Benefit payments		(1,767)
Net Change in Total Pension Liability		10,759
Total Pension Liability-Beginning		102,259
Total Pension Liability-Ending	$	113,018
Plan Fiduciary Net Position		
Employer contributions	$	3,331
Employee contributions		2,034
Net investment income		14,124
Benefit payments		(1,767)
Transfers of member contributions		-
Administrative expenses		(83)
Other		5
Net Change in Plan Fiduciary Net Position	$	17,644
Plan Fiduciary Net Position-Beginning		92,035
Plan Fiduciary Net Position-Ending	$	109,679
Net Pension Liability	$	3,339
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		97.0%
Covered Employee Payroll	$	23,051
Net Pension Liability as a Percentage of Covered Employee Payroll		14.5%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability
and Related Ratios
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Judicial Retirement Benefits Trust

Total Pension Liability		
Service cost	$	3,002
Interest		4,134
Differences between expected and actual experience		-
Changes of assumptions		(672)
Benefit payments		(1,631)
Net Change in Total Pension Liability		4,833
Total Pension Liability-Beginning		55,101
Total Pension Liability-Ending	$	59,934
Plan Fiduciary Net Position		
Employer contributions	$	2,543
Employee contributions		1,093
Net investment income		7,221
Benefit payments		(1,631)
Transfers of member contributions		-
Administrative expenses		(43)
Other		-
Net Change in Plan Fiduciary Net Position	$	9,183
Plan Fiduciary Net Position-Beginning		46,989
Plan Fiduciary Net Position-Ending	$	56,172
Net Pension Liability	$	3,762
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		93.7%
Covered Employee Payroll	$	9,314
Net Pension Liability as a Percentage of Covered Employee Payroll		40.4%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Net Pension Liability
and Related Ratios
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Rhode Island Judicial Retirement Fund Trust

Total Pension Liability		
Service cost	$	498
Interest		710
Differences between expected and actual experience		1,617
Changes of assumptions		(1,160)
Benefit payments		-
Net Change in Total Pension Liability		1,665
Total Pension Liability-Beginning		15,841
Total Pension Liability-Ending	$	17,506
Plan Fiduciary Net Position		
Employer contributions	$	-
Employee contributions		153
Net investment income		12
Benefit payments		-
Transfers of member contributions		-
Administrative expenses		-
Other		-
Net Change in Plan Fiduciary Net Position	$	165
Plan Fiduciary Net Position-Beginning		153
Plan Fiduciary Net Position-Ending	$	318
Net Pension Liability	$	17,188
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		1.8%
Covered Employee Payroll	$	1,276
Net Pension Liability as a Percentage of Covered Employee Payroll		1346.8%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

State Police Retirement Benefits Trust

Actuarially determined contribution	$	3,432
Contributions in relation to the actuarially determined contribution		3,432
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	19,907
Contributions as a percentage of covered-employee payroll		17.24%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Judicial Retirement Benefits Trust

Actuarially determined contribution	$	2,709
Contributions in relation to the actuarially determined contribution		2,709
Contribution deficiency (excess)	$	-
Covered-employee payroll	$	9,566
Contributions as a percentage of covered-employee payroll		28.32%

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of State Contributions
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Rhode Island Judicial Retirement Fund Trust

Actuarially determined contribution	$	1,623
Contributions in relation to the actuarially determined contribution		-
Contribution deficiency (excess)	$	1,623
Covered-employee payroll	$	1,276
Contributions as a percentage of covered-employee payroll		NA

State of Rhode Island and Providence Plantations
Pension Information
Non-Contributory (pay-as-you-go) Defined Benefit Single Employer Plans

Certain retired state employees are covered by the following single-employer plans, which are separate from the plans previously described, and are not part of the Employees' Retirement System of Rhode Island.

- State Police Non-Contributory Retirement Plan
- Judicial Non-Contributory Retirement Plan

The State funds these plans on a pay-as-you-go basis and no actuarially determined advance employer contribution is made nor are assets accumulated in a trust to pay future benefits. Separate actuarial valuations are performed to provide the accounting measures of the total pension liability for each of the plans.

The amounts included in these schedules for fiscal 2015 reflect a June 30, 2014 measurement date.
The following schedules are presented for each plan:

- **Schedule of Changes in the Total Pension Liability**
  - State Police Non-Contributory Retirement Plan
  - Judicial Non-Contributory Retirement Plan

The Schedule of State Contributions is not presented as the plans operate on a pay-as-you-go basis and there is no covered payroll because there are no active members of the plans.

These schedules are intended to show information for 10 years – additional years will be displayed as information becomes available. Note 13 to the financial statements contains detailed information concerning pension plans.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Total Pension Liability
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

State Police Non-Contributory Retirement Plan

Total Pension Liability	
Service cost	$ -
Interest	10,795
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(17,700)
Net Change in Total Pension Liability	(6,905)
Total Pension Liability-Beginning	260,485
Total Pension Liability-Ending	$ 253,580

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedule of Changes in Total Pension Liability
Fiscal Year Ended June 30, 2015
(Expressed in Thousands)

Judicial Non-Contributory Retirement Plan

Total Pension Liability		
Service cost	$	-
Interest		2,334
Differences between expected and actual experience		-
Changes of assumptions		-
Benefit payments		(6,173)
Net Change in Total Pension Liability		(3,839)
Total Pension Liability-Beginning		57,492
Total Pension Liability-Ending	$	53,653

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
Other Postemployment Benefits
June 30, 2015
(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.

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 14.

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

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, 2015

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	$	309,386
Inspection Grading and Standardization	10.162		4,290
Market Protection and Promotion	10.163		4,884
Specialty Crop Block Grant Program	10.169		250,759
Very Low to Moderate Income Housing Loans (See Note 2)	10.410		1,315,942
Rural Housing Preservation Grants	10.433		43,140
SNAP Cluster:			
Supplemental Nutrition Assistance Program	10.551		281,207,111
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		11,124,899
Child Nutrition Cluster:			
School Breakfast Program	10.553		9,461,814
National School Lunch Program (See Note 2)	10.555		33,556,604
Special Milk Program for Children	10.556		72,162
Summer Food Service Program for Children (See Note 2)	10.559		1,173,541
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557		22,595,589
Child and Adult Care Food Program	10.558		9,262,729
State Administrative Expenses for Child Nutrition	10.560		888,260
Food Distribution Cluster:			
Commodity Supplemental Food Program	10.565		28,998
Emergency Food Assistance Program (Administrative Costs)	10.568		180,705
Emergency Food Assistance Program (Food Commodities) (See Note 2)	10.569		1,643,319
WIC Farmers' Market Nutrition Program (FMNP)	10.572		107,134
Senior Farmers Market Nutrition Program	10.576		21,859
WIC Grants To States (WGS)	10.578		(7,217)
Child Nutrition Discretionary Grants Limited Availability	10.579		477,038
Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	10.580		676,124
Fresh Fruit and Vegetable Program	10.582		1,790,916
Cooperative Forestry Assistance	10.664		507,169
Forest Legacy Program	10.676		46,925
Environmental Quality Incentives Program	10.912		5,166
Total U.S. Department of Agriculture		$	376,749,246
U.S. Department of Commerce			
Personal Census Search	11.006	$	89,571
Economic Development Cluster:			
Investments for Public Works and Economic Development Facilities	11.300		1,733,893
Economic Adjustment Assistance (See Note 2)	11.307		13,517,606
Interjurisdictional Fisheries Act of 1986	11.407		96,237
Sea Grant Support	11.417		5,035
Coastal Zone Management Administration Awards	11.419		1,318,287
Coastal Zone Management Estuarine Research Reserves	11.420		686,356
Climate and Atmospheric Research	11.431		37,664
Marine Fisheries Initiative	11.433		572,466
Unallied Management Projects	11.454		2,377,962
Habitat Conservation	11.463		354,825
Unallied Science Program	11.472		(26)
Atlantic Coastal Fisheries Cooperative Management Act	11.474		226,277
NOAA Programs for Disaster Relief Appropriations Act - Non-Construction and Construction	11.483		115,119
State and Local Implementation Grant Program	11.549		109,288
ARRA - State Broadband Data and Development Grant Program	11.558		753,603
Total U.S. Department of Commerce		$	21,994,163
U.S. Department of Defense			
Procurement Technical Assistance for Business Firms	12.002	$	386,754
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		500,352
EASE 2.0	12.219		11,264

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
National Guard Military Operations and Maintenance (O&M) Projects	12.401		12,284,463
Economic Adjustment Assistance for State Governments	12.617		901,527
Total U.S. Department of Defense		$	14,084,360
U.S. Department of Housing and Urban Development			
Mortgage Insurance - Homes (See Note 2)	14.117	$	96,181,738
Qualified Participating Entities (QPE) Risk Sharing (See Note 2)	14.189		21,260,000
Section 8 Project-Based Cluster:			
Section 8 Housing Assistance Payments Program	14.195		153,493,977
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856		504,591
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		6,932,364
Emergency Solutions Grant Program	14.231		563,565
Supportive Housing Program	14.235		1,760,113
Shelter Plus Care	14.238		1,513,958
Home Investment Partnerships Program	14.239		1,810,540
Housing Opportunities for Persons with AIDS	14.241		744,463
ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.255		(12,603)
Neighborhood Stabilization Program	14.264		3,523
Hurricane Sandy Community Development Block Grant Disaster Recovery Grants (CDBG-DR)	14.269		3,519,029
Fair Housing Assistance Program - State and Local	14.401		179,619
Sustainable Communities Regional Planning Grant Program	14.703		597,854
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871		14,580,783
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		800,674
Total U.S. Department of Housing and Urban Development		$	304,434,188
U.S. Department of the Interior			
Hurricane Sandy Disaster Relief – Coastal Resiliency Grants	15.153	$	68,351
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	15.605		5,216,133
Wildlife Restoration and Basic Hunter Education	15.611		1,601,039
Fish and Wildlife Management Assistance	15.608		25,914
Cooperative Endangered Species Conservation Fund	15.615		88,163
Clean Vessel Act Program	15.616		363,734
Sportfishing and Boating Safety Act	15.622		71,125
State Wildlife Grants	15.634		502,269
Endangered Species Conservation – Recovery Implementation Funds	15.657		38,865
Historic Preservation Fund Grants-In-Aid	15.904		548,043
Historic Preservation Fund Grants to Provide Disaster Relief to Historic Properties Damaged by Hurricane Sandy	15.957		1,307,542
Total U.S. Department of the Interior		$	9,831,178
U.S. Department of Justice			
Sexual Assault Services Formula Program	16.017	$	156,547
Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program	16.203		14,283
Juvenile Accountability Block Grants	16.523		57,528
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		283,281
Missing Children's Assistance	16.543		231,742
State Justice Statistics Program for Statistical Analysis Centers	16.550		10,917
National Criminal History Improvement Program (NCHIP)	16.554		167,882
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		284,167
Crime Victim Assistance	16.575		1,854,614
Crime Victim Compensation	16.576		353,088
Edward Byrne Memorial Formula Grant Program	16.579		63,410
Drug Court Discretionary Grant Program	16.585		258,790

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Federal Grantor / Program Title	CFDA or Contract Number		Total Expenditures
Violence Against Women Formula Grants	16.588		1,024,905
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		222,904
Residential Substance Abuse Treatment for State Prisoners	16.593		81,266
State Criminal Alien Assistance Program	16.606		571,759
Project Safe Neighborhoods	16.609		141,829
Juvenile Mentoring Program	16.726		26,084
Enforcing Underage Drinking Laws Program	16.727		46,807
Edward Byrne Memorial Justice Assistance Grant Program	16.738		830,007
DNA Backlog Reduction Program	16.741		35,602
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		55,411
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745		139,162
Support for Adam Walsh Act Implementation Grant Program	16.750		55,323
Congressionally Recommended Awards	16.753		(9)
ARRA - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG)			
Program/Grants to States and Territories	16.803		21
Second Chance Act Reentry Initiative	16.812		285,867
John R. Justice Prosecutors and Defenders Incentive Act	16.816		40,489
Vision 21	16.826		10,488
Total U.S. Department of Justice		$	7,304,164
U.S. Department of Labor			
Labor Force Statistics	17.002	$	795,008
Compensation and Working Conditions	17.005		12,292
Employment Service Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207		4,022,288
Disabled Veterans' Outreach Program (DVOP)	17.801		501,402
Local Veterans' Employment Representative Program	17.804		203,571
Unemployment Insurance (See Note 5)	17.225		183,542,842
Senior Community Service Employment Program	17.235		422,471
Trade Adjustment Assistance	17.245		572,786
WIA Cluster:			
WIA/WIOA Adult Program	17.258		3,389,499
WIA/WIOA Youth Activities	17.259		3,289,470
WIA/WIOA Dislocated Worker Formula Grants	17.278		4,676,784
WIA/WIOA Pilots, Demonstrations, and Research Projects	17.261		340,978
Incentive Grants - WIA Section 503	17.267		701,720
H-1B Job Training Grants	17.268		48,082
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	17.277		1,093,335
Trade Adjustment Assistance Community College and Career Training (TAACCCT) Grants	17.282		977,785
Workforce Innovation Fund	17.283		838,168
Consultation Agreements	17.504		428,730
Total U.S. Department of Labor		$	205,857,211
U.S. Department of Transportation			
Airport Improvement Program	20.106	$	42,102,941
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205		249,182,018
National Motor Carrier Safety	20.218		1,134,141
Performance and Registration Information Systems Management	20.231		71,409
Commercial Driver's License Program Improvement Grant	20.232		693,270
Commercial Vehicle Information Systems and Networks	20.237		870,206
ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	20.319		1,301,876
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants	20.500		3,833,030
Federal Transit - Formula Grants	20.507		26,679,329
Metropolitan Transportation Planning and State and Non-Metropolitan Planning and Research	20.505		323,439
Formula Grants for Rural Areas	20.509		584,165

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Transit Services Programs Cluster:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513		18,868
Job Access and Reverse Commute Program	20.516		628,923
Highway Safety Cluster:			
State and Community Highway Safety	20.600		2,307,640
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		288,628
Occupant Protection Incentive Grants	20.602		(1,436)
Safety Belt Performance Grants	20.609		564,964
State Traffic Safety Information System Improvement Grants	20.610		947,034
Incentive Grant Program to Increase Motorcyclist Safety	20.612		67,848
Child Safety and Child Booster Seats Incentive Grants	20.613		58,728
National Priority Safety Programs	20.616		1,848,342
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		4,639,751
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614		18,257
Pipeline Safety Program State Base Grants	20.700		81,792
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		47,905
Payments for Small Community Air Service Development	20.930		241,672
Total U.S. Department of Transportation		$	338,534,740
Equal Employment Opportunity Commission			
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	$	151,785
Total Equal Employment Opportunity Commission		$	151,785
National Foundation on the Arts and the Humanities			
Promotion of the Arts - Partnership Agreements	45.025	$	713,200
Promotion of the Humanities - Federal/State Partnership	45.129		880
Grants to States	45.310		1,063,231
Total National Foundation on the Arts and the Humanities		$	1,777,311
National Science Foundation			
Education and Human Resources	47.076	$	59,602
Total National Science Foundation		$	59,602
U.S. Department of Veterans Affairs			
Veterans State Nursing Home Care	64.015	$	8,666,818
Veterans Housing - Guaranteed and Insured Loans (See Note 2)	64.114		641,370
All-Volunteer Force Educational Assistance	64.124		77,810
State Cemetery Grants	64.203		64,812
Total U.S. Department of Veterans Affairs		$	9,450,810
Environmental Protection Agency			
Air Pollution Control Program Support	66.001	$	790,824
State Indoor Radon Grants	66.032		171,574
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034		145,934
State Clean Diesel Grant Program	66.040		57,090
State Public Water System Supervision	66.432		538,600
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Water Quality Management Planning	66.454		72,341
Clean Water State Revolving Fund Cluster:			
Capitalization Grants for Clean Water State Revolving Funds	66.458		2,155,780
Beach Monitoring and Notification Program Implementation Grants	66.472		196,620
Water Protection Grants to the States	66.474		(16,523)
Performance Partnership Grants	66.605		5,326,914
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		260,023
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		147,488
Pollution Prevention Grants Program	66.708		19,716

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements	66.802		488,863
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		119,604
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		956,074
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		129,576
State and Tribal Response Program Grants	66.817		767,223
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		141,868
Total Environmental Protection Agency		$	12,469,589
U. S. Nuclear Regulatory Commission			
U.S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	$	3,187
Total U.S. Nuclear Regulatory Commission		$	3,187
U.S. Department of Energy			
State Energy Program	81.041	$	302,176
Weatherization Assistance for Low-Income Persons	81.042		999,720
University Nuclear Science and Reactor Support	81.114		232
State Energy Program Special Projects	81.119		282,062
Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		33,594
Total U.S. Department of Energy		$	1,617,784
U.S. Department of Education			
Adult Education - Basic Grants to States	84.002	$	2,357,594
Student Financial Assistance Cluster: (See Note 6)			
Federal Supplemental Educational Opportunity Grants	84.007		2,621,223
Federal Work - Study Program	84.033		1,936,071
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038		14,114,000
Federal Pell Grant Program	84.063		57,304,701
Federal Direct Student Loans (See Note 2)	84.268		149,515,556
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379		10,000
Title I, Part A Cluster:			
Title I Grants to Local Educational Agencies	84.010		49,278,107
Title I State Agency Program for Neglected and Delinquent Children and Youth	84.013		402,872
Special Education Cluster:			
Special Education - Grants to States	84.027		41,783,912
Special Education - Preschool Grants	84.173		1,436,803
Federal Family Education Loans (Guarantee Agency) (See Note 2)	84.032		863,240,917
TRIO Cluster:			
TRIO - Student Support Services	84.042		537,854
TRIO - Talent Search	84.044		458,463
TRIO - Upward Bound	84.047		613,340
TRIO - Educational Opportunity Centers	84.066		610,497
Career and Technical Education - Basic Grants to States	84.048		6,203,493
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126		16,078,906
National Institute on Disability and Rehabilitation Research	84.133		12,075
Independent Living - State Grants	84.169		253,346
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177		236,882
Special Education - Grants for Infants and Families	84.181		1,990,402
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187		517,394
Education for Homeless Children and Youth	84.196		212,594
Assistive Technology	84.224		390,048
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265		12,555
Charter Schools	84.282		744,355
Twenty-First Century Community Learning Centers	84.287		5,779,657
Special Education - State Personnel Development	84.323		723,362
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326		91,322

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330		63,607
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331		(20)
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334		2,899,515
English Language Acquisition State Grants	84.365		2,611,170
Mathematics and Science Partnerships	84.366		614,231
Improving Teacher Quality State Grants	84.367		10,755,894
Grants for State Assessments and Related Activities	84.369		3,489,212
Statewide Longitudinal Data Systems	84.372		1,346,449
School Improvement Grants Cluster:			
School Improvement Grants	84.377		2,680,092
ARRA - School Improvement Grants	84.388		219,334
College Access Challenge Grant Program	84.378		1,649,569
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants	84.395		8,527,918
Investing in Innovation (i3) Fund	84.411		977,849
ARRA - Race to the Top – Early Learning Challenge	84.412		16,210,417
Other Department of Education Awards	ED-IES-14-C-0100		109,505
Total U.S. Department of Education		$	1,271,623,043
U.S. Department of Health and Human Services			
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	$	28,890
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042		82,966
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043		98,088
Aging Cluster:			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		2,349,241
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		2,810,182
Nutrition Services Incentive Program	93.053		452,348
Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	93.048		389,775
National Family Caregiver Support, Title III, Part E	93.052		665,972
Public Health Emergency Preparedness	93.069		4,251,218
Medicare Enrollment Assistance Program	93.071		33,487
Lifespan Respite Care Program	93.072		19,870
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074		360,811
Cooperative Agreements to Promote Adolescent Health through School-Based HIV/STD Prevention and School-Based Surveillance	93.079		329,214
Guardianship Assistance	93.090		535,906
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		168,250
Well-Integrated Screening and Evaluation for Women Across the Nation	93.094		503,157
Hurricane Sandy Relief Cluster:			
HHS Programs for Disaster Relief Appropriations Act-Non-Construction	93.095		113,529
Food and Drug Administration - Research	93.103		1,181,787
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		463,675
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		227,803
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118		(9,380)
Emergency Medical Services for Children	93.127		119,136
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		121,485
Injury Prevention and Control Research and State and Community Based Programs	93.136		574,384
Projects for Assistance in Transition from Homelessness (PATH)	93.150		293,244
Grants to States for Loan Repayment Program	93.165		271,549

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Disabilities Prevention	93.184	290,769
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	234,916
Family Planning - Services	93.217	923,469
Grants to States to Support Oral Health Workforce Activities	93.236	148,022
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	4,233,308
Universal Newborn Hearing Screening	93.251	250,351
Immunization Cooperative Agreements (See Note 2)	93.268	11,965,617
Adult Viral Hepatitis Prevention and Control	93.270	97,228
Substance Abuse and Mental Health Services - Access to Recovery	93.275	577,014
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	4,501,902
Minority Health and Health Disparities Research	93.307	251,542
State Health Insurance Assistance Program	93.324	344,338
Student Financial Assistance Cluster: (See Note 6)		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342	1,968,517
Nursing Student Loans (See Note 2)	93.364	1,682,034
Cancer Detection and Diagnosis Research	93.394	10,942
Health Careers Opportunity Program	93.416	29,856
Food Safety and Security Monitoring Project	93.448	232,073
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	7,676,676
ACA Nationwide Program for National and State Background Checks for Direct Patient Access Employees of Long Term Care Facilities and Providers	93.506	576,403
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	2,216,757
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	50,915,134
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - Financed in part by Prevention and Public Health Funds	93.539	310,883
Promoting Safe and Stable Families	93.556	659,054
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	74,410,626
Child Support Enforcement	93.563	9,652,437
Refugee and Entrant Assistance - State Administered Programs	93.566	275,886
Low-Income Home Energy Assistance	93.568	27,857,452
Community Services Block Grant	93.569	3,407,495
CCDF Cluster:		
Child Care and Development Block Grant	93.575	16,693,770
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	10,986,503
Refugee and Entrant Assistance - Discretionary Grants	93.576	255,651
State Court Improvement Program	93.586	296,130
Grants to States for Access and Visitation Programs	93.597	106,117
Chafee Education and Training Vouchers Program (ETV)	93.599	183,162
Head Start	93.600	142,948
The Affordable Care Act - Medicaid Adult Quality Grants	93.609	725,218
Voting Access for Individuals with Disabilities - Grants to States	93.617	251,856
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	1,423
Developmental Disabilities Basic Support and Advocacy Grants	93.630	(8,473)
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	495,637
Children's Justice Grants to States	93.643	91,046
Stephanie Tubbs Jones Child Welfare Services Program	93.645	618,505
Adoption Opportunities	93.652	1,065,285
Foster Care - Title IV-E	93.658	13,014,088
Adoption Assistance	93.659	7,282,367
Social Services Block Grant	93.667	12,163,485
Child Abuse and Neglect State Grants	93.669	276,492
Family Violence Prevention and Services/Domestic Violence Shelter and Supportive Services	93.671	764,276

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Chafee Foster Care Independence Program	93.674		576,941
ARRA – Health Information Technology and Public Health	93.729		3,404,545
Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance - Financed in part by the Prevention and Public Health Fund (PPHF)	93.733		396,366
Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs – Financed by Prevention and Public Health Funds (PPHF)	93.734		162,809
State Public Health Approaches for Ensuring Quitline Capacity – Funded in part by Prevention and Public Health Funds (PPHF)	93.735		48,043
State and Local Public Health Actions to Prevent Obesity, Diabetes, Heart Disease and Stroke (PPHF)	93.757		406,885
Children's Health Insurance Program (See Note 4)	93.767		39,612,891
Medicaid Cluster:			
State Medicaid Fraud Control Units	93.775		900,801
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777		2,837,140
Medical Assistance Program (See Note 4)	93.778		1,567,143,235
Money Follows the Person Rebalancing Demonstration	93.791		1,384,414
Child Health and Human Development Extramural Research	93.865		102,379
National Bioterrorism Hospital Preparedness Program	93.889		1,049,513
Grants to States for Operation of Offices of Rural Health	93.913		168,078
HIV Care Formula Grants (See Note 4)	93.917		3,729,829
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		38,063
HIV Prevention Activities - Health Department Based	93.940		1,610,366
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943		1,405,914
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		208,878
Assistance Programs for Chronic Disease Prevention and Control	93.945		1,958,379
Block Grants for Community Mental Health Services	93.958		1,855,163
Block Grants for Prevention and Treatment of Substance Abuse	93.959		7,064,426
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		339,959
Preventive Health and Health Services Block Grant	93.991		676,251
Maternal and Child Health Services Block Grant to the States	93.994		1,722,578
NHSC Search Program	230200432017C		90,358
Total U.S. Department of Health and Human Services		$	1,926,427,466
Corporation for National and Community Service			
Foster Grandparent/Senior Companion Cluster:			
Senior Companion Program	94.016	$	393,236
Total Corporation for National and Community Service		$	393,236
Social Security Administration			
Disability Insurance/SSI Cluster:			
Social Security - Disability Insurance	96.001	$	8,342,811
Social Security - Research and Demonstration	96.007		774,137
Total Social Security Administration		$	9,116,948
U.S. Department of Homeland Security			
Homeland Security Grant Program	97.004	$	825,053
State and Local Homeland Security National Training Program	97.005		(136,736)
Boating Safety Financial Assistance	97.012		1,090,840
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023		55,062
Flood Mitigation Assistance	97.029		105,799
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		2,841,013
Hazard Mitigation Grant	97.039		231,293
National Dam Safety Program	97.041		75,033
Emergency Management Performance Grants	97.042		2,645,556
State Fire Training Systems Grants	97.043		7,200

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Assistance to Firefighters Grant	97.044		111,293
Cooperating Technical Partners	97.045		36,635
Pre-Disaster Mitigation	97.047		181,078
Homeland Security Advanced Research Projects Agency	97.065		(35,718)
Homeland Security Grant Program	97.067		4,913,081
Aviation Research Grants	97.069		(20,760)
National Explosives Detection Canine Team Program	97.072		190,375
Disaster Assistance Projects	97.088		850,917
Driver's License Security Grant Program	97.089		610,480
Law Enforcement Officer Reimbursement Agreement Program	97.090		116,800
Advanced Surveillance Program (ASP)	97.118		531,400
Total U.S. Department of Homeland Security		$	15,225,694
Research and Development Cluster:			
U.S. Department of Agriculture			
Agricultural Research - Basic and Applied Research	10.001	$	107,431
Plant and Animal Disease, Pest Control, and Animal Care	10.025		34,073
Grants for Agricultural Research, Special Research Grants	10.200		17,586
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		2,218,447
Sustainable Agriculture Research and Education	10.215		43,989
Integrated Programs	10.303		114,206
Homeland Security - Agricultural	10.304		17,916
Organic Agriculture Research and Extension Initiative	10.307		162,781
Agriculture and Food Research Initiative (AFRI)	10.310		255,660
Crop Protection and Pest Management Competitive Grants Program	10.329		86,753
Crop Insurance Education in Targeted States	10.458		174,945
Cooperative Extension Service	10.500		1,631,398
Farm to School Grant Program	10.575		14,362
Forest Health Protection	10.680		7,713
Soil and Water Conservation	10.902		4,377
Soil Survey	10.903		15,856
Environmental Quality Incentives Program	10.912		12,563
Farm and Ranch Lands Protection Program	10.913		5,354
Technical Agricultural Assistance	10.960		444,703
Other Research and Development - Department of Agriculture	10.000		12,540
U.S. Department of Commerce			
Ocean Exploration	11.011		19,301
Integrated Ocean Observing System (IOOS)	11.012		121,666
Sea Grant Support	11.417		2,536,970
Coastal Zone Management Administration Awards	11.419		7,049
Climate and Atmospheric Research	11.431		153
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432		94,881
Cooperative Science and Education Program	11.455		76,879
Weather and Air Quality Research	11.459		171,464
Special Oceanic and Atmospheric Projects	11.460		172,737
Habitat Conservation	11.463		35,986
Meteorologic and Hydrologic Modernization Development	11.467		42,847
Applied Meteorological Research	11.468		83,483
Congressionally Identified Awards and Projects	11.469		43,735
Unallied Science Program	11.472		12,947
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478		208,551
Other Research and Development - Department of Commerce	11.000		865,986
U.S. Department of Defense			
Collaborative Research and Development	12.114		2,174,526
Basic and Applied Scientific Research	12.300		2,838,357
Basic Scientific Research - Combating Weapons of Mass Destruction	12.351		357,408

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Basic Scientific Research	12.431	142,637
The Language Flagship Grants to Institutions of Higher Education	12.550	397,554
Basic, Applied, and Advanced Research in Science and Engineering	12.630	58,335
Air Force Defense Research Sciences Program	12.800	168,415
Research and Technology Development	12.910	92,917
Other Research and Development - Department of Defense	12.000	495,702
U.S. Department of the Interior		
Hurricane Sandy Disaster Relief - Coastal Resiliency Grants	15.153	50,317
Bureau of Ocean Energy Management (BOEM) Environmental Studies Program (ESP)	15.423	745,898
Marine Minerals Activities - Hurricane Sandy	15.424	22,745
Coastal Impact Assistance Program (CIAP)	15.426	108,736
Sport Fish Restoration Program	15.605	30,509
Fish and Wildlife Management Assistance	15.608	53,691
State Wildlife Grants	15.634	7,058
Research Grants (Generic)	15.650	77,529
Migratory Bird Monitoring, Assessment and Conservation	15.655	2,113
Assistance to State Water Resources Research Institutes	15.805	96,808
Earthquake Hazards Research and Monitoring Assistance	15.807	69,545
U.S. Geological Survey - Research and Data Collection	15.808	51,364
National Land Remote Sensing - Education Outreach and Research	15.815	38,633
Natural Resource Stewardship	15.944	7,393
Cooperative Research and Training Programs – Resources of the National Park System	15.945	1,900,413
Other Research and Development - Department of the Interior	15.000	53,536
U.S. Department of Justice		
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	157,925
Juvenile Mentoring Program	16.726	31,801
Edward Byrne Memorial Justice Assistance Grant Program	16.738	5,288
U.S. Department of Labor		
WIA/WIOA Pilots, Demonstrations, and Research Projects	17.261	52,954
U.S. Department of State		
Academic Exchange Programs - Scholars	19.401	90,824
Public Diplomacy Programs for Afghanistan and Pakistan	19.501	68,350
U.S. Department of Transportation		
Highway Research and Development Program	20.200	3,892
University Transportation Centers Program	20.701	27,886
National Aeronautics and Space Administration		
Science	43.001	122,093
Education	43.008	40,641
Other Research and Development - National Aeronautics and Space Administration	43.000	567,746
National Endowment for the Humanities		
Promotion of the Humanities - Federal/State Partnership	45.129	2,000
Institute of Museum and Library Services		
National Leadership Grants	45.312	19,497
National Science Foundation		
Engineering Grants	47.041	787,259
Mathematical and Physical Sciences	47.049	128,695
Geosciences	47.050	6,744,722
Computer and Information Science and Engineering	47.070	541,804
Biological Sciences	47.074	776,656
Social, Behavioral, and Economic Sciences	47.075	14,744
Education and Human Resources	47.076	1,462,586
Polar Programs	47.078	875,291
Office of International Science and Engineering	47.079	462,387
Office of Experimental Program to Stimulate Competitive Research	47.081	3,718,380

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
ARRA - Trans-NSF Recovery Act Research Support	47.082	5,152
Other Research and Development - National Science Foundation	47.000	285,707
Securities and Exchange Commission		
Securities and Exchange Commission No CFDA	58.000	211,181
Small Business Administration		
Small Business Development Centers	59.037	482,209
Department of Veterans Affairs		
Veterans Rehabilitation - Alcohol and Drug Dependence	64.019	1,924
Environmental Protection Agency		
Climate Showcase Communities Grant Program	66.041	19,603
National Estuary Program	66.456	63,320
Great Lakes Program	66.469	140,422
P3 Award: National Student Design Competition for Sustainability	66.516	4,083
Research, Development, Monitoring, Public Education, Outreach, Training, Demonstrations, and Studies	66.716	4,050
Chemical Emergency Preparedness and Prevention (CEPP) Technical Assistance Grants Program	66.810	13,531
Other Research and Development - Environmental Protection Agency	66.000	31,942
U. S. Nuclear Regulatory Commission		
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	16,068
U.S. Department of Energy		
State Energy Program	81.041	19,624
Office of Science Financial Assistance Program	81.049	1,040,390
Renewable Energy Research and Development	81.087	457,729
Defense Nuclear Nonproliferation Research	81.113	173,369
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	30,226
Advanced Research Projects Agency – Energy	81.135	113,966
Other Research and Development - Department of Energy	81.000	142,315
U.S. Department of Education		
Magnet Schools Assistance	84.165	417
Javits Fellowships	84.170	31,012
Special Education - Grants for Infants and Families	84.181	91,344
Research in Special Education	84.324	136,066
Race to the Top – Early Learning Challenge	84.412	930
U.S. Department of Health and Human Services		
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107	84,568
Environmental Health	93.113	1,518
NIEHS Superfund Hazardous Substances - Basic Research and Education	93.143	6,001
Research and Training in Complementary and Integrative Health	93.213	50,448
Mental Health Research Grants	93.242	186,242
Advanced Nursing Education Grant Program	93.247	(516)
Alcohol Research Programs	93.273	493,713
Drug Abuse and Addiction Research Programs	93.279	771,184
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	293,693
Trans-NIH Research Support	93.310	375,799
National Center for Advancing Translational Sciences	93.350	13,025
Nursing Research	93.361	113,921
National Center for Research Resources	93.389	3,165,673
Cancer Cause and Prevention Research	93.393	224,555
Cancer Detection and Diagnosis Research	93.394	47,961
Cancer Biology Research	93.396	187,599
The Affordable Care Act - Medicaid Adult Quality Grants	93.609	80,071
Health Care Innovation Awards (HCIA)	93.610	3,089,268
Developmental Disabilities Basic Support and Advocacy Grants	93.630	483,703

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2015

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Cardiovascular Diseases Research	93.837	48,368
Blood Diseases and Resources Research	93.839	215,678
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847	357,865
Allergy and Infectious Diseases Research	93.855	2,942,271
Biomedical Research and Research Training	93.859	3,566,274
Child Health and Human Development Extramural Research	93.865	1,260,471
Aging Research	93.866	159,685
Medical Library Assistance	93.879	87,670
Research, Prevention, and Education Programs on Lyme Disease in the United States	93.942	256,457
PPHF Geriatric Education Centers	93.969	397,587
International Research and Research Training	93.989	27,425
Department of Health and Human Services	93.000	49,052
U.S. Department of Homeland Security		
Centers for Homeland Security	97.061	512,219
Agency for International Development		
USAID Foreign Assistance for Programs Overseas	98.001	5,332,038
USAID Development Partnerships for University Cooperation and Development	98.012	11,739
Total Research and Development Cluster		$ 65,032,653
Other Expenditures of Federal Awards (See Note 8)	N/A	$ 252,247
Total Expenditures of Federal Awards		$ 4,592,390,606

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, 2015	Non-monetary Assistance June 30, 2015
10.410	Very Low to Moderate Income Housing Loans	$ 1,315,942	$ 1,315,942
11.307	Economic Adjustment Assistance	13,517,606	6,043,635
14.117	Mortgage Insurance – Homes	96,181,738	96,181,738
14.189	Qualified Participating Entities (QPE) Risk Sharing	21,260,000	21,260,000
64.114	Veterans Housing - Guaranteed and Insured Loans	641,370	641,370
84.032	Federal Family Education Loans (Guaranty Agency)	863,240,917	862,163,907
84.038	Federal Perkins Loan Program – Federal Capital Contributions	14,114,000	14,114,000
84.268	Federal Direct Student Loans	149,515,556	149,515,556
93.342	Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	1,968,517	1,968,517
93.364	Nursing Student Loans	1,682,034	1,682,034
	Other Non-Monetary Assistance		
10.555	National School Lunch Program	33,556,604	3,946,792
10.559	Summer Food Service Program for Children	1,173,541	4,809
10.569	Emergency Food Assistance Program (Food Commodities)	1,643,319	1,643,319
93.268	Immunization Cooperative Agreements	11,965,617	10,490,517
	Total Non-Cash Assistance		$1,170,972,136

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 - Guaranteed and Insured 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, 2015.

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.

- 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 $9.4 million. Of this amount, $8.8 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. There was $124,000 passed through the Rhode Island Infrastructure Bank, a related organization to the State, to a component unit. The remaining amount, approximately $487,000, 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 2015:

Program	CFDA Number	Rebate Amount
Medical Assistance Program	93.778	$ 63,070,247
Children's Health Insurance Program (CHIP)	93.767	$ 710,417
HIV Care Formula Grants	93.917	$ 8,389,399
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	$ 5,452,144

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 2015. 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 $163.7 million funded from the State's account in the federal Unemployment Trust Fund, and $19.9 million funded by federal grants.

NOTE 6. STUDENT FINANCIAL ASSISTANCE CLUSTER

Expenditures for the Student Financial Assistance Cluster are listed under two separate departments, Department of Education and Department of Health and Human Services. The total expenditures for the Cluster are $229.2 million.

NOTE 7. ITEMS EXCLUDED FROM THE SEFA

In accordance with guidance included in the OMB Compliance Supplement, amounts received by the State under the Build America Bonds and State Small Business Credit Incentives programs are not included in the Schedule of Expenditures of Federal Awards. The State received $1,869,505 and $4,345,555, respectively, during fiscal year 2015, 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

Auditor's Reports

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Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
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INDEPENDENT AUDITOR'S REPORT 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, 2015, 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 17, 2015. Our report includes a reference to other auditors who audited the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 1% of the assets and deferred outflows and 1% of the revenues of the governmental activities and 1% of the assets and 3% of the revenues of the aggregate remaining fund information;

- the Convention Center Authority, a major fund, which also represents 48% 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.

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 responses to be material weaknesses: Findings 2015-004, 2015-007, 2015-011, 2015-013, 2015-014 and 2015-016. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Findings 2015-019, 2015-020, 2015-021 and 2015-022.

A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Findings 2015-001, 2015-003, 2015-006, 2015-008, 2015-009, 2015-010, 2015-012, 2015-015, 2015-017 and 2015-018. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies: Findings 2015-023, 2015-024 and 2015-025.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Findings 2015-002, 2015-005 and 2015-026.

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 results of that testing, and not to provide an opinion on the effectiveness of the State's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dennis E. Hoyle, CPA
Auditor General

December 17, 2015

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
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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 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, 2015.

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 36% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2015. 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 Unemployment Insurance Program, Highway Planning and Construction Cluster, and Low-Income Home Energy Assistance Program

As described in Findings 2015-032, 2015-038 and 2015-053 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
2015-032	17.225	Unemployment Insurance	Special Tests and Provisions – UI Program Integrity – Overpayments
2015-038	20.205	Highway Planning and Construction Cluster	Special Tests and Provisions – Utility Accommodation Policy
2015-053	93.568	Low-Income Home Energy Assistance	Period of Performance

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

Qualified Opinion on Unemployment Insurance Program

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 Unemployment Insurance program for the year ended June 30, 2015.

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, 2015.

Qualified Opinion on Low-Income Home Energy Assistance Program

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 Low-Income Home Energy Assistance Program for the year ended June 30, 2015.

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, 2015.

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

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 2015-034 and 2015-072. 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 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 2015-029, 2015-032, 2015-036, 2015-037, 2015-038, 2015-043, 2015-045, 2015-049, 2015-050, 2015-053, 2015-057, 2015-059, 2015-061, 2015-062, 2015-064, 2015-065, 2015-066, 2015-068 and 2015-076 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 2015-027, 2015-028, 2015-030, 2015-031, 2015-033, 2015-035, 2015-039,

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

2015-040, 2015-041, 2015-042, 2015-044, 2015-046, 2015-047, 2015-048, 2015-051, 2015-052, 2015-054, 2015-055, 2015-056, 2015-058, 2015-060, 2015-063, 2015-067, 2015-069, 2015-070, 2015-071, 2015-073, 2015-074 and 2015-075 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 29, 2016

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

Table of Contents

Basic Financial Statements

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

Opinion Unit	Opinion
Governmental Activities	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.*

4) The audit disclosed two other matters required to be reported in accordance with *Government Auditing Standards.*

Federal Awards

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

6) 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 #
Unemployment Insurance	17.225
Highway Planning and Construction Cluster	20.205
Low-Income Home Energy Assistance Program	93.568

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

8) 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
Fresh Fruit and Vegetable Program	10.582
Economic Development Cluster:	
Investments for Public Works and Economic Development Facilities	11.300
Economic Adjustment Assistance	11.307
Mortgage Insurance – Homes	14.117
Qualified Participating Entities (QPE) Risk Sharing	14.189
Section 8 Project-Based Cluster:	
Section 8 Housing Assistance Payments Program	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	84.027
Special Education – Preschool Grants	84.173
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126

Major Programs	
Program Title:	***CFDA Number***
ARRA - Race to the Top – Early Learning Challenge	84.412
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525
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
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

9) The dollar threshold used to distinguish between Type A and Type B programs was $13,777,172.

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

Finding 2015-001 ***(significant deficiency - repeat finding)***

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

Certain duties performed by the Office of the General Treasurer are not adequately segregated resulting in control deficiencies.

Appropriate controls over cash receipts and disbursements require segregation of duties. The functions of authorizing and recording transactions should be totally separate from functions related to the disbursement and movement of funds, cash receipts, and reconciliation of bank and book balances.

During fiscal 2015, we observed numerous journal entries initiated and approved by Treasury personnel that were not consistent with the appropriate level of segregation of duties over cash receipts and disbursements thereby weakening controls.

Due to the incomplete implementation of the RIFANS accounting system, receipt transactions are directly recorded as general ledger transactions. Since Treasury has been designated as the “final approver” of cash receipt transactions upon confirmation of the bank deposit, Treasury has general ledger access that would ordinarily not exist in a control environment following the desired level of segregation of duties. While the State has attempted to implement compensating controls to mitigate these risks, there are limits to the effectiveness of these compensating controls due to the existing configuration of the accounting system and the organizational structure in place.

Optimally, certain duties now performed by Treasury should be reassigned to a separate unit within the Office of Accounts and Control that would handle the authorization and accounting for these transaction types. Until such an interdepartmental reallocation of duties could be effected, certain transaction types should not be performed by Treasury and routed through modified workflows for authorization and recording.

RECOMMENDATIONS

2015-001a Reorganize accounting responsibilities currently performed by the Office of the General Treasurer to the Office of Accounts and Control to ensure proper segregation of duties over cash receipt and disbursement functions.

2015-001b Redirect workflows for certain accounting transaction types so that adequate segregation of duties over cash receipt and disbursement functions is maintained.

Corrective action plan / auditee views:

As noted by the Auditor, this is a repeat finding from prior fiscal year audits.

Treasury Management recognizes the merit of the Auditor’s recommendation with respect to control improvement.

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. In light of the practical and systemic constraints to completion, Treasury 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 implementation of the RIFANS ERP system.

Since being alerted to this finding in the FY 2014 audit, Treasury Management has taken concrete steps to improve controls and is exploring additional options to develop enhancements to its control procedures.

By way of example:

In FY 2015, Treasury Management requested that the Office of Accounts and Control modify the RIFANS system to segregate the initiation and approval functions for certain journal entries approved by the Chief Fiscal Manager. The initial iteration of the changes prevented the CFM from being able to open and review the journal entries she was charged with approving for the department. Treasury Management and the Controller's office coordinated to make further enhancements to RIFANS that would overcome this limitation and accommodate the improvement. The CFM now has the role of "approval-only", and RIFANS will allow her to review the details of each entry subject to her approval.

In early FY 2016, Treasury Management made substantial changes to the process by which the state handles NSF (non-sufficient funds) or RDI (returned deposit items). These items represent nearly one-third of the transactions identified by the auditor within the scope of this finding. (NSF items are returned checks or other deposit items whereby the payer had insufficient funds in their account to support the payment to the state.) Treasury Management coordinated with both its banking partners and the Office of Accounts and Controls to implement a completely new process for NSF/RDI items. Today, the bank will automatically represent NSF items on two consecutive Fridays. This modification substantially reduces the number of NSF/RDI items processed by Treasury. A new reconciliation mechanism for this process reduces the number of journal entries from an average of 1,300+ per year to just 300. An ancillary benefit of this process is that it substantially improves cash collection and reduces the number of bounced checks returned to agencies for collection.

With respect to the recommendation to reorganize responsibilities from Treasury to Accounts and Controls, Management believes a wholesale reorganization 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.

Treasury Management, in consultation with the Controller's office will continue to review workflows and business practices to improve segregation where possible and to ensure compensating controls are as robust as possible given the systemic constraints.

To that end, Treasury Management will solicit for consulting services from a public accounting firm to analyze current policies and practices, and to facilitate the development of further enhancements to control and segregation policies.

Additionally, Treasury Management will continue to engage with the Office of Accounts and Controls to discuss the possibility of delegating certain approval functions to DOA personnel where feasible.

Notwithstanding the forgoing, Treasury management disagrees that this finding now reflects "control deficiencies" or "weakened controls" vis-à-vis prior year audits, especially in consideration of the substantial improvements to technical and procedural operations effectuated over the past year.

Anticipated Completion Date: *Fiscal 2017*

Contact Person: *Patrick Marr*
Deputy Treasurer for Operations
Phone 401.462.7664

Finding 2015-002 ***(other compliance matter – new finding)***

OVERPAYMENTS TO MEDICAID MANAGED CARE ORGANIZATIONS

Medicaid managed care organizations (MCOs) were overpaid more than $200 million due to overstated capitation rates for the Medicaid expansion population.

Approximately $208 million was estimated as overpayments to MCOs providing services to Medicaid enrollees of which $133 million remained due to the State at June 30, 2015. These amounts mostly result from monthly capitation amounts paid for the Medicaid expansion population, a newly covered group under the federal Affordable Care Act, that were well in excess of the actual claims activity.

The Executive Office of Health and Human Services (EOHHS) faced early challenges in establishing a capitation rate for this population due to the high utilization of services expected at the inception of coverage. However, these estimated overpayment amounts due to the State are well in excess of any typical risk share/gain share contract settlement amounts that routinely exist each year. Risk share/gain share amounts due to or from the State are measured at the close of contract periods, with final settlement at the end of the claims run-out period - one year later.

These amounts have been recognized within the overall Medicaid program receivables and payables calculated for inclusion in the State's financial statements at June 30, 2015. The amounts paid for the Medicaid expansion population were 100% funded by the federal government – consequently once the overpayments are collected by the State such amounts are due to the federal government. The managed care organizations are unintentionally benefitting from a significant and extended, no-interest cash flow infusion.

Due to contract provisions in effect during fiscal 2015, the MCOs will be allowed to keep a portion of the excess capitation payments. Gain share provisions in the contract were intended to reward the MCOs for overall cost efficiencies attained through enhanced case management, preventative care, and enhanced coordination of services. The significant amounts due back to the State, in this instance, resulted from excessive capitation amounts and not from efficiencies achieved by the MCOs.

We acknowledge the challenge in establishing an appropriate capitation rate for this newly covered population and understand actuaries were involved in establishing those rates. However, given the size of these overpayments, we recommend that the contracts with the managed care organizations be amended to allow for interim recoupment of these excess payments in situations where the overpayment amounts are so significant. The underlying assumptions should be reexamined and adjusted to ensure that the capitation rates do not continue to result in material excess payments.

RECOMMENDATIONS

2015-002a Amend contracts with the managed care organizations to allow interim recoupment of overpayments that exceed normal risk share / gain share amounts.

2015-002b Reexamine the assumptions underlying the determination of capitation rates to ensure the rates do not result in significant overpayments to the managed care organizations.

Corrective action plan / auditee views:

Effective January 1, 2014, the Affordable Care Act (ACA) allowed states to expand Medicaid eligibility to adults up to 138% of the federal poverty level. The State of Rhode Island covered this new population using managed care plans. The assumptions used to develop the Medicaid Expansion capitation rates recognized that all persons eligible would not be covered immediately on January 1, 2014, and that coverage would not reach a mature state until December 31, 2014. The State used risk corridors and risk-sharing arrangements around the rates to limit the contract partners' exposure and to mitigate the risk of over-adequacy or under-adequacy in the rates.

Initially, two sets of capitation rates were developed. One set covered the first six months of CY 2014 and the second set of rates applied to the 12-month period from July 1, 2014, through June 30, 2015. The division of the contract period into two rate periods allowed the State to recognize the anticipated selection bias during the initial rollout of the Medicaid Expansion program in the rates and to align with other managed care contract periods.

When developing capitation rates for FY 2015, the Medicaid Expansion capitation rates were revised for the period July 1, 2014, through June 30, 2015, resulting from reconsideration of the original assumptions used in the previous rate calculations. The revision was due to additional information from the State's experience to date with enrollment into Medicaid Expansion and the health characteristics presented by this population, information which was not previously available for the original rate development.

(Capitation rates for FY 2016 for the Medicaid Expansion group were further refined based on the MCO's financial statements related to the risk-sharing reporting. Certain enrollment-driven assumptions were updated to reflect 2016 enrollment projections, as were other assumptions, including pent-up demand, adverse selection, and adverse risk margin based on these financial statements. The FY 2016 capitation rates were developed using a 50/50 blend of the original rating methodology and the MCOs risk-share financial reports since there were insufficient historical experience to draw upon from the State's encounter system. The Actuary wanted to incorporate actual experience in the rates while being cognizant of the limitations of the data. An analysis of the FY 2016 capitation rates does not indicate material excess payments to the MCOs.)

For each capitation rate revision, the capitation rates were compiled in accordance with Title 42 CFR 438.6 and 438.60, and reviewed by CMS.

When it was observed, based on monthly risk/gain share financial reports, that the MCOs were incurring and reporting medical expenses that were significantly less than the medical portion of the capitation dollars paid to the MCOs, the State began recouping a portion of the MCOs gain share. The State recouped gain share monies in December 2014, (based on a calculation of 80% of the MCOs reported gain share balance due to the State as of June 2014), and again in January 2015, (calculated at 70% of the gain share balance due as of November 2014).

On December 15, 2014, and on January 27, 2015, the State received letters from United Healthcare disputing the State's actions to recoup these monies based on the timing indicated in the MCO's contract, stating that, per the contract, "Final settlement is based on review of the complete experience for the contract period following the full twelve-month run out … ".

Because there was no specific language in the MCOs' contracts to make partial settlement payments or recoupments on an interim basis prior to the end of the contract period and/or the final settlement period, and, on the advice of State Counsel, recoupment activities for the Medicaid Expansion contracts stopped. The State's Legal Counsel also notified United Healthcare that the State would not be performing interim recoupments for Medicaid Expansion.

The State has acted to address this situation going forward by updating the MCO contract. As a result of changes reflected in Amendment 9, effective July 1, 2015, Attachment N, Special Terms and Conditions, Reconciliation and Payment, now includes the following language:

> *If, six (6) months after the start of a Risk Share/ Gain Share contract period, the Contractor's Risk Share/Gain Share report indicates that medical expenses have either exceeded the medical portion of the capitation dollars paid to the Contractor or are less than the medical portion of the caption dollars paid to the Contractor by at least 30% or more, EOHHS may make partial settlement payments or recoupments on an interim basis prior to the end of the contract period and/or the final settlement period. Related risk share payments shall be based on cash expenditures as shown in the Risk Share/Gain Share Report. Related gain share recoupments shall be based on Risk Share/Gain Share reports that are inclusive of IBNR. EOHHS will provide the Contractor with the payment or recoupment dollar amount not less than 45 calendar days in advance of the actual date of the payment or recoupment.*

On February 10, 2016, notice was sent to the MCOs that the State will be recouping, over a 3-month period, beginning in April 2016 and continuing into June 2016, 80% of the outstanding gain share balance for the Medicaid Expansion contract ending June 30, 2015, with the remaining gain share balance to be recouped at the time of the final contract settlement.

Per the Recommendations of the State Auditors, 2015-002a, the managed care organization contracts have been amended to allow for interim payments and recoupments when the over- or under-payment amounts are significant. In addition, per the Recommendation of the State Auditors, 2015-002b, as stated above, the underlying assumptions relating to capitation rate development continue to be re-examined and adjusted to ensure that the rates do not result in significant overpayments or underpayments to the managed care organizations.

Anticipated Completion Date: *June 30, 2016*

Contact Person: *Deb Florio, Deputy Director*
Phone: 401.462.0140

Finding 2015-003 ***(significant deficiency – repeat finding)***

COMPREHENSIVE GENERAL LEDGER CONTROLS OVER RECEIVABLES

Statewide accounting controls over receivables can be enhanced.

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 provides a level of compensating control but 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 with 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 allowed.

The Office of Accounts and Control continues to explore 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 to enhance the State's controls over receivables, in aggregate, given the complicated and decentralized nature of revenue collection points throughout the State.

RECOMMENDATION

2015-003 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.

Corrective action plan / auditee views:

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

The classification 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; however, that fact alone should not lead to a significant deficiency classification in an audit report.

The auditor's recommendation is based more on conceptual theory than a practical solution considering the complex structure and myriad of systems that exist within a governmental environment. For example, the majority of net receivable balances are derived from the Division of Taxation (division) which currently track 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.

It is also important to note that the office is currently utilizing the Oracle receivables module for certain receivable types and is working to identify other 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 2015-004 ***(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 41% of fiscal 2015 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 revenues are 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

2015-004a Improve functionality with the statewide ERP system to facilitate federal grant administration (grants management, cash management, and cost allocation).

2015-004b 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:

Realizing the need to complete a comprehensive ERP system, the Department has begun the process of delivering new systems to complete this vision based on a Software as a Service (SAS) model to integrate with our current payroll, personnel and financial systems. This includes a new time and attendance system that is currently scheduled to be delivered in phases starting in the first quarter of 2017. This new system will be supported by an outside vendor and will be able to integrate with our current payroll system and also be able to integrate with future payroll and HRIS systems.

The Department also utilized the SAS model to implement an employee recruiting model which went live in FY 16. The Neogov service is supported by an outside vendor and utilized as a SAS.

In early FY17, the department will also be rolling out learning management system (LMS) statewide. This will also be delivered by an outside vendor and be purchased as a SAS.

DoIT and ODE will be developing a comprehensive strategic plan to address our current payroll, personnel and financial systems. This plan will address how to best replace our current systems with our newly purchased SAS modules. The plan will also identify what other modules will be needed to complete a comprehensive ERP system along with a timeline to implement the new vision.

Anticipated Completion Date: *September 2017*

Contact Persons: *Thom Guertin, Chief Digital Officer*
Phone: 401.574.9219

Laurie Petrone, Director, Office of Federal Grants Administration
Phone: 401.574.8423

Finding 2015-005 ***(other compliance matter–new finding)***

DEBT SERVICE – TECHNICAL EVENT OF DEFAULT

Due to an error by the State's trustee, the State missed a scheduled debt service payment which resulted in a technical event of default.

During fiscal 2015, the State inadvertently missed a scheduled debt service payment. The State utilizes a debt management system to track all long-term debt and schedule required debt service payments. This debt service was appropriately scheduled for payment in the debt management system. The trustee typically "invoices" the State for required debt service. When no invoice was received from the trustee, inquiry was made of the trustee who assured the State that no required payment was due.

The required debt service payment was subsequently made and the trustee accepted responsibility for the error and reimbursed the State for the additional interest due. While resolved and explained, the technical event of default still required a continuing disclosure notification to EMMA (the Electronic Municipal Market Access data repository) and disclosure in subsequent Official Statements to market new bonds. That disclosure included reference to the State's "intent to implement policies that the situation will not arise again".

Because the potential consequence of any default, technical or otherwise, is severe and could affect the State's reputation in the financial markets, a review of existing procedures is necessary to ensure adequate safeguards are in place to prompt timely remittance of all required debt service. The review should include the role of external parties (fiscal advisor, paying agents and trustees) as well as the roles of the different agencies within State government that have responsibility for debt management.

RECOMMENDATION

2015-005 Review the existing debt service payment process to ensure adequate safeguards are in place to prompt timely remittance of all required debt service.

Corrective action plan / auditee views:

As mentioned in the finding, the State's trustee accepted responsibility for this error. Nevertheless, this is an important process that will be reviewed in conjunction with the formation of the new Office of Debt Management within the Treasurer's Office.

Anticipated Completion Date: *June 30, 2017*

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

Finding 2015-006 ***(significant deficiency – new finding***

DIVISION OF INFORMATION TECHNOLOGY - DISASTER RECOVERY PLAN

The State did not perform a recommended test of its disaster recovery plan during fiscal 2015 due to funding limitations.

The State should implement a plan to ensure that at least annually its enterprise data center and systems disaster recovery plan has been fully tested at its off-site recovery data center. The Division of Information Technology (DoIT) has not performed a disaster recovery test since fiscal 2014. DoIT has a designated data center recovery facility in New Jersey (operated by a vendor) which it pays $47,000 per month to keep ready if needed. DoIT explained that the disaster recovery tests have been eliminated due to budgetary cuts.

To increase the likelihood that systems can be restored in the event of a disaster that disables operations at the State's data center, the State needs to test the viability of its recovery center and its employees' knowledge and ability to perform the restoration of the enterprise. Typically, industry best practices stipulate that disaster recovery testing be performed twice a year in order to accommodate the ever changing systems environment. At a minimum, the State should ensure that a full disaster recovery test is performed annually.

Since the last test performed in fiscal 2014, the State has undergone a number of changes to its system environment. New systems such as UHIP, STAARS, and numerous patches to RIFANS along with network and communications configuration changes have not been part of an enterprise disaster recovery test. Additionally, we noted that no disaster recovery test has been scheduled to date in the current fiscal year.

RECOMMENDATION

2015-006 Perform an off-site disaster recovery exercise at the State's designated disaster recovery site on at least an annual basis.

Corrective action plan / auditee views:

DOIT had submitted a request to fund the January 2016 disaster recovery exercise from the State's Strategic IT investment fund. That request was denied. DOIT was advised to find alternative funding. If alternate funding is provided, a disaster recovery exercise will take place in June 2016. Note, that a disaster recovery exercise requires significant funding. The funding is for staff, travel and DR services to be completed offsite at our DR vendor location.

Anticipated Completion Date: *December 30, 2016*

Contact Person: *Michael Lombardi, Assistant Director, IT Operations*
Phone: 401.462.4702

Finding 2015-007 ***(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 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".

Various methods are 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>

2015-007a 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.

2015-007b Develop and implement procedures 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>:

2015-007a - We have determined that the current software package and procedures is not meeting our needs. The taxation system and payroll system both utilized that system. With taxation using a new software program which has its own version control, only payroll remains on the current system. The current system needs to be reviewed on how we can pull the code off the system and migrate to a new version control system. We have obtained a consultant to provide recommendations on how to pull the code and also to provide technical advice. A purchase order has been issued for this task in FY 2016. We will seek tech funding for new system in FY 17.

Anticipated Completion Date: *March 31, 2017*

2015-007b - This finding will be addressed when a new change management process is selected.

Anticipated Completion Date: *TBD - Dependent on 2015-007a*

Contact Person: *Alan Dias, Assistant Director IT*
Phone: 401.222.6091

Finding 2015-008 *(significant deficiency - repeat finding)*

MONITORING RIFANS ACCESS PRIVILEGES AND AGENCY APPROVAL HIERARCHIES

The State can enhance certain system access controls within the RIFANS statewide accounting system.

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. During fiscal 2015, a system administrator/"super user" was asked and did approve certain transactions that required intervention due to hierarchy/workflow issues or other unique circumstances.

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 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

2015-008a Review activities of privileged users (system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate.

2015-008b 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:

2015-008a - The auditing feature has been activated to track changes to sensitive data in RIFANS. We are in the process of generating a report and fine tuning the auditing tool to fully address this finding.

2015-008b - This will also be addressed by the auditing feature mentioned in 2015-008a.

Anticipated Completion Date: *June 30, 2016*

Contact Person: *Alan Dias, Assistant Director IT*
Phone: 401.222.6091

Finding 2015-009 ***(significant deficiency - new finding)***

DEPARTMENT OF REVENUE – DIVISION OF MOTOR VEHICLES

Certain Division of Motor Vehicles' revenues/receipts were not recorded during fiscal 2015. Monitoring and reconciliation procedures should be enhanced to ensure timely recording of all revenues and cash receipts.

Certain Division of Motor Vehicles (DMV) revenue/receipts are received via lock box and processed by a bank. These receipts are deposited in a dedicated bank account and are then recorded by the DMV based on the detailed transactions provided and summarized by the bank. At June 30, 2015, we observed a significant balance in the DMV lock box bank account that had increased steadily over the fiscal year. Subsequent analysis indicated that approximately $1.8 million had been collected and deposited by the bank but not recorded as revenue/receipts by the DMV. A formula error in a spreadsheet used to accumulate the receipts for accounting purposes resulted in the amounts going undetected. Further, the monthly bank account statement was not monitored by either the DMV or Treasury. DMV did not have access to the bank statement and certain Treasury personnel responsible for bank reconciliations also did not have access to the bank statements. Consequently, the bank balance, which increased each month during the fiscal year, went unnoticed.

Accounting personnel at the DMV should have inquiry only access to the bank statements to enhance their ability to reconcile cash receipts and accounting activity. All bank accounts within the custody of the General Treasurer should be monitored and reconciled to the accounting records. This account was not linked to the State's general ledger since it is a "temporary collection" account. Amounts are recognized on the accounting records when funds are moved from the "temporary collection" account to one of the State's regular operating accounts. Bank accounts that are not linked to the State's general ledger allow these types of errors to go undetected and are not subject to the same control procedures in place for other state bank accounts.

Control and operating procedures should be enhanced at both the DMV and Treasury to ensure that all lockbox receipts are recorded timely.

RECOMMENDATION

2015-009 Enhance controls by monitoring and reconciling all receipts deposited in the lockbox temporary collection account. Link all bank accounts to the general ledger.

Corrective action plan / auditee views:

The Financial Administrator for the DMV receives all Webster Bank lockbox deposits daily and reconciles this account every week. The Financial Administrator also completes the journal entry weekly to move the funds from Webster Bank to the General Fund.

Anticipated Completion Date: *The corrective action has been completed and is currently in use by the DMV.*

Contact Persons: *Walter Craddock, Associate Director DMV*
Phone: 401.462.5701

Clare Sedlock, Deputy Administrator DMV
Phone: 401.462.5718

Finding 2015-010 ***(significant deficiency – repeat finding)***

DEPARTMENT OF REVENUE – CONTROLS OVER TAXES RECEIVABLE

The Division of Taxation should strengthen controls over taxes receivable balances reported by its systems.

During our testing, we found two large receivable balances included in the reports at June 30, 2015 that were erroneous – adjustments outstanding for a significant period of time had not been made to the taxpayers' account balances. Another significant receivable amount resulted from a taxpayer error; however, timely monitoring of receivable balances, particularly new material balances, could have detected the error which affected two taxpayer accounts.

Certain tax types were transitioned to the new State Tax Administration and Revenue System (STAARS) system during fiscal 2015. During the transition, not all reporting functions were available. Personnel could not obtain a report of accounts to be written-off and had to use off-line spreadsheets to determine which accounts were eligible for write-off. We found that several accounts had payment activity in the period between the transition and the write-off, resulting in minor differences between estimated and actual write-offs. The payment activity also raises doubt about the need to write-off the balance as uncollectible.

Due to the incomplete reporting functionalities available within the new STAARS system during implementation, receivable reports at fiscal year-end were created through ad-hoc reports and therefore were not subject to the normal control procedures designed to ensure data integrity and completeness.

RECOMMENDATION

2015-010 Improve controls over the 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 (STAARS). The Division manages over 70,000 tax receivable balances and collects over $3.0 billion annually. The two receivables identified would have been subject to delinquency notices and the reconciliation processes and are subject to review under those processes. The Division has no control over receivables related to taxpayer error; however, taxpayer errors are also detected under current delinquency notice and reconciliation processes.

The context of conversion to STAARS is also directly related to the reporting issue mentioned in this finding. The Division of Taxation is in the process of implementing an integrated tax system (STAARS) which will retire all of the non-mainframe and mainframe tax databases. In July 2014, the Division of Taxation successfully implemented Release 1 which included 36 different non-mainframe taxes. As of April 30, 2015, all non-mainframe receivables have been converted to STAARS. On November 2, 2015, the Division of Taxation converted its first mainframe tax type, personal income tax, and went live with Release 2 with personal income tax in STAARS. The Division is in the midst of developing and testing Release 3 which is scheduled to go live in November 2016 with all of the remaining mainframe tax types. The taxpayer portal will be implemented in January 2017 and the project will be completed with the integration of Revenue Accounting in June 2017. Reporting functionalities will be available in STAARS with applicable control procedures to ensure data integrity and completeness. Criteria for certain processes, *including write-offs, will be programmed within STAARS and automated checks will be conducted based on criteria established by the Division. This automation is expected with the full conversion of all systems by June 2017.*

Anticipated Completion Date: *Incrementally for various receivables during implementation of STAARS throughout 2016 with the goal of being fully compliant by June 30, 2017.*

Contact Person: *Neena S. Savage, Acting Tax Administrator*
Phone: 401.574.8922

Finding 2015-011 ***(material weakness - repeat finding)***

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

Electronic data received by Taxation should be encrypted and then 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.

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 lock box 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 2015. 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.

RECOMMENDATIONS

2015-011a Implement a mechanism to encrypt data classified as "sensitive" automatically consistent with DoIT policies.

2015-011b Secure all electronic files containing taxpayer information residing on the Division of Taxation's network to ensure data integrity.

2015-011c 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.

2015-011d Develop monitoring and reporting procedures to ensure the proper upload of data files.

Corrective action plan / auditee views:

2015-011a - The Division of Taxation continues to work with the Division of Information Technology to meet the encrypted data requirement. All files received by the Division of Taxation are received in encrypted format. A procedure will be put into place by DoIT to encrypt files as they are transferred into the network and to keep them encrypted while they are stored on the secure server. The Division is in the process of encrypting all archived (prior year EFT files) files on the internal servers.

2015-011b - All files received by the Division of Taxation are received in encrypted format. A procedure will be put into place by DoIT to encrypt files as they are transferred into the network and to keep them encrypted while they are stored on the secure server. The Division is in the process of encrypting all archived (prior year EFT files) files on the internal servers.

2015-011c - DoIT will take over all file transmissions for the Division of Taxation through a Production Control Specialist position. This position will not have access to the STAARS application. (Separation of Duties) All files transmission will be secured on the FTP server accessible to Taxation Staff. Inbound files will then be passed back to the Integration Server, and then processed by the application. This satisfies the 3-tier security standards. Outbound files will follow the same path.

Certain payment types such as Fed Wire, do not allow the Division complete control over what is sent. The Division will work with RSI and DoIT to develop procedures to enhance the data quality coming from 3rd parties and will also develop edits and programmatic error correction and reporting on invalid data. This will eliminate the need to manually adjust the data in the file. Any adjustments would be auditable through the application.

In the new Division of Taxation system (STAARS) all electronic files will be processed through an encrypted file on its FTP server. Then it will be loaded into STAARS and all adjustments 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 manually adjust the file prior to loading it into 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.

2015-011d - 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 the process from EFT in STAARS by running specific reports to confirm the information needed.

Anticipated Completion Date:	*Incrementally for all reports during implementation of STAARS throughout 2016 with the goal of being fully compliant by June 30, 2017.*
Contact Person:	*Neena S. Savage, Acting Tax Administrator* *Phone: 401.574.8922*

Finding 2015-012 *(significant deficiency - new finding)*

DEPARTMENT OF REVENUE - OFF-SITE STORAGE OF TAXATION CRITICAL DIGITAL BACKUP FILES

Certain critical Division of Taxation back-up data files are not stored off-site – a recommended disaster recovery best practice.

The Division of Taxation is implementing a new integrated tax system named STAARS (State Tax Administration and Revenue System) to replace its aging legacy mainframe-based system. The implementation is in phases with the full system slated for operation in fiscal 2017 (September 2016).

Industry best practices recommend that any critical computer system be backed up for disaster recovery purposes. Back-ups should be stored off-site thereby allowing system recovery in the event of disaster at the data center. The State has a process where back-up files are transported routinely to an off-site storage location. Although the production environment of STAARS was being backed-up on digital media, the backup media was stored within the data center rather than at an off-site location. This limits the effectiveness of the back-up file storage process particularly for critical system files.

RECOMMENDATION

2015-012 Ensure that digital backups are stored off-site for disaster recovery and business continuity purposes.

Corrective action plan / auditee views:

The Division of Taxation agrees with this finding and the resolution of this finding is outside of the Division of Taxation's control. The Division will work with the Office of Digital Excellence and Department of Information Technology to ensure that all digital back-ups are stored consistent with best practices.

Currently the Division of Taxation has a series of digital backups that are retained according to current record retention policies. These backups are currently **not** *sent off-site. DoIT is working to secure off-site storage of these encrypted backups.*

The Division of Taxation does have Failover capability between the EOC and DOA. Currently all servers and databases are replicated at the DOA through Site Recovery Manager. This ensures that the Division of Taxation, in the event of a loss of the data center infrastructure would have all the production data within an hour of the outage. It would allow the Division of Taxation to conduct business as usual.

A full Disaster Recovery plan, which includes SunGard, should be updated now that the Mainframe has been retired for Personal Income Tax. This will need to be updated again in 2017 once the rest of the taxes have been converted off the mainframe.

Anticipated Completion Date:	*The implementation of this corrective action is outside the control of the Division of Taxation; however, the Division will monitor this issue and work to resolve it over the next year.*
Contact Person:	*Neena S. Savage, Acting Tax Administrator* *Phone: 401.574.8922*

Finding 2015-013 ***(material weakness - repeat finding)***

DEPARTMENT OF REVENUE – RECONCILIATION OF TAXATION RECEIPTS TO RIFANS

The Division of Taxation does not reconcile receipts posted to its systems with receipts reported in the RIFANS accounting system.

Although the Division of Taxation reconciles their cash receipts ledger (subsidiary system) to RIFANS, controls would be improved if receipts reported within its mainframe systems 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

2015-013 Develop the reporting capability to facilitate reconciliation of receipts reported by Taxation's systems with RIFANS.

Corrective action plan / auditee views:

One of the primary purposes of initiating and implementing the integrated tax system (STAARS) over the past 3 years is to overhaul the front end accounting and deposit systems. The system will also allow for real time posting of payments and timely posting of transactions to taxpayer accounts; therefore, any deposit made will be recorded in a more efficient manner. The Release 1 (36 Off-line tax types), 1.5 (IFTA), and 2 (personal income tax) since July 2014 has: i) established better control over non-mainframe taxes 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 June 2017.

Anticipated Completion Date: *Incrementally for all reports during implementation of STAARS throughout 2016 with the goal of being fully compliant by June 30, 2017.*

Contact Person: *Neena S. Savage, Acting Tax Administrator*
Phone: 401.574.8922

Finding 2015-014 ***(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 2015-015 ***(significant deficiency - repeat finding)***

INTERMODAL SURFACE TRANSPORTATION FUND - FINANCIAL REPORTING

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.

The Intermodal Surface Transportation (IST) Fund, a special revenue fund, includes financial reporting for transportation related activities of the State, including the highway construction programs, the expenditure of proceeds from the State's Grant Anticipation Revenue Vehicle (GARVEE) bonds and matching Motor Fuel bonds for specific highway construction related projects 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 were not operating correctly during fiscal 2015. 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.

- RIDOT accrues liabilities for pollution remediation related to specific projects. The amount accrued was not properly supported in all cases causing adjustments to be made to 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 identified misclassifications of various fund balance categories. Controls over the reporting of fund balance would be improved by vesting the responsibility for maintaining the fund balance accounts with RIDOT.

- Controls over the reporting and accounting of fees collected by the Division of Motor Vehicles (DMV) and transferred to RIDOT in accordance with RI General Law 39-18.1 can be improved by documenting how the fee structure identified by RI General Law 39-18.1 has been incorporated into the DMV computer system.

- There were several adjustments to payables, receivables, and transfers booked to the financial statements in order for the statements to be materially correct.

RECOMMENDATIONS

2015-015a 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.

2015-015b Improve controls over the recording of pollution remediation projects, to ensure the amount reported as liabilities are adequately supported by documentation and calculations.

2015-015c Ensure the transactions identified through the analysis of each activity and/or funding source within the IST Fund are booked to the general ledger. Also improve controls over the categorization and reporting of fund balance components. Vest responsibility for maintaining the fund balance accounts with RIDOT.

2015-015d Strengthen control procedures over the fees collected by the Division of Motor Vehicles (DMV) and transferred to RIDOT to ensure compliance with General Law chapter 39-18.1.

2015-015e Improve controls over financial reporting to ensure payables, receivables and transfers are properly recorded in the State's accounting system and financial statements.

Corrective action plan / auditee views:

2015-015a - 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.*

Contact Person: *Loren Doyle, Chief Financial Officer*
Phone: 401.222.6590

2015-015b - The department will evaluate and update the policies and procedures with regard to pollution remediation to ensure proper documentation is included to support remediation estimates.

Anticipated Completion Date: *December 31, 2016*

Contact Person: *Loren Doyle, Chief Financial Officer*
Phone: 401.222.6590

2015-015c - *The department is in the process of modifying procedures to ensure transactions are properly booked in the General Ledger. RIDOT will work with Accounts and Control to improve controls of the categorization and reporting of fund balance components.*

Anticipated Completion Date: *December 31, 2016*

Contact Person: *Richard DeOrsey, Assistant Administrator/*
Financial Management
Phone: 401.222.6590

2015-015d - *RIDOT Financial Management will coordinate with the Division of Motor Vehicles Financial Section to develop a strategy to strengthen control procedures.*

Anticipated Completion Date: *To be determined.*

Contact Person: *Loren Doyle, Chief Financial Officer*
Phone: 401.222.6590

2015-015e - *The department will improve controls over financial reporting to ensure payables, receivables and transfers are properly recorded.*

Anticipated Completion Date: *June 30, 2016*

Contact Person: *Loren Doyle, Chief Financial Officer*
Phone: 401.222.6590

Finding 2015-016 ***(material weakness - repeat finding)***

TRANSPORTATION INFRASTRUCTURE REPORTING

Controls should be improved over the process used to accumulate reported transportation infrastructure assets, the State's most material capital asset category, 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 2015. Certain projects totaling $7 million were erroneously reclassified from construction in progress to infrastructure during fiscal year 2015. Although corrected through audit adjustment, these misstatements indicate that controls should be improved over the process for identifying projects to be included in construction in progress and infrastructure.

Also, RIDOT was not consistent in applying estimated internal design costs to overall project costs, which resulted in a potential misstatement of $244,267.

Explore an Automated Approach to the Accumulation of Capitalized Infrastructure Outlays

The control deficiencies noted here are significantly interrelated to 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

2015-016a 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.

2015-016b 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.

2015-016c 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

2015-016a - 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. In addition, the department is in the process of implementing a Project Pipeline Tracking System which will identify specific project costs.

Anticipated Completion Date: *Ongoing*

Contact Person: *Loren Doyle, Chief Financial Officer*
401.222.6590

2015-016b - 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 committee meets regularly to continue implementing the department's comprehensive Asset Management initiative, including assessing information technology needs. The committee is charged with evaluating infrastructure accounting issues and will evaluate an automated systems approach.

Anticipated Completion Date: *To be determined.*

Contact Person: *Loren Doyle, Chief Financial Officer*
Phone 401.222.6590

2015-016c- This issue is currently being evaluated and has been discussed with the Department's various sections. 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: *Loren Doyle, Chief Financial Officer*
Phone: 401.222.6590

Finding 2015-017 ***(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

2015-017a Review the progress payment file transfer process to identify critical points where automated controls could be implemented to eliminate the need for manual intervention.

2015-017b Create and implement appropriate approval hierarchies. Automatically identify RIFANS/FMS payment discrepancies for review.

2015-017c Improve controls over the RIDOT federal billing process to include transferring files without modification.

2015-017d 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:

2015-017a - 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, Chief Financial Officer*
Phone: 401.222.6590

2015-017b - 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: *December 31, 2016*

Contact Person: *Thomas Lewandowski, Agency IT Manager*
Phone: 401.222.6935

2015-017c - 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.

2015-017d - 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*
Phone: 401.222.2496

Finding 2015-018 ***(significant deficiency – new finding)***

DEPARTMENT OF LABOR AND TRAINING - UNEMPLOYMENT INSURANCE PROGRAM – INFORMATION TECHNOLOGY SECURITY CONTROLS

User password access controls and defined user access roles are not adequate within the Unemployment benefit computer application.

The Unemployment Insurance benefit application system has deficient (1) user administration security controls and (2) access controls for its user group, which has led to segregation of duties concerns. System user roles do not match the level of access employees should be assigned based on their job title/description resulting in the ability to modify data within claimant applications without supervisory review or approval. No periodic review of access controls is performed to ensure changes to access rights are authorized and there are no automated system controls configured to alert management of any modifications or changes to user access changes or application and data changes.

In addition, certain Unemployment Insurance system users were found to be sharing user IDs and passwords in violation of DoIT policy and thereby weakening access controls to the system. The Department of Labor and Training (DLT) has no formalized and recurring IT security awareness training program to reinforce policies and educate users on the risks of password sharing and other IT security concerns as required by DoIT policy.

During most of fiscal 2015, passwords were not required to be of sufficient strength and complexity (usage of upper case characters, lower case characters, numbers, and special characters and required length) and were not prompted to be changed at frequent intervals.

The combination of poor access controls and poorly designed and administered access roles weakened controls over the administration of unemployment benefits paid through the system.

DLT is currently anticipating implementation of a new unemployment benefit system and accordingly, we understand that modifications are not planned for the existing benefit system. In the interim, the Department should implement reasonable control procedures to mitigate the control weaknesses observed. Further, the Department must ensure that appropriate IT security controls are designed and operational in the new system upon implementation.

RECOMMENDATIONS

2015-018a Implement reasonable interim IT security control procedures to mitigate the known weaknesses in the unemployment benefit system until the new application is implemented.

2015-018b Ensure the new unemployment insurance benefit application being developed meets DoIT IT security policy requirements.

2015-018c Implement an IT security awareness and training program in accordance with *DoIT policy 10-06 Section 3* and industry best practices.

Corrective action plan / auditee views:

2015-018a - The Department of Labor & Training is reviewing the current IT security controls with special emphasis on roles and responsibilities. New policies exist to limit what can be changed in the system and by whom. Additional changes in the main UI application are currently approved and are waiting for approval from UI for implementation. These address many of the concerns in regards to data modification. These changes and implementation are as follows:

1) *Staff will no longer be able edit the client remark record.*
2) *Expanded auditing capability*
3) *Limit staff who can edit wage records*
4) *New tracking for deleted client PINs*
5) *New reporting for claims paid beyond benefit year date*

UI is also conducting a review of the roles and responsibilities of all UI staff. Users will be assigned privileges based on the minimum privileges needed to perform the job function they are assigned. Review of those privileges assigned will be done by UI management staff on a regular basis.

No longer are User ID's shared. In addition, password changes are required quarterly and meet all DoIT Policy requirements for strength and complicity.

In early 2015, DoIT upgraded all security protocols to address systems based roles and responsibilities as defined by UI. Procedures for user access control and changes have been upgraded to alert management of modifications or changes to access or data.

2015-018b - The UI insurance system is being developed to meet current DoIT security policies and well as IRS PUB 1075 security requirements. The DoIT Enterprise Security Team is aware of the development of the new application. Before acceptance the application will be submitted to the Enterprise Security Team for a thorough review.

2015-018c - The UI staff currently undergoes regular security awareness training. Including in that training is review of DoIT security policies as well as local UI policies. Issues such as locking unattended workstations as well as password security are thoroughly addressed in those trainings.

Anticipated Completion Date: *April 30, 2016*

Contact Person: *Robert Genest, Administrator MIS*
Phone:401.462.8012

Finding 2015-019 ***(material weakness - new finding)***

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – RECORDING OF FINANCIAL TRANSACTIONS

Criteria: The Authority is responsible for preparing its financial statements, and designing and implementing internal control over financial reporting to prevent, and correct and detect on a timely basis material errors.

Condition: Certain transactions were not recorded in the Authority's books and records in the period in which the underlying transaction occurred or consistent with the financial elements of the underlying transactions.

Cause: Prior to the year ended June 30, 2015, the Authority replaced its Chief Financial Officer. The transition period extended through the fiscal year-end procedures.

Effect: Significant audit adjustments were required to record transactions, adjust previously recorded amounts, or reclassify the manner in which previously recorded amounts were presented. As a result, audit adjustments were required in the following areas:

- Record accounts payable and accrued expenses for goods and/or services received prior to year-end as a result of the absence of a process to determine whether expenses or other transactions were properly cut-off as of year-end.

- Reclassify as capital assets amounts recorded as expenses which met the Authority's asset capitalization policy, and to record as expenses amounts recorded as capital assets which were not consistent with the Authority's asset capitalization policy.

- Record as an expense electronic toll commission fees which were recorded as a reduction to the Authority's electronic toll liability.

RECOMMENDATIONS

2015-019a We recommend that the management design and implement a process which includes a review of transactions occurring shortly after each reporting period to determine whether all transactions were recorded in the proper period, are properly classified, and to adjust previously recorded transactions based on the most recent information available.

2015-019b We also recommend that a person independent of the person responsible for identifying and recording such transactions review available financial information and approve recorded transactions to determine whether all transactions were properly recorded during the period to which they relate based on the substance of the underlying transaction.

Corrective action plan / auditee views

The CFO has instituted new monthly closing procedures which include a review of the transactions for each month and reclassification if necessary. This will be completed by a person independent of the person responsible for the original recording of the transactions.

Anticipated Completion Date: *Ongoing*

Contact Person: *Maggie Baker, Chief Financial Officer*
Phone: 401.423.7430

Finding 2015-020 ***(material weakness - repeat 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 audit of the Met's financial statements, we noted the following:

a. The monthly reconciliation of the operating cash account included large unidentified variances that were not researched or resolved in a timely manner. The June 2015 operating bank reconciliation originally provided to us contained a variance of $53,681. The updated reconciliation still contains a variance of $6,306.

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, 2015 was $18,513 more than the balance in the general ledger.

Both items are repeat findings from 2014.

Cause: Management failed to enforce policies and procedures to ensure internal controls are functioning properly in relation to the condition 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

2015-020 Policies and procedures should be developed 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 monthly reconciliations are performed by the Bookkeeper once bank statements for the prior month have been received. The Met also requires that monthly reconciliations be signed off by both the Chief Accountant and Business Manager in order to insure timeliness and accuracy. The reason for the unknown variance was due to an incorrect adjusting entry made at year end. Once the entry was reversed, the reconciliation was in line with prior reported balances. Timeliness of the resolution was an issue due to a change in personnel in the Chief Accountant role.

b. The Met has procured a new Financial Accounting and Management system and has worked in tandem with the 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. The Met is currently implementing this new system and it is anticipated that his new system will be fully functional in January of 2016.

Anticipated Completion Date: *Ongoing*

Contact Person: *Lucas Lussier, Chief Financial Officer*
Phone: 401.752.2600

Finding 2015-021 ***(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

2015-021 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 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:

Effective in FY16, monthly reconciliations will be reviewed and signed by the Director of Finance. Due to a lack of consistency in finance positions, the Director has not been able to develop internal controls. One of the first tasks of the permanent Director of Finance would be to establish a committee to review current staffing and roles and responsibilities.

Anticipated Completion Date: *Ongoing*

Contact Person: *Therese M. Lusignan-Chalko, Financial Director*
Phone: 401.727.7700

Finding 2015-022 ***(material weakness - repeat 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 referenced to verifiable 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

2015-022 We recommend that the District implement internal controls and policies and procedures for 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 verifiable 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:

The interim Finance Director started approving all Journal Entries in April 2015; a register containing supporting documentation for all Journal Entries is now maintained by the staff accountant.

Anticipated Completion Date: *Ongoing*

Contact Person: *Therese M. Lusignan-Chalko, Financial Director*
Phone: 401.727.7700

Finding 2015-023 ***(significant deficiency - repeat 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 balances, 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 those accounts were not significant, the District should have adequate procedures in place to ensure that all accounts are properly reflected in the general ledger accounting records.

Cause: 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

2015-023 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:

As explained to the auditors, the bank accounts noted are scholarships controlled by the family of a deceased member or a fund to support extra-curricular activities. Signatory on the account is not employed by the School District. All other cash accounts have been added to the general ledger.

Anticipated Completion Date: *Ongoing*

Contact Person: *Therese M. Lusignan-Chalko, Financial Director*
Phone: 401.727.7700

Finding 2015-024 ***(significant deficiency - repeat 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.

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

2015-024 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:

Effective with the 2016 fiscal year, policies and procedures will be in place to record all financial activity in the proper period.

Anticipated Completion Date: *Ongoing*

Contact Person: *Therese M. Lusignan-Chalko, Financial Director*
Phone: 401.727.7700

Finding 2015-025 ***(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 governmental net position. Additionally, the District is required to maintain capital asset records for all assets that are purchased with federal grant funds.

Condition: The District does not 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 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

2015-025 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 identity 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:

Due to staff turnover, an inventory of all capital assets completed by a third party has not been incorporated into our financial software system. Once stability in staff has been achieved this issue will be addressed.

Anticipated Completion Date: *Ongoing*

Contact Person: *Therese M. Lusignan-Chalko, Financial Director*
Phone: 401.727.7700

Finding 2015-026 ***(other compliance matter - repeat finding)***

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

During the year ended June 30, 2015, the Rhode Island 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 Rhode Island Convention Center Authority will fund the Operating Reserve and Renewal Replacement components noted above provided there is sufficient cash flow.

Anticipated Completion Date: *Ongoing*

Contact Person: *James McCarvill, Executive Director*
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	None
State Administrative Matching Grants for the SNAP Program	10.561	2015-029, 2015-030
Child Nutrition Cluster:		
School Breakfast Program	10.553	2015-028
National School Lunch Program	10.555	2015-028
Special Milk Program for Children	10.556	2015-028
Summer Food Service Program for Children	10.559	2015-027, 2015-028
Fresh Fruit and Vegetable Program	10.582	None
Economic Development Cluster:		
Investments for Public Works and Economic Development Facilities	11.300	None
Economic Adjustment Assistance	11.307	None
Mortgage Insurance – Homes	14.117	None
Qualified Participating Entities (QPE) Risk Sharing	14.189	None
Section 8 Project-Based Cluster:		
Section 8 Housing Assistance Payments Program	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	2015-031, 2015-032, 2015-033, 2015-034, 2015-035
Airport Improvement Program	20.106	None
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	2015-036, 2015-037, 2015-038, 2015-039
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	2015-040, 2015-041
Federal Transit – Formula Grants	20.507	2015-040, 2015-041
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	None
Federal Work-Study Program	84.033	2015-048
Federal Perkins Loan Program – Federal Capital Contributions	84.038	None
Federal Pell Grant Program	84.063	None
Federal Direct Student Loans	84.268	2015-046, 2015-047
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	84.027	None
Special Education – Preschool Grants	84.173	None
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	2015-042, 2015-043, 2015-044, 2015-045
ARRA - Race to the Top – Early Learning Challenge	84.412	2015-049

Table of Findings by Federal Program

Program Title	CFDA	Applicable Findings
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	None
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	2015-050
Temporary Assistance for Needy Families	93.558	2015-054, 2015-055, 2015-056, 2015-057
Low-Income Home Energy Assistance	93.568	2015-051, 2015-052, 2015-053
CCDF Cluster:		
Child Care and Development Block Grant	93.575	2015-056, 2015-058
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2015-056, 2015-058
Children's Health Insurance Program	93.767	2015-057, 2015-059, 2015-061, 2015-064, 2015-066, 2015-067, 2015-068, 2015-069, 2015-070
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	2015-057, 2015-059, 2015-060, 2015-061, 2015-062, 2015-063, 2015-065, 2015-066, 2015-067, 2015-068, 2015-069, 2015-070, 2015-071, 2015-072, 2015-073, 2015-074, 2015-075, 2015-076
Research and Development Cluster	Various	None

Finding 2015-027 ***(significant deficiency – new finding)***

CHILD NUTRITION CLUSTER:
Summer Food Service Program for Children – CFDA 10.559
Federal Award Agency: US Department of Agriculture
Award Year: 2015
Federal Award Number: 15154RI306N1097
Administered by: RI Department of Education (RIDE)

<u>SUBRECIPIENT MONITORING</u>

RIDE needs to ensure that it performs complete reviews of all Summer Food Service Program sponsors as required by federal regulations.

Federal regulation 7CFR 225.7(d) (2) requires RIDE to "review sponsors and sites to ensure compliance with Program regulations, the Department's non-discrimination regulations (7CFR part 15) and any other applicable instructions" issued by the U.S. Department of Education. RIDE uses standard Food and Nutrition Service (FNS) forms to document the results of these reviews (FNS forms 19-1 and 19-2).

The regulations require RIDE to 1) "conduct a review of every new sponsor at least once during the first fiscal year of operation" and 2) to "review each sponsor at least every 3 years". We found that there were three new sponsors in fiscal year 2015 but RIDE did not conduct complete reviews of these sponsors. Specifically, RIDE did not conduct reviews of meal ordering, delivery and meal service observation, health and sanitation and site recordkeeping (these parts of the review are documented on the FNS 19-2 form). We also selected four other sponsors that were subject to review in fiscal 2015 under the every 3-year requirement. We found that RIDE also did not conduct a complete review of one of these sponsors (it omitted those parts of the review covered by the FNS 19-2).

<u>Questioned Costs:</u> None

<u>RECOMMENDATION</u>

2015-027 Conduct complete reviews of all Summer Food Service Program sponsors as required by federal regulations**.**

<u>Corrective Action Plan/ auditee views</u>:

To ensure that RIDE conducts

- *a review of every new sponsor at least once during the first fiscal year of operations, and*
- *a review of every sponsor at least every 3 years,*

RIDE will institute the use of a Sponsor tracking system to manage compliance with USDA SFSP review regulations. All RIDE program staff will be trained in the required use of this tool. The review cycle will be established by May 30th and contractors will be informed of the sites targeted for review for the specific review year. RIDE will ensure that all new SFSP sponsors are assigned to the current year's review cycle.

RIDE staff will receive training on the monitoring and review processes, and the need to complete all required associated forms by April 1, 2016.

As Director of the office which oversees this program, I will be the contact person for this corrective action. If you have any questions or need additional information, please don't hesitate to contact me.

Anticipated Completion Date: *April 1, 2016*

Contact Person: *Cynthia Brown, Director*
Office of Statewide Efficiencies

Finding 2015-028 ***(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: 2015
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 2015. In sum, there were 20 types of donated commodities in inventory that were available for use in the Child Nutrition Cluster programs. The physical count revealed that 19 of the 20 items sampled did not match amounts recorded in the inventory records. In most instances, the number of items on hand was much less than recorded in the inventory records. For example, the inventory records indicated DOC had 112 cases of a particular item on hand while the physical count revealed that there no such items in stock.

DOC investigated the reason(s) for some of the larger discrepancies between the inventory records and its physical count. This resulted in some plausible causes for the discrepancies such as damaged items that were removed from the warehouse but not adjusted out of the system. Most discrepancies, however, remained unresolved and DOC simply changed the inventory records to mirror the results of the physical inventory. This defeats the purpose of keeping inventory records and performing periodic physical counts.

Questioned Costs: None

RECOMMENDATION

2015-028 Improve the inventory system used to account for USDA-Donated Foods to ensure compliance with federal regulations.

Corrective Action Plan/ auditee views:

The Central Distribution Center's administrator and his staff have instituted a quality control check on all outgoing orders. The warehouse staff is responsible for counting all products received and leaving the facility. This should help address inventory differences in the future.

DoIT has approved the Department's request to contract for programming changes in the Oracle inventory system. This will enable some reporting changes that should help assist staff to monitor inventory and also assist in the quality control process. The Department also plans to utilize a hand-held scanning system once the programming changes are completed.

Anticipated Completion Date: *June 30, 2017*

Contact Person: *Joanne Hill, Associate Director, CFO*
Phone: 401.462.2617

Finding 2015-029 ***(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 2013-2014, 2014-2015
Federal Award Numbers: 2014IS251444, 2015IS251444
Administered by: Department of Human Services (DHS)

DOCUMENTATION OF IN-KIND MATCHING EXPENDITURES

The Department of Human Services can improve monitoring of its subrecipient contracted to provide Supplemental Nutrition Assistance Program (SNAP) Employment and Training services to ensure third-party in-kind matching expenditures are documented.

The Department of Human Services has contracted with a subrecipient to provide Supplemental Nutrition Assistance Program (SNAP) training services each year since 2012. DHS did not obtain sufficient documentation from the subrecipient to support the amounts of in-kind match claimed for the SNAP program. 7 CFR Section 277.4(d) describes the federal requirements regarding cash or in-kind contributions which are allowable as the State agency's share of program costs.

No documentation has been provided to support the in-kind match for FFY 2014 contract (10/01/13 to 6/30/14). For its FFY 2015 (07/1/14 to 9/30/15) contract, DHS obtained copies of certifications that the subrecipient obtained from its "partners" that provided in-kind services. Thirteen certifications were received, of these:

- 10 were dated before the grant period began;
- 2 were dated at the midpoint of the agreement; and
- 1 was undated

None of these certifications included any supporting documentation.

DHS paid the subrecipient $510,031 in SFY 2015 on their FFY 2014 and 2015 contracts. DHS reported an equal amount of in-kind match without any or insufficient supporting documentation. Consequently, the state share of program costs was overstated. DHS reports in-kind match each quarter and therefore should have the required in-kind match documentation at the time amounts are claimed on the federal reports.

This finding is described as a repeat finding as a similar matter was reported in the State's 2014 Single Audit Report. The documentation deficiencies for the subrecipient contract reported in the 2014 single audit have been resolved.

Questioned Costs: Unknown

RECOMMENDATIONS

2015-029a Obtain adequate supporting documentation for third party in-kind matching expenditures already reported or submit corrected federal reports.

2015-029b Obtain documentation supporting in-kind match from subrecipients each time payment is requested to ensure amounts included on federal reports are adequately supported.

Corrective Action Plan/ auditee views:

2015-029a - Mid-year certifications of expenditures were received and final documentation of expenditures are in process. A revised federal report will be submitted if necessary once documentation is received and verified.

2015-029b - Revised requirements were specified in a new request for proposal with language requiring documentation of in-kind match expenditures. DHS is currently working with the vendor to receive certification of actual expenditures instead of budgeted expenditures.

Anticipated Completion Date: June 2016

Contact Person: Leticia Mejia, Administrator, Financial Management
Phone: 401.462.6551

Finding 2015-030 *(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 2013-2014, 2014-2015
Federal Award Numbers: 2014IS251444, 2015IS251444
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING - MATCHING

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 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*. Most expenditures are required to be matched equally between state and federal sources.

Accounts are established for the federal and state shares of program costs. A new federal account was created in fiscal 2015; however, no corresponding state account was created for the matching charges, and the federal charges were not reported. This resulted in $10,783 in costs not properly matched and reported. However, certain other costs were not split equally between the federal and state account, resulting in an over-matching of costs of $7,670. The net effect is that the state match for SNAP costs was insufficient by $3,113.

Questioned Costs: $3,113

RECOMMENDATION

2015–030 Enhance controls to ensure expenditures are properly matched and reported.

Corrective Action Plan/ auditee views:

DHS has changed financial management organizational structure to have one key fiscal staff person responsible for compiling all SNAP/FNS expenditures. This person is also responsible for preparing the federal financial report. All expenditures are reconciled to the state accounting system. The supervisor reviews the work of the fiscal staff person and approves the federal financial report.

Anticipated Completion Date: June 2016

Contact Person: Leticia Mejia, Administrator, Financial Management
Phone: 401.462.6551

Finding 2015-031 ***(significant deficiency – repeat finding)***

UNEMPLOYMENT INSURANCE – CFDA - 17.225
Federal Awarding Agency: US Department of Labor / ETA Division of Federal Assistance Award Years: Federal Fiscal Years 2012, 2013, 2014 and 2015
Federal Award Numbers: UI-25229-14-55-A-44, UI-26559-15-55-A-44, TA-22681-12-55-A-44, TA-24367-13-55-A-44, TA-25312-14-55-A-44 and TA-26749-15-55-A-44
Administered by: Department of Labor and Training (DLT)

FEDERAL PERFORMANCE REPORTING – TRADE ACT PARTICIPANT REPORT

The Department of Labor and Training can enhance controls over preparation of the TAPR performance report required for the Unemployment Insurance Program by reconciling similar data included on multiple reports prior to submission.

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.

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 reconciled expenditure information between the TAPR and the 9130 reports *after* 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 2015 and found unreconciled differences of $1,352 (TAPR's greater than 9130's) for training expenditures and ($198,826) (TAPR's less than 9130's) for all Trade expenditures including training. Our independent reconciliation agreed with DLT's. These differences 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 2015, except for a few instances (six) where a participant's wages were not reported for a certain prior to participation quarter, i.e., fourth quarter of CY 2009.

<u>Questioned Costs:</u> None

<u>RECOMMENDATION</u>

2015-031 Reconcile expenditures between the TAPR and related ETA 9130 reports before submission to ensure data agrees to supporting information systems and is reasonable.

<u>Corrective Action Plan/ auditee views</u>:

To ensure that the expenditures between the TAPR and the related ETA 9130 reports reconcile, the Department's Trade Coordinator and an Administrator – Financial Management from the Business Affairs' unit will meet quarterly to review reportable expenditures prior to submission of all reports. This will provide a methodology and process for improved communication between units and alignment of reporting.

<u>Anticipated Completion Date</u>: *March 31, 2016*

Contact Persons: *Bob Garofano, Administrator – Financial Management*
Bob.Garofano@dlt.ri.gov

Kim Heng, Coordinator of Labor and Training Programs
Kim.Heng@dlt.ri.gov

Finding 2015-032 ***(material non-compliance / material weakness – new finding)***

UNEMPLOYMENT INSURANCE – CFDA - 17.225
Federal Awarding Agency: US Department of Labor / ETA Division of Federal Assistance Award
Federal Fiscal Year: 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)

SPECIAL TESTS - UI PROGRAM INTEGRITY – BENEFIT OVERPAYMENTS

DLT did not make the necessary changes to its system to allow the imposition of penalties on over-payments due to fraud, and to prohibit relief from charges to an employer's UC account when the overpayment was the result of the employer failure to respond timely or adequately to a request for information.

Federal law [1] provides that (1) States are required to impose a monetary penalty (not less than 15 percent) on claimants whose fraudulent acts resulted in overpayments and deposit the funds in the State's account in the Unemployment Trust Fund, and (2) States are prohibited from providing relief from charges to an employer's UC account when overpayments are the result of the employer's failure to respond timely or adequately to a request for information.

[1] Public Law No. 112-40, enacted on October 21, 2011, and effective October 21, 2013, amended sections 303(a) and 453A of the Social Security Act and sections 3303, 3304, and 3309 of the Federal Unemployment Tax Act (FUTA) to improve program integrity and reduce overpayments. (See UIPL Nos. 02-12, and 02-12, Change 1.

In compliance with federal law, the State enacted these requirements into State law effective October 1, 2013, including a 15% penalty on overpayments due to claimant fraud (RIGL 28-42-62.1(a)(4)) and a prohibition on relieving employer's account of charges relating to any benefit overpayments made if the employer was at fault for failure to respond timely or adequately to a request of the department for information relating to the claim (RIGL 28-43-3(2)(viii)).

We tested a random sample of 25 benefit overpayments during fiscal 2015 to determine if the State was properly identifying and handling overpayments, including, as applicable, assessment of the 15% penalty on claimants who commit fraud, and not relieving an employer's account of charges for overpayments when their untimely or inaccurate responses cause improper payments. We found that:

- 11 overpayments were classified as claimant fraud. However, none of these individuals were assessed the 15% penalty as required by federal and state law, and

- Employer fault was not identified as a cause of any of the 25 overpayments.

Management advised us that DLT did not implement these because it required programming changes to the UI computer system and all IT resources were committed to other projects, including the new UI computer system under development.

Questioned Costs: None

RECOMMENDATION

2015-032 Adopt procedures to: (1) impose and collect a 15% penalty on benefit overpayments of claimants who commit fraud (RIGL 28-42-62.1(a)(4)) and (2) prohibit providing relief to an employer account when an overpayment is the result of the employer's failure to respond timely or adequately to a request for information by the State agency (RIGL 28-43-3(2)(viii)). Implement these procedures on benefit payments retroactive to October 1, 2013.

Corrective Action Plan/ auditee views:

UI has worked with IT to program the 15% penalty on all fraudulent overpayments. The programming is complete and ready to be tested. RI DLT is working on a schedule with IT to assign staff to perform the testing.

Procedures and notifications have been approved for implementation of Prohibition on Relief of Benefit Charges on overpayments resulting from employers' failure to respond timely or adequately. Notices will be sent to all registered Rhode Island employers during the week of April 4, 2016, advising employers that inadequate/untimely responses will begin to effect the establishment of a pattern as of April 15, 2016.

Important Note: Two employers who committed UI fraud in 2014 and 2015 were not relieved of charges for resulting overpayments.

The recommendation to implement the aforementioned procedures retroactive to October 1, 2013 is not feasible. In order to implement this recommendation, it requires IT staff that is extremely limited, to identify every fraudulent overpayment and every overpayment resulting from untimely/inadequate response from an employer in the UI system. Additionally, every determination identified by IT would require UI staff to render a redetermination of the original overpayment, many of which have either been already recovered, or credited to an employer's account. While DLT doesn't anticipate that many overpayments will be identified as due to employer fault, the work it requires to identify employer fault retroactively is voluminous. Although it would not be difficult for IT staff to identify fraudulent overpayments in order to apply the 15% penalty, it would be detrimental to other federal program requirements relative to timeliness and quality, as staff would need to be reassigned to undertake this task in lieu of their present job duties. Lastly, the RI DLT is in the process of preparing migration of its current overpayment system to a new, modernized system. Entry of the programming necessary to implement the changes in procedures retroactively to October 1, 2013 in the current system would cause a significant delay in implementation of the new system due to subsequent programming and data fixes required to ensure successful migration to the modernized system.

In March 2016, RI DLT contacted the Boston Regional Office of U.S. Department of Labor to request a waiver from the requirement to implement the integrity strategies retroactively to October 2013 and is awaiting an official response.

Anticipated Completion Date: *15% Penalty on Fraud Overpayment – June 30, 2016*

Prohibition on Relief of Charges on Overpayments Due to Employer Fault – April 15, 2016

Contact Person: *Robert Langlais, Administrator, Operations Management*
Robert.Langlais@dlt.ri.gov

Finding 2015-033 ***(significant deficiency – new finding)***

UNEMPLOYMENT INSURANCE – CFDA - 17.225
Federal Awarding Agency: US Department of Labor / ETA Division of Federal Assistance Award
Federal Fiscal Year: 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)

RENTAL INCOME FROM BUILDING ACQUIRED IN PART WITH REED ACT FUNDS

DLT did not return rental income promptly to the Unemployment Trust Fund (UTF) as required.

The RI Department of Labor and Training (DLT) leases space in the building housing a local DLT office to two other state agencies. As the prior purchase of the building was financed, in part, through federal Reed Act funds, federal regulations {USDOL General Administration Letter 05-94, Section 8 (Use of SESA Real Property) c (Income), and UI PL 39-97 Attachment I (Reed Act Provisions of Title IX of the Social Security Act, section G 1 b (Rental of Space)} provide that rental income must be allocated among the funding sources used to acquire the rented property in proportion with the original funding sources' adjusted participation in the property's acquisition cost. In addition, the federal regulations require that rental income allocable to Reed Act funds must be immediately deposited in the State's UTF account.

The Reed Act share of monthly rental income for State fiscal years 2007 through 2015 totaled $282,379. DLT did not identify and timely return these amounts as required. The Reed Act share, for years 2007 through 2015, was deposited to the State's UTF account in fiscal 2016.

Questioned Costs: None

RECOMMENDATION

2015-033 Implement control procedures to ensure the timely identification and deposit of the Reed Act share of rental income to the State's UTF account as required by applicable federal regulations.

Corrective Action Plan/ auditee views:

Control procedures have been implemented to ensure the timely identification and deposit of the Reed Act share of rental income to the State's UTF account. The Reed Act share of rental income for fiscal years 2007 through 2015 was deposited in the UTF account in fiscal year 2016.

Anticipated Completion Date: *December 31, 2015*

Contact Person: *Denise Paquet, Administrator – Financial Management*
Denise.Paquet@dlt.ri.gov

Finding 2015-034 ***(other reportable matter– repeat finding)***

UNEMPLOYMENT INSURANCE – CFDA - 17.225
Federal Awarding Agency: US Department of Labor / ETA Division of Federal Assistance Award
Federal Fiscal Year: 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)

<u>OTHER REPORTABLE MATTER – ALLEGED FRAUD</u>

An alleged fraud included potential continuation of unemployment insurance benefits beyond allowable timeframes and diversion and theft of benefits.

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 investigations are ongoing and the amount of any questioned costs or potential misuse of federal funds is not presently determinable.

Finding 2015-035 ***(significant deficiency – new finding)***

UNEMPLOYMENT INSURANCE – CFDA - 17.225
Federal Awarding Agency: US Department of Labor / ETA Division of Federal Assistance Award
Federal Fiscal Year: 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)

<u>UNEMPLOYMENT INSURANCE PROGRAM – INFORMATION TECHNOLOGY SECURITY CONTROLS</u>

User password access controls and defined user access roles are not adequate within the Unemployment benefit computer application.

See Financial Statement Finding 2015-018, related to weaknesses in information technology controls within the Unemployment Benefit computer system, which also relates to controls over federal program activity.

Finding 2015-036 ***(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)

<u>QUALITY ASSURANCE PROGRAM - MATERIALS TESTING</u>

RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal regulation 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 2015, we tested 53 materials tests related to 23 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 33 out of 53 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 has continued 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.

Master Schedule of Sampling, Testing and Certification of Materials (MST)

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 "Project 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 MST does not include all changes approved by FHWA. Consequently, Project 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.

<u>Materials Test Book</u>

RIDOT's Procedures for Uniform Record Keeping (PURK) manual states "the Construction Section will prepare and provide each project with a 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.

<u>Questioned Costs</u>: None

RECOMMENDATIONS

2015-036a 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.

2015-036b Update the Procedures for Uniform Record Keeping (PURK) manual to include all current policies and procedures. Maintain and distribute the PURK manual electronically.

2015-036c Enhance coordination among the three sections of RIDOT that have shared responsibility for the overall operation of the Department's Quality Assurance Program.

2015-036d 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 enhance overall departmental efficiencies.

2015-036e 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:

2015-036a - 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. Materials will evaluate the process used for multiple items and develop a more efficient way of identifying the item numbers at the time of sampling.

RIDOT's Materials section has also been coordinating with the MIS section to develop an electronic procedure for distributing test results that would include a naming convention that makes the identification of scanned test results more uniform.

Anticipated Completion Date: *December 31, 2016*

Contact Person: *Colin Franco, Materials and Quality Assurance*
Phone: 401.222.2524

2015-036b - At the direction of the Chief Engineer, a subcommittee headed by Construction, along with members of Materials was established to work on a revision to the PURK manual. This subcommittee met throughout the year and the draft revisions are in the final stages of review.

Anticipated Completion Date: *June 30, 2016*

Contact Person: *Joe Baker, Acting Manager of Project Management*
Phone: 401.222.2468

2015-036c - RIDOT has weekly meetings between Construction and Materials supervisors to discuss work for the coming week, issues and policies. Policies are also discussed with Design before TACs/TAPEs are sent out.

As RIDOT moves towards a Project Management organization, coordination among sections will become more effective and efficient. Each project will have a Project Manager assigned to coordinate all aspects of the project.

Anticipated Completion Date: *On-going*

Contact Person: *Colin Franco, Materials and Quality Assurance*
Phone: 401.222.2524

2015-036d - 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 database in the materials laboratory. Although the department has worked diligently in this area, progress has been impacted by the numerous demands on limited MIS resources.

Anticipated Completion Date: *On-going*

Contact Person: *Colin Franco, Materials and Quality Assurance*
Phone: 401.222.2524

2015-036e - Throughout the year and specifically during the Winter months RIDOT reviews items related to the Materials Quality Assurance Program (Acceptance Testing, Process Control and Independent Assurance). We also continuously review our documentation filing and retrieval system to monitor for errors and improve wherever possible.

Weekly meetings including both Materials and Construction staffs are held to discuss any issues. RIDOT's Materials section also implemented staff trainings and both Materials and Construction Staff are encouraged to take certification courses in Construction Inspection and Materials Testing. When needed, policy memos are sent out to RIDOT staff to inform them of new or changes to existing policies.

In addition, RIDOT will review the training materials to ensure all requirements of the Federal regulation are included.

Anticipated Completion Date: *On-going*

Contact Persons: *Colin Franco, Materials and Quality Assurance*
Joe Baker, Acting Manager of Project Management
Phone: 401.222.2524

Finding 2015-037 ***(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 $3.0 million in fiscal 2015. 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. 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.

Questioned Costs: None

RECOMMENDATIONS

2015-037a Identify all federal awards passed through to subrecipients by project.

2015-037b Enhance written policies and procedures over subrecipient monitoring. Document the Department's monitoring plan and document the monitoring performed.

Corrective action plan / auditee views:

2015-037a - The RIDOT Finals Section will develop a procedure for identifying all federal awards passed-through to sub recipients by projects.

Anticipated Completion Date: December 31, 2016

2015-037b - The department will review policies and procedures to ensure comprehensive site visits are conducted and that the monitoring performed is adequately documented.

Additionally, the department will work on developing a department-wide sub recipient monitoring plan that will include written policies and procedures, a risked-based selection process for selecting which sub recipients will have a comprehensive monitoring review, and a checklist that will be used to document sub recipient monitoring.

Anticipated Completion Date: *On-going*

Contact Person: *Lambri Zerva, Acting Supervisor, Finals*
Phone: 401.222.6590

Finding 2015-038 ***(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: HPP1202001, MR0044005, F1195006, BRMBCDR002, BRO0250008, STPFRIP200, STPTEAC200, STPAWDA001, BRMBCDR003, STPRRR235
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 did not document or seek FHWA approval of its Utility Accommodation Policy (UAP) as required by federal regulation 23 CFR 645.215 prior to fiscal year end. 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 need to be improved. We selected 25 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 one project, RIDOT was unable to provide the Utility Agreement, RIDOT Construction & Maintenance Agreement, a PS&E authorization request, 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 four 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: $138,091

RECOMMENDATIONS

2015-038a Finalize the draft Utility Accommodation Policy and obtain FHWA approval.

2015-038b Improve Utility Accommodation file documentation to demonstrate compliance with federal requirements.

Corrective action plan / auditee views:

2015-038a - The Department has prepared a draft Utility Accommodation Policy that has been submitted to and reviewed by FHWA. Based on feedback from FHWA, RIDOT has modified the policy and is meeting with them in early April 2016 to finalize it.

Anticipated Completion Date: June 30, 2016

2015-038b - The Department will improve its Utility Accommodation file documentation to comply with federal requirements.

Anticipated Completion Date: December 31, 2016

Contact Person: David Fish, Acting Administrator
Division of Project Management
Phone: 401.222.2492

Finding 2015-039 ***(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.

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

2015-039 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, 2016*

Contact Person: *Lambri Zerva, Acting Supervisor, Finals*
Phone: 401.222.2023

Finding 2015-040 ***(significant deficiency- repeat finding)***

FEDERAL TRANSIT CLUSTER:
Federal Transit - Capital Investment Grants - CFDA 20.500
Federal Transit - Formula Grants - CFDA 20.507
Federal Award Agency: U.S. Department of Transportation
Federal Award Year and Award Numbers: Various
Administered by: Rhode Island Public Transit Authority

ALLOWABLE COSTS/COST PRINCIPLES

Criteria: OMB Circular A-87 – "*Cost Principles for State, Local, and Indian Tribal Governments*" requires that charges to federal award programs be supported by appropriate documentation including approved requisitions, vendor invoices or other documentation.

Condition: During our testing of internal controls, we noted that one CMAQ service reimbursement to RIPTA's operating fund was not adequately documented. RIPTA was unable to provide certain supporting documentation, including the vehicle statistic and cost factor 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.

Questioned Costs: None

RECOMMENDATION

2015-040 We recommend that RIPTA properly maintain all supporting documentation used to prepare CMAQ service reimbursements 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 documents will be maintained in the Planning Department as well.

Anticipated Completion Date: February 1, 2016

Contact person: Lillian Shuey Picchione
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Finding 2015-041 ***(significant deficiency - new finding)***

FEDERAL TRANSIT CLUSTER:
Federal Transit - Capital Investment Grants - CFDA 20.500
Federal Transit - Formula Grants - CFDA 20.507
Federal Award Agency: U.S. Department of Transportation
Federal Award Years and Award Numbers: Various
Administered by: Rhode Island Public Transit Authority

PROCUREMENT

Criteria: 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. States must also ensure that purchase orders or contracts include any clauses required by Federal statutes and executive orders and implementing regulations.

Condition: RIPTA uses State of Rhode Island master price agreements (MPA) to procure goods and services funded with FTA grants. The State of Rhode Island does not include the required FTA contract clauses in its MPA contracts. As a result, MPA transactions are not in compliance with procurement requirements.

Questioned Costs: None

RECOMMENDATION

2015-041 We recommend that RIPTA properly document compliance with FTA contract clause requirements prior to purchasing goods and services using State of Rhode Island MPAs.

Corrective Action / auditee views:

The RIPTA Procurement Department has reached out to the State of Rhode Island MPA vendors with whom the Authority does business utilizing federal funds. These forms ensure compliance with FTA procurement requirements. RIPTA will handle vendors who have refused to sign the forms on a case to case basis, dependent upon the needs of the Authority.

Anticipated Completion Date: *April 1, 2016*

Contact person: *Roger Mencarini*
rmencarini@ripta.com

Finding 2015-042 *(significant deficiency – repeat finding)*

REHABILITATION SERVICES–VOCATIONAL REHABILITATION GRANTS TO STATES (VR) – CFDA 84.126
Federal Award Agency – Department of Education
Award Years: Federal Fiscal Years 2014, 2015
Federal Award Numbers: H126A140058, H126A150058
Administered by: Department of Human Services, Office of Rehabilitation Services (ORS)

SUSPENSION AND DEBARMENT

The Office of Rehabilitation Services (ORS) should follow up and take appropriate action upon checking the System for Award Management (SAM) system for vendor related exclusions – specifically those related to suspended and debarred parties.

Federal guidance to states regarding suspension and debarment provides that:

"Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. "Covered transactions" include contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All non-procurement transactions entered into by a pass-through entity (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215."

"When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) and available at https://www.sam.gov/portal/public/SAM/, (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300)."

ORS began utilizing the Federal SAM system to address the federal requirement prohibiting payments of federal funds to suspended or debarred parties. ORS obtained data from the SAM system for vendor related exclusions, but did not follow up on or react to the search results. The search results did highlight instances where ORS vendors were identified in the SAM database; however further investigation was not performed to determine if the vendor was suspended or debarred.

ORS staff requires training and guidance on how to interpret information in the SAM system and how to determine the specific actions the federal government requires them to take based on the various types of information in the SAM system. ORS informed us that they are initiating discussions with the federal grantor to obtain further training and guidance.

Questioned Costs: None

RECOMMENDATIONS

2015-042a Seek guidance and/or training from the federal government regarding proper use of excluded party information and document the required procedures.

2015-042b Take appropriate and timely action upon checking the SAM system for vendor related exclusions.

Corrective Action Plan/ auditee views:

1. *Identify number of vendors under the $25,000.00 threshold for SAMs requirement.*

2. *Explore alternative methods for meeting SAMS requirement which may include an annual letter for existing vendors and a letter for new vendors to meet the Suspension, Debarment and Exclusion requirement.*

3. *Enlist auditor to engage SAMS staff for clarification.*

Since the audit last year, ORS has invested a significant amount of time trying to be in compliance with this requirement. ORS checked every new and existing vendor (not just the ones over $25,000 as required) into the SAM system. The current audit finding is that ORS did not take action related to those vendors who were on the "exclusion" list. Unfortunately ORS has no way to identify what the exclusions are which would result in ORS action specific to a vendor. The SAM staff, when approached by ORS, would not discuss with us. ORS contacted RSA and was told that the SAM website is outside of their purview. Although ORS has tried to get clarification, ORS does not have the ability at this time to identify the nature/cause of any exclusions from the SAMs website. The ORS position is that we have done everything possible to clarify exclusions given the limitation of the SAM website.

Anticipated Completion Date: *September 2016*

Contact Person: *Kathleen Grygiel, VR Administrator*
Kathleen.Grygiel@ors.ri.gov
Phone: 401.462.7873

Finding 2015-043 ***(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 2014, 2015
Federal Award Numbers: H126A150058
Administered by: Department of Human Services, Office of Rehabilitation Services (ORS)

EARMARKING

ORS must implement procedures to identify, control and monitor expenditures meeting federal requirements for the mandated 15 percent pre-employment transition services (PETS) to students with disabilities who are eligible, or potentially eligible, for vocational rehabilitation services.

"States must reserve at least 15 percent of their Vocational Rehabilitation (VR) allotment under Section 110(a) of the Act for the provision of pre-employment transition services (PETS) to students with disabilities who are eligible, or potentially eligible, for VR services. State VR agencies are required to collaborate with local educational agencies to provide, or arrange for the provision of, pre-employment transition services to students with disabilities. If reserved funds remain after the provision of the required activities, States may use these funds for activities designed to improve the transition of students with disabilities from school to post-school activities, including employment (Sections 110(d) and 113(a) and (c) of the Act (29 USC 730(d) and 733(a) and (c)))."

While ORS had not implemented specific control procedures to ensure compliance with the earmarking requirement, ORS provided an estimated analysis demonstrating that it likely has qualifying costs to meet the 15% PETS earmark. ORS should continue to complete and refine its documentation to support compliance with the PETS earmark. Additionally, ORS should implement necessary control procedures to ensure that it has information available throughout the grant award period to ensure that it will meet the required earmark requirement.

ORS management informed us that the federal grantor is developing additional implementation guidance to assist grantees in defining qualifying expenditures that meet the PETS definition. ORS is in discussion with the grantor regarding this and other resources available to measure PETS services and meet the earmark.

Questioned Costs: None

RECOMMENDATION

2015-043 Implement procedures to accumulate, control, and monitor expenditures meeting federal requirements for the mandated PETS earmark.

Corrective Action Plan/ auditee views:

While ORS agrees that there needs to be additional controls in place for earmarking/Pre-Employment Transition Services (PETS), ORS would like the following information taken into consideration. ORS, as well as other State VR agencies, sought guidance from RSA, but getting specific answers was difficult as we still do not have final regulations. ORS did not want to "guess" at what could be counted towards the PETS requirement. RSA offered technical assistance to the states through various "WINTACS" to help the state implement this *requirement. ORS accepted this opportunity immediately after it was offered, and have met twice with the technical assistance provider. (Institute for Community Inclusion at UMASS Boston).*

An annualized estimate, based on 4 months of data, indicated that ORS will exceed the earmarking requirement.

ORS will continue to work with our federal partners to define services that are or are not included in the new earmarking requirement. Update maintenance of MIS to insure that all in-school youth are coded. Train counselors on the new coding and admission and discharge requirements. Develop and implement a monthly reporting process to track expenditures and services.

Anticipated Completion Date: *September 2016*

Contact Person: *Kathleen Grygiel, VR Administrator*
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Phone: 401.462.7873

Finding 2015-044 *(significant deficiency – repeat finding)*

REHABILITATION SERVICES–VOCATIONAL REHABILITATION GRANTS TO STATES (VR) – CFDA 84.126
Federal Award Agency – Department of Education
Award Years: Federal Fiscal Years 2014, 2015
Federal Award Numbers: H126A150058
Administered by: Department of Human Services, Office of Rehabilitation Services (ORS)

LEVEL OF EFFORT - MAINTENANCE OF EFFORT (MOE)

We found that revisions to federal reports for FFY 2013 increased the amount of noncompliance with the MOE requirements for the VR program for that year, as previously identified by the federal Department of Education. ORS did not document its monitoring of compliance with the MOE requirements for FFY 2014.

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 (deficit).

During SFY 2015, ORS revised the final SF-425 recipient/state share of expenditures downward for FFY 2013 to correct for previous reporting errors. The revision increased the MOE shortfall previously identified and recouped by the federal government. The revision results in approximately another $203,000 in MOE deficit for FFY 2013.

In addition, we noted that ORS did not appropriately document its monitoring of VR compliance with the MOE requirements for FFY 2014. Controls should be implemented to ensure that the required calculation is performed and documented timely throughout the period of performance for each grant award to ensure the State's compliance with this requirement.

Questioned Costs: Unknown

RECOMMENDATION

2015-044 Implement controls to ensure that the required MOE calculation is performed and documented in a timely fashion on various occasions during the period of performance for each grant award, including after any revisions to previously submitted reports when applicable.

Corrective Action Plan/ auditee views:

RSA has been notified of the error and a response is pending. Corrective Action Plan: Before preparing spreadsheet for State Match for each grant year a copy of the final 425 for the prior 2 year grant is obtained and the required MOE is added to the spreadsheet to ensure it is met.

Anticipated Completion Date: *March 2016*

Contact Person: *Carol Mattson, Fiscal Director*
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Phone: 401.462.7812

Finding 2015-045 ***(material weakness – repeat finding)***

REHABILITATION SERVICES–VOCATIONAL REHABILITATION GRANTS TO STATES (VR) – CFDA 84.126
Federal Award Agency – Department of Education
Award Years: Federal Fiscal Years 2014 – 2015
Federal Award Numbers: H126A150058 and H126A140058
Administered by: Department of Human Services, Office of Rehabilitation Services (ORS)

FEDERAL FINANCIAL REPORTING

The Office of Rehabilitation Services (ORS) should further improve controls over the preparation of federal reports.

The SF-425 Federal Financial Reports (OMB No. 0348-0061) are 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. The errors appear due to data entry errors in supporting spreadsheets for the SF-425's, as well as, a lack of adequate controls to ensure proper review of report data prior to submission to the federal government. Examples of variances include:

- *FFY 2015 Grant – Quarter ended March 31, 2015* - the federal share of expenditures reported by ORS exceeded the federal share recorded in the state accounting system for the VR account by $253,126 and by $296,042 for the SBVI account, for a total overstatement of $549,168. However, another error understated the cumulative total reported for federal expenditures by $122,850, yielding a net overstatement of the cumulative federal share of expenditures by $426,318 on the federal report.

- *FFY 2014 Grant – Quarter ended September 30, 2014* – federal cash receipts reported were overstated by $187,850 in comparison to the amount recorded in the state accounting system.

- *FFY 2014 Grant – Quarter ended September 30, 2014* – recipient (state) share expenditures were understated by $103,633.

ORS is also required to submit the RSA-2 Annual Vocational Rehabilitation Program/Cost Report (OMB No. 1820-0017). We found that ORS did not reconcile amounts reported on the RSA-2 for FFY 2014 to the corresponding SF-425 reports. The RSA-2 data should be reconciled to the SF 425's for the corresponding period as a control over both federal reports.

We also found the process for accumulating a major part of the RSA-2 information entails maintaining duplicate transaction detail in excel spreadsheets – in addition to the State's accounting system (RIFANS). Each transaction posted to RIFANS is re-entered into the excel spreadsheets to sort into the reporting categories required for the RSA-2. Subsequently, the excel spreadsheets have to be reconciled to RIFANS on a monthly basis. This entire process should be re-examined to determine if there is a more efficient way to obtain the necessary information categorized as required to allow preparation of the RSA-2.

Certain personnel salary expenditures are being allocated to the counselor category rather than the administrative expenditure category on the RSA-2. Based on discussions with ORS staff, it is unclear which category is appropriate for the reporting of these personnel costs. ORS should consult with RSA to determine the proper handling of these costs on the RSA-2.

Questioned Costs: None

RECOMMENDATIONS

2015-045a Review all SF-425 federal financial reports previously submitted for the FFY 2014 and 2015 grants. Submit revised reports as necessary.

2015-045b Implement controls to ensure proper review of report data prior to submission to the federal government.

2015-045c Reconcile the RSA-2 report data to the SF 425 reports for the corresponding periods as a control over both federal reports.

2015-045d Re-examine the process for accumulating data for preparation of the RSA-2 report to determine if there is a more efficient way to obtain the necessary information from the state accounting system.

2015-045e Consult with RSA to determine the proper categorization of certain personnel salary costs on the RSA-2. Submit a revised FFY 2014 RSA-2 report, if required.

Corrective Action Plan/ auditee views:

1. *Update financial reporting processes and controls to insure reporting reconciles to the State accounting system. Federal financial reports will be revised as necessary.*

2. *RSA has been contacted and information regarding categorization of personnel salary clarified. RSA2 will be revised accordingly.*

This is due to the lack of staff in the fiscal office, we primarily had one person doing the reporting. A new/additional fiscal staff person began work in January 2016. We worked with RSA and developed internal procedures for the reporting and submitted them to RSA. The errors in reporting were due primarily to numbers getting transposed incorrectly and not being reviewed before submission.

Anticipated Completion Date: *September 2016*

Contact Person: *Carol Mattson, Fiscal Director*
Carol.Mattson@ors.ri.gov
Phone: 401.462.78123

Finding 2015-046 ***(significant deficiency- new finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Direct Student Loans – CFDA 84.268
Federal Award Agency: U.S. Department of Education
Award Year: 2015
Administered by: Community College of Rhode Island

Condition: One of the underlying assertions regarding the student status report is the timely reporting of the information as it relates to the student's effective status. Our testing revealed 5 of 29 students did not have the proper effective status reported timely. The reporting of these status changes occurred between 19 to 87 days after the due date.

Criteria: According to 34 C.F.R 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 has ceased to be enrolled on at least half-time basis.

Cause/effect: Our audit disclosed that, although the Community College of Rhode Island had policies and procedures for transmitting information to the National Student Clearinghouse (NSC) on at least a monthly basis to ensure reporting of all students is done in a timely manner, there were some instances in which the Community College failed to correct enrollment files within an adequate time frame to ensure timely reporting.

Questioned Costs: None

RECOMMENDATION

2015-046 We recommend that the Community College review and update its policies and procedures for transmitting information to the National Student Clearinghouse on enrollment changes.

Corrective Action / auditee views:

All previous enrollment reporting submissions to Clearinghouse were done on time and correct. Changes to the reporting program were made during fall 2014 to be compliant with new federal regulations. The final submission, enrollment update for the fall 2014 semester was sent on December 29, 2014. This file rejected. On January 5, 2015 the College received a reject file with 5,000 edits (student records). Correspondence between CCRI, Correspondence between CCRI, Clearinghouse and NSLDS began. Settings within the enrollment reporting system (Banner) needed to be changed to pull the information now required for submission. As adjustments were made, CCRI continued to submit the file to Clearinghouse to rectify the issue. All subsequent transmittals were rejected with the same results as first submission.

After unsuccessful attempts, IT submitted a ticket to Ellucian (Banner) on February 4, 2015. While working with Ellucian consultants, the College continued submitting enrollment files without success. Ellucian continued researching the reporting reject issues and tested any recommended solutions. File was successfully submitted on February 23, 2015 and the ticket with Ellucian was closed.

The rejected file submission in December directly affected all future enrollment reporting until a resolution was reached. The Fall graduate file was successfully submitted on February 25, 2015 and the first spring 2015 enrollment file was submitted on February 26, 2015. All subsequent submissions were successfully submitted in compliance with federal guidelines.

Contact Person: *Joel Friedman, Director of Financial Aid*
Phone: 401.823.2003

Finding 2015-047 ***(significant deficiency – repeat finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Direct Student Loans – CFDA 84.268
Federal Award Agency: U.S. Department of Education
Award year: 2015
Administered by: University of Rhode Island

Condition: The Federal Government requires the University to report student enrollment changes to the National Student Loan Data System (NSLDS) within sixty days. Out of a sample of forty students with enrollment status changes, fifteen 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 students was between 10 to 38 days late. Four students were not reported to the NSLDS at all.

Criteria: According to 34 C.F.R. 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.

Cause/Effect: 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, there were some instances in which the University failed to correct enrollment files within an adequate time frame to ensure timely reporting.

During the audit, it was also disclosed that there were certain combinations of reporting statuses that were not reported by the National Student Clearinghouse. This caused four students to not be reported to the NSLDS at all.

Questioned Costs*:* None

RECOMMENDATION

2015-047 We recommend that the University review and update its policies and procedures for transmitting information to the National Student Clearinghouse on enrollment changes.

Corrective Action / auditee views:

The University concurs with the findings and has conducted a thorough review of its processes involving Clearinghouse submissions. Several procedural changes have been instituted. The University began using the delivered PeopleSoft process rather than a Custom process for creating the file for submission during the Summer of 2015. Additionally, each month the University will request the SSCR Roster which will be compared to the enrollment file for submission. For students that have outstanding Title IV aid that are listed on the enrollment file, but not listed on the SSCR Roster, they will be manually added to the SSCR Roster through the NSLDS site by the University.

It should be noted that when the Clearinghouse contract with NSLDS was terminated in November 2014 by the Department of Education, the Clearinghouse data flow frequency and reporting method changed. This unforeseen data flow gap caused students to not be added onto rosters when updated enrollment information was reported after the student had separated from the school (typically Withdrawn or Graduated). This resulted in four students not being reported to NSLDS.

Contact Person: *Bonnie Saccucci, Senior Associate Director, Enrollment Services*
Phone: 401.874.2002

Finding 2015-048 ***(significant deficiency- new finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Work Study Program CFDA 84.033
Federal Award Agency: U.S. Department of Education
Award year: 2015
Administered by: Rhode Island College

Condition: Federal Work Study Program testing procedures included a review of documentation to determine if the institution maintained adequate time records to support amounts students worked and were paid for.

Criteria: According to 34 C.F.R. Section 675.19(b): An institution must establish and maintain program and fiscal records that include a certification by the student's supervisor, an official of the institution or off-campus agency, that each student has worked and earned the amount being paid. The certification must include or be supported by, for students paid on an hourly basis, a time record showing the hours each student worked in clock time sequence or the total hours worked per day.

Cause/Effect: Our audit disclosed that although Rhode Island College had policies and procedures requiring off-campus agencies to certify accurate student time records prior to the student being paid, there was an apparent lack of oversight. The student's time record was deemed to be insufficient as it was not in agreement with the hours the student was paid for. The deficient student time record resulted in questioned costs because there was no verification for the hours the student worked and was paid for.

Questioned Costs: $488

RECOMMENDATION

2015-048 We recommend that management strengthen their oversight of off-campus agencies associated with the College's Federal Work Study Program. The College should require all student hours be supported with time records indicating the hours worked in clock time sequence or the total hours worked per day.

Corrective Action / auditee views:

The College agrees with the finding. The College will enforce the policy that any student work hours submitted to the payroll office not via the on-line time reporting system must be done so by the written payroll form "Manual Time Sheet". In order for payment to be made this form must be properly approved and accompanied by a copy of the individual student sign-in sheet maintained by the department. Payroll Office website will be updated so that this form is readily available to the college community. The accounting and payroll offices will work with the Career Development Center to ensure all employer and employee manuals contain the proper procedure for documentation required and record retention of such documentation. All future training provided by these offices will reinforce the proper procedures.

Contact Person: Melissa Souza, Assistant Controller
Phone: 401.456.8001

Finding 2015-049 ***(material weakness –repeat finding)***

ARRA - RACE TO THE TOP-EARLY LEARNING CHALLENGE – CFDA 84.412
Federal Award Agency: US Department of Education
Award Year: 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 reasonable and necessary 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 2015 expenditures for the ELC grant were $16.2 million. After excluding payroll and other internal administrative charges, we selected four large dollar vendor payments totaling $3,806,961 and a random sample of 15 additional payments totaling $125,467 from the remaining population. These nineteen vendor payments totaling $3,932,428 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 could improve its oversight of costs incurred by one of its PSA's vendors. Specifically, we found that the four large vendor payments in our sample were processed without complete supporting documentation. As a result, we were unable to determine that all of the cost charges were reasonable, necessary and supported by contract provisions.

All four of the aforementioned vendor payments were processed by the same PSA (the state Department of Human Services – DHS) and represented monthly reimbursements for the costs incurred by the vendor engaged to establish a statewide Professional Development/Technical Assistance Center. The Center provides professional development and technical assistance for the early education workforce and awards Quality Improvements Grants to approved day care providers. The vendor charged $398,449 for its payroll costs during this 4-month period. The supporting documentation outlined the employee names, number of hours worked and hourly rates but it did not include the employees' position title. Since the contract outlined hourly rates by position, we were unable to verify that the hourly rates charged complied with contract terms.

We also noted that the contract listed five separate hourly rates (including fringe benefits) ranging from $36.44/hour to $79.00/hour. The actual billings, however, included charges for several additional rates ranging from $32.94/hour to $129.69/hour that were not consistent with the contract.

In addition, we found that reimbursements made to the vendor for cash advances it provided to day care providers could be better controlled. In sum, the vendor is part of a process that awards Quality Improvement Grants to day care providers meeting certain criteria. The grants are to be used by the providers for certain pre-approved purposes under the general objective of improving the quality of early education (these cash advances are a practice approved by both the U.S. Departments of Education and Health and Human Services). The vendor issues cash advances to the providers in installments which, in the aggregate, equal the total amount of the award. The state DHS approved such reimbursements (totaling $2,417,398 in the four-month period of our sample) based on its review of copies of the vendor's unnegotiated checks. Control over the reimbursement of these advances could be enhanced – for example, by requiring the vendor to provide better evidence of the disbursements (e.g., cancelled checks or other banking documentation).

Questioned Costs: None

RECOMMENDATION

2015–049 Ensure documentation supporting all ELC disbursements meets the minimum standards established by federal cost principles and RIDE policies. Improve control over reimbursements for cash advances.

Corrective Action / auditee views:

The Rhode Island Department of Education (RIDE) meets regularly with Participating state agencies (PSAs) to reinforce the documentation required to pay vendor invoices. Between April 2015 and February 2016 RIDE staff met seven times with Department of Human (DHS) staff and DHS vendors to review invoice supporting documentation. At this time vendor payments are being held pending submission and subsequent review of supporting documentation.

RIDE staff has worked with DHS to ensure all expenses associated with grant awards and advances are verified on site at the grantees location.

RIDE staff believes payment review and supporting documentation has been steadily improving throughout the grant period.

Anticipated Completion Date: *Ongoing*

Contact Person: *Mark Dunham, Director of Finance*
R.I. Department of Education
Phone: 401.222.4647

Finding 2015-050 ***(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 2012-2015
Federal Award Numbers: HBEIE0064A, HBEIE0086A, HBEIE0157A, HBEIE0182A, HBEIE0205A, HBEIE0194A, HBEIE0201A, and HBEIE0207A
Administered by: HealthSource RI – Department of Administration

ALLOWABLE COSTS/COST PRINCIPLES

HealthSource RI can enhance its controls and related documentation supporting the allowability of costs reimbursed through the State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges program.

For fiscal 2015, the State expended, and was reimbursed through the federal grant, $50.9 million relating to the planning and implementation of its State-based Health Insurance Exchange (HIE) as authorized by the federal Affordable Care Act. Fiscal 2015 expenditures included costs to continue implementation of HealthSource RI (HSRI) technology and customer support services. These expenditures mostly included costs for contracted vendors and consultants as well as personnel and administrative costs incurred by the State.

Rhode Island's State-based exchange marketplace project period was initially set to end on December 31, 2014. The State obtained a No Cost Extension from the federal grantor to utilize remaining authorizations to cover allowable project costs through December 31, 2015.

HSRI can enhance support and documentation for the classification of expenditures deemed design, development, and implementation (DDI) which are allowable under these specific federal awards and maintenance and operation (M&O) costs which are unallowable. HSRI can also 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 timesheets or semi-annual certifications (for employees expending 100% of their efforts on the program).

Allocation of Personnel and Contract Services

Federal regulations prohibit charges for the maintenance and operation of State-based Health Insurance Exchanges to planning and establishment grants (also referred to as 1311 Funding in reference to the relevant section of the Affordable Care Act). As the health insurance exchanges moved from the initial operation phase, CMS provided additional guidance on the appropriate classification of costs as DDI or M&O. Federal guidance required such allocations to be supported by systems that adequately track activities and costs relating to DDI in a manner that enables an accurate allocation of costs to 1311 grants.

HSRI categorized its operating expenditures into the DDI and M&O categories (excluding those deemed M&O from grant reimbursable expenditures), however, such amounts were generally supported only by brief narratives rather than more detailed activity summaries or other information. HSRI charged a significant portion of its personnel expenditures and contact center contractor costs as relating to DDI to 1311 grants in fiscal 2015. HSRI did not have specific activity reporting or other more detailed documentation to support these allocations. HSRI should better support its separation of costs as DDI and M&O to ensure compliance with the specific allowable cost requirements of these federal grants.

HSRI's share of personnel costs relating to EOHHS appeals officers were also charged to the grant during fiscal 2015. All such costs were considered related to design, development, and implementation activities and were charged to the federal grant. HSRI had no documentation to support that all such costs related to DDI activities.

Consultant and Technology Services Vendor Charges

During fiscal 2015, HSRI continued to utilize multiple consultants and technology service providers in support of the State's 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. Overall, supporting documentation obtained prior to the approval of contractor disbursements improved during fiscal 2015, however, we did note some disbursements where additional supporting documentation should have been obtained prior to payment. HSRI was able to subsequently obtain the necessary documentation from the vendor to support amounts charged.

Personnel Charges

Personnel costs for state employees working on HIE related activities totaled approximately $1.7 million for fiscal 2015. HSRI generally had or was able to subsequently provide documentation for personnel charges to the grant; however, controls could be enhanced to ensure such documentation, meeting applicable federal cost circular guidance (i.e., OMB Circular A-87), is obtained timely and maintained consistently.

OMB Circular A-87 requires employees that work solely on one federal award or cost objective to complete periodic (no less than semi-annually) certifications attesting to that fact. HSRI was unable to provide payroll certifications for the majority of its employees that allocated 100% of their time to the HIE federal grant for the period July 1 through December 31, 2014. While it is reasonable that these individuals devoted 100% of their time in support of the HIE, the documentation requirement was not fully met.

Questioned Costs: Unknown

RECOMMENDATIONS

2015-050a Develop enhanced documentation, including activity reporting for State personnel and contractor services, to support the identification of costs as design, development, and implementation related compared to those costs deemed maintenance and operation activities which are not reimbursable from the federal grant.

2015-050b Enhance controls to ensure amounts reimbursed from the federal grant are adequately supported and documented at the time of payment to ensure compliance with federal requirements.

Corrective action plan / auditee views:

2015-050a - All requests for federal grant monies must satisfy certain requirements prior to disbursement. For example, required reports include, but are not limited to, updated monthly budgets and semi-annual program report updates for each grant. These reports detail spending amounts and purposes, and are reviewed by CMS before fund restrictions are lifted and reimbursement is approved for release. Any changes to spending (including No-Cost Extension requests or spending restriction lifts) must be approved by CMS through this process, or risk ineligibility for reimbursement.

Due to a change in federal reimbursements during Fiscal 2015, HSRI took proactive steps to identify, catalogue and qualify allowable expenses. Specifically, written communication with CMS explained HSRI's financial transition to a maintenance and operations (M&O) stage from one that had been focused on design and development (DDI) since inception. The understanding and segregation of M&O costs from DDI required considerable analysis and discussion, but HSRI's approach was reinforced by CMS' published Frequently Asked Questions, which were consistent with HSRI's prior communication.

As HSRI continues its transition to a stabilized sustainable enterprise, we continue to work with CMS to ensure that costs charged to the grants are appropriate and allowable. Further, HSRI will strive to implement more standardized, detailed and thorough documentation regarding the breakdown of cost allocation for Fiscal 2016.

2015-050b - During Q3 of fiscal 2015, the State brought in a new team to manage HSRI. HSRI's new management restructured the organization and tightened procedures, controls and accountability. A more disciplined approach to cost management was implemented to ensure that costs were documented as accurate and valid.

With the close vendor/agency working relationship required by a startup enterprise, HSRI management believed documentation adequately supported this end. HSRI will review current procedures and strengthen documentation to ensure detailed evidence is obtained to support all costs.

Anticipated Completion Date: *Effective immediately*

Contact Person: *James Thorsen, Deputy Director, Finance and Operations*
HealthSource RI
Phone: 401.462.3596

Finding 2015-051 ***(significant deficiency – new 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 Years: 2011 and 2013
Federal Award Numbers – 2013G992201, 2011G992201
Administered by: Department of Human Services (DHS)

CASH MANAGEMENT - DRAWDOWN OF FEDERAL FUNDS

DHS can improve controls over cash management for LIHEAP to limit federal cash drawn to its immediate needs.

Federal cash management regulations require the State to limit the amount of federal funds on hand prior to disbursement for program purposes. The Department of Human Services (DHS) is required to draw cash for the Low-Income Home Energy Assistance Program (LIHEAP) in accordance with 31 CFR Part 205, Subpart B which states "a State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes."

DHS did not draw federal funds in accordance with 31 CFR Part 205, Subpart B nor did they utilize the State's report designed to time draws in compliance with cash management requirements for LIHEAP. Generally, federal funds were not drawn to coincide with the payments made to subrecipients, which resulted in federal cash balances in excess of immediate program needs for 77 of 250 working days.

Payments to subrecipients are not scheduled limiting DHS ability to predict its immediate cash needs. To ensure compliance with 31 CFR Part 205, Subpart B DHS should use the report (Cash Resources Report) developed by the State to facilitate compliance with cash management requirements.

Questioned Costs: None

RECOMMENDATION

2015-051 Enhance controls over cash management to ensure compliance with 31 CFR Part 205, Subpart B. Utilize the Cash Resources Report to determine the amount and timing of draws of federal funds.

Corrective Action Plan/ auditee views:

DHS had already been in the process of updating controls regarding cash management, including utilizing the cash resources report and having the key fiscal staff person certify that the funds need to be drawn.

Anticipated Completion Date: June 1, 2016

Contact Person: Jennifer Pate, Financial Management Administrator
Phone: 401.462.1586

Finding 2015-052 ***(significant deficiency – new 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 Years: 2014
Federal Award Numbers – 2014G992201, 2014G995623
Administered by: Department of Human Services (DHS)

EARMARKING

DHS must enhance its controls procedures to ensure compliance with LIHEAP earmark requirements.

The LIHEAP block grants have several earmarking requirements, which include:

- Not more than 10 percent of the LIHEAP funds payable to the State for a federal fiscal year may be used for planning and administrative costs, including both direct and indirect costs. This limitation applies, in the aggregate, to planning and administrative costs at both the State and subrecipient levels (42 USC 8624(b)(9)(A); 45 CFR section 96.88(a)).

- Not more than 15 percent of the greater of the funds allotted or the funds available to the grantee for a federal fiscal year may be used for low-cost residential weatherization or other energy-related home repairs. The Secretary may grant a waiver, and the grantee may then spend up to 25 percent for residential weatherization or energy-related home repairs (42 USC 8624(k)).

- Not more than five percent of the LIHEAP funds payable to the State may be used to provide services that encourage and enable households to reduce their home energy needs and thereby the need for energy assistance. Such services may include needs assessments, counseling, and assistance with energy vendors (42 USC 8624(b)(16)).

These earmarking requirements are based on total program expenditures including expenditures incurred by subrecipients for administration, energy need reduction services, and weatherization. DHS identifies the specific purpose of funds allotted to subrecipients on purchase orders (e.g., administration, weatherization, etc.) and program personnel maintain off-line spreadsheets allocating payments to subrecipients into the appropriate category.

While DHS has made improvements to monitor the earmarking requirements, including tracking expenditures by grant year on unique line item sequence numbers, control procedures were not fully in place at June 30, 2015. Specifically, DHS lacked sufficient controls to track expenditures related to subrecipient administrative costs and energy need reduction services for Federal Fiscal year 2014 grant award. Controls procedures should continue to be enhanced to ensure the State is fully compliant with overall earmarking requirements including amounts expended by subrecipients and the State.

Questioned Costs: None

RECOMMENDATION

2015-052 Implement designed control procedures and improve documentation to ensure compliance with LIHEAP earmarking requirements.

Corrective Action Plan/ auditee views:

DHS currently tracks the LIHEAP earmarking requirements. Going forward, DHS will also track the 15% earmarking requirement regarding Weatherization funds as well. Staff will reconcile earmark tracking to the State accounting system on at least a quarterly basis.

Anticipated Completion Date: *May 1, 2016*

Contact Person: *Lewis Babbitt, Chief Program Development*
Phone: 401.462.6424

Finding 2015-053 ***(material noncompliance / material weakness – new 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 Years: 2014
Federal Award Numbers – 2014G992201, 2014G995623
Administered by: Department of Human Services (DHS)

PERIOD OF PERFORMANCE AND FEDERAL REPORTING

DHS did not expend or obligate 90 percent of the federal fiscal year 2014 LIHEAP awards by the close of the grant and period and therefore did not comply with that requirement. Controls must be improved to ensure compliance with the period of performance requirement and to improve federal reporting related to such requirements.

The period of performance for LIHEAP requires that at least 90 percent of block grant funds be expended or obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or "carried over") for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to Administration for Children and Families (ACF) – Department of Health and Human Services. There are no limits on the time period for expenditure of funds (42 USC 8626).

For the federal fiscal year 2014 awards, DHS had not met the 90% expended or obligated requirement at September 30, 2014. At that date only 66% had been expended or obligated – additional obligations totaling $5.4 million were required at that date. DHS did provide support to demonstrate that by November 2014 additional obligations, sufficient to meet the 90% expended or obligated requirement had been made. The federal grantor has provided guidance on the definition of "obligated" relative to meeting the period of performance requirement. DHS did not comply with the period of performance requirement for federal fiscal 2014 awards (90% expended or obligated by September 30, 2014) based on guidance provided by the grantor regarding valid obligations.

Accounts have been established within the State's accounting system to segregate expenditures and obligations by specific federal grant award; however, DHS's controls and procedures to ensure compliance with the period of performance requirements must be improved. DHS does not prepare or maintain formal documentation to demonstrate its compliance with the period of performance time limitations.

DHS should immediately review its processes to ensure compliance with period of performance requirements. Further, DHS should review its contracting/subaward processes and explore options to allow the timely reallotment to subrecipients and amendment of contracts/purchase orders when supplemental awards are received from the federal government.

Carryover and Reallotment Report

Grantees must submit a report, no later than August 1, indicating the obligated amount expected to be carried forward to the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must also be reported (42 USC 8626).

The same issues highlighted above relating to the support for amounts obligated also affected the reliability of the Carryover and Reallotment report. Controls need to be enhanced to ensure the reliability of amounts included on the report.

Federal Financial Report (SF-425)

The State is required to prepare a Federal Financial Report (SF-425) for the LIHEAP block grant, Leveraging Incentive Program funding, Residential Energy Assistance Challenge Program and a separate SF-425 for LIHEAP funds carried over from the previous fiscal year. In accordance with LIHEAP Action Transmittal (AT) 2013-02, we noted the following regarding the preparation of the SF-425 report:

- Grantees must submit a report, within 90 days of the end of the fiscal year (45 CFR § 96.30(b)) with the dollar amount of the funds obligated by the grantee during the fiscal year and the date of the last obligation of funds for the fiscal year.

- The unobligated balance of federal funds was incorrectly stated on both the SF-425 report relating to the LIHEAP block grant funds grant years 2014 and 2013. Data used in these reports caused Lines 10.f through 10.h to be materially incorrect. This difference arose due to imprecise data sources being utilized to prepare the Carryover and Reallotment Report which is the source of unobligated balance reported on the SF-425.

Questioned Costs: None

RECOMMENDATIONS

2015-053a Ensure that amounts are expended or obligated before federal fiscal year end, consistent with federal guidelines for meeting period or performance requirements.

2015-053b Maintain documentation to support the calculations confirming compliance with period of performance requirements.

2015-053c Ensure that the Carryover and Reallotment Report is consistent with supporting documentation and strengthen controls over the preparation of the Carryover and Reallotment Report to ensure accurate detail is submitted..

2015-053d Submit a revised Carryover and Reallotment Report for the 2014 grant awards as required.

2015-053e Complete a revised final SF-425 financial report for both block grant funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2013-02, dated 12/21/12.

Corrective Action Plan/ auditee views:

DHS began updating policy and procedures regarding the contract process in January 2016. One change is that all contracts must be completed two months prior to the start of the contract or contract amendment to insure that the purchase order will be issued in time to establish a legal obligation and in accordance with the federal requirement for submitting the Carryover and Reallotment Reports. DHS will utilize the State accounting system for federal reporting and to track and monitor the federal 90% obligation requirement. The LIHEAP program staff and the DHS fiscal staff will work together to develop and implement these new policies and procedures. Revised Carryover and Reallotment Reports and SF-425 reports will be submitted.

Anticipated Completion Date: *June 1, 2016*

Contact Person: *Lewis Babbitt, Chief Program Development*
Phone: 401.462.6424

Finding 2015-054 ***(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 Year 2013-2014
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) 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.

Department of Children, Youth and Families (DCYF) residential service expenditures are one element used to meet the maintenance of effort requirement. The amount reported for FFY 2014 did not reflect how many families served were "TANF eligible". When we noted this same situation in our 2014 audit, DHS adjusted the 2013 and 2014 reports to account for low-income families. However, the estimate of "TANF eligible" families continued to be based on a sample of cases tested in preparation of the 2012 ACF 204 report. The data used to support the estimate of TANF eligible families should be updated to ensure it reflects current case information.

While the 2014 amended report reduced the dollars spent on services; the number of families served, another required element of the ACF 204 report, was not adjusted and consequently the number of families served in this area was over-stated.

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

2015-054 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 current data and appropriate methodology.

Corrective Action Plan/ auditee views:

The TANF program administrator will enhance control procedures to ensure updated methodology is used to calculate maintenance of effort estimates to ensure future accuracy of reporting.

Anticipated Completion Date: *June 2016*

Contact Person: *Maria Volpe, Administrator, Family & Adult Services*
Phone: 401.462.3934

Finding 2015-055 ***(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, 2013-2014 and 2014-2015
Federal Award Numbers: G1402RITANF, G1502RITANF
Administered by: Department of Human Services (DHS)

FEDERAL FINANCIAL REPORTING

DHS can improve its controls over federal reporting to ensure that TANF program expenditures are accurately reported in the appropriate grant period.

Two new accounts were established on the accounting system to accumulate costs for the new eligibility system known as UHIP/Bridges. Charges in the accounts totaled over $2.5 million in fiscal 2014 and 2015. These expenditures were not included in federal reports for the respective grant years.

TANF expenditure reports (ACF-196) are prepared based on information from the cost allocation system and RIFANS (statewide accounting system). These amounts were allocated to TANF independently of the department's cost allocation plan and recorded in the newly established accounts. These amounts should have been, but were not, included in total TANF expenditures on the applicable federal reports. Existing procedures to reconcile amounts in the accounting system and amounts included on federal reports were ineffective in detecting the variances.

The FFY 2014 and 2015 reports should be revised to include the previously unreported amounts.

Questioned Costs: None

RECOMMENDATIONS

2015–055a Reassess existing reconciliation procedures designed to ensure that accounting system amounts are consistent with amount reported on federal reports.

2015–055b Resubmit corrected federal reports as necessary.

Corrective Action Plan/ auditee views:

2015–055a - DHS has updated procedures for establishment of new RIFANS accounts to ensure all accounts are included in cost allocation and reported accurately on federal financial reports.

2015–055b - Federal financial reports will be corrected as necessary.

Anticipated Completion Date: June 2016

Contact Person: Kevin McCarthy, Chief Human Services Business Officer
Phone: 401.462.6871

Finding 2015-056 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: G1402RITANF, G1502RITANF
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 2013-2014 and 2014-2015
Federal Award Numbers: G1401RICCDF, G1501RICCDF
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 not subject to time-limit closures should be removed from monthly reports.

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 40 families receiving RI Works cash assistance and 25 receiving child care services to determine whether the proper eligibility determinations were made, and whether payments were calculated in accordance with program requirements, including obtaining any required documentation and performing required verifications. 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:

- One CCAP case file selected was not provided for review. Three case files did not contain an application or interim report covering the selected month and five case files did not contain copies of the paystubs used to calculate the family share. In one case, the amount of income on the income panels did not match the amount of income on the eligibility panels. There was a change to income that should have required a new approval but the child care case worker wasn't notified via InRhodes.

- Eight TANF eligibility files case files did not contain an application or interim report that covered the time period selected for testing. Eight also had service plan files that were out of date. Three of the cases were missing both elements. One case file did not contain copies of birth certificates for all members of the household.

- During a separate test of cases approaching time limits, we found one case that should not have appeared on monthly closure reports. The client was receiving benefits for a grandchild and was not included in the household. These are called "loco parentis" cases and are not subject to time limits. We were told the case included "hard edits" which kept the case on the list, but did not actually close the case.

Controls should be further strengthened to ensure that workers comply with established procedures thereby assuring the accuracy of eligibility determinations, and calculation of the family share of child care costs.

<u>Questioned Costs:</u> Unknown

<u>RECOMMENDATION</u>

2015-056 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.

<u>Corrective Action Plan/ auditee views</u>:

With the implementation of the new Integrated Eligibility System, Bridges, in July 2016, eligibility determinations should be done in a more automated, efficient and accurate manner. The system *has been built to include many state and federal interfaces, and incoming information will be flagged and placed in a queue for staff to address. This should reduce the incidences of individuals/families remaining on programs if they are not eligible. There is also a significant scanning component which will ensure that all documentation is entered into the system and retrievable when necessary.*

Anticipated Completion Date: *July 2016*

Contact Person: *Timothy McMahon, Director of Operations, Field Offices*
Phone: 401.415.8409

Finding 2015-057 ***(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, 2013-2014 and 2014-2015
Federal Award Numbers: G1402RITANF and G1502RITANF
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5021 and 1505RI5021
Administered by: Department of Human Services (DHS)
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
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 69,132 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 2015. That file included 9,502 TANF recipients with at least one or more cash benefit payments during the year. The resulting match yielded 2,785 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 2,785 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

2015-057a 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.

2015-057b 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:

2015-057a - With the implementation of the new Integrated Eligibility System, Bridges, in July 2016, eligibility determinations will be done in a more automated, efficient and accurate manner. The system has been built to include many state and federal interfaces, and incoming information will be flagged and placed in a queue for staff to address. This should reduce the incidences of individuals/families remaining on programs if they are not eligible.

2015-057b - The new eligibility system includes a significant scanning component which will ensure that all documentation is entered into the system and retrievable when necessary.

Anticipated Completion Date: July 2016

Contact Person: Lissa DiMauro, Associate Director
Division of Community Services
Phone: 401.462.6356

Finding 2015-058 ***(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 2014 and 2015
Federal Award Numbers: G1401RICCDF, G1501RICCDF
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).

Management advised us that the FRED Unit did not have any workers assigned to investigate Child Care cases during fiscal 2015. In addition, management advised us that the Department could not provide a list of child care cases referred to the FRED Unit or under investigation by the FRED Unit during fiscal 2015 because the current small staff does not know how to access information from the FRED Unit database of case information.

Subsequently, the Department provided a list of Childcare Delinquent Accounts as of February 19, 2016, which contained many old balances. We selected a sample of 22 cases to review for appropriate supporting documentation such as the Childcare notice of overpayment, details of referral and investigation, original balance, nature of the overpayment (fraud vs error), remaining balance, partial payment agreement, if any, and disposition of the case. The FRED Unit provided nineteen (19) case files, which did not contain any such documentation, and only contained old records, principally circa 2006 to 2008 or older. The remaining three case files could not be located. We noted that one of the three was a case we had selected for testing in our 2011 audit, at which time we were then able to review the case file, which contained appropriate supporting documentation. Management of the FRED Unit advised us that it has difficulty locating hard copy files from storage.

Questioned Costs: None

RECOMMENDATIONS

2015-058a Review active Child Care cases referred by other units for possible over-payments and take appropriate action to recover any over-payments found.

2015-058b Strengthen controls over the FRED database to enable the Department to access Child Care case information.

2015-058c Strengthen record retention controls to enable retrieval of case files containing documentation supporting FRED Unit Childcare cases.

Corrective Action Plan/ auditee views:

2015-058a - The FRED unit will update referral forms for field office staff and provide appropriate training to staff.

2015-058b - The database will be replaced with the implementation of Bridges in July 2016. All DHS staff will have access to the new system and roles will be assigned as appropriate.

2015-058c - Bridges, the new integrated eligibility system, includes document scanning which will allow appropriate staff to view supporting documentation associated with case files.

Anticipated Completion Date: *July 2016*

Contact Person: *Kimberly Seebeck, Assistant to the Director, DHS*
Phone: 401.415.8582

Finding 2015-059 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5021 and 1505RI1081
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER MEDICAID ELIGIBILITY - UNIFIED HEALTH INFRASTRUCTURE PROJECT (UHIP)

Controls over Medicaid eligibility determined through UHIP were weakened during fiscal 2015 due to system design and implementation issues and ineffective oversight of eligibility determination activities.

The Unified Health Infrastructure Project (UHIP) is currently used to determine eligibility for most, but not all Medicaid and CHIP applicants in addition to supporting the State's Health Insurance Exchange. UHIP will be further expanded as a unified client application process and eligibility determination system for other federal programs including TANF, Child Care, and SNAP. During fiscal 2015, multiple paths to Medicaid eligibility existed including the online HealthSource RI portal, visiting the HealthSource RI contact center (staffed and operated by a vendor), utilizing a "system navigator", or by applying at a local Department of Human Services (DHS) field office.

More than 75% of Medicaid and 95% of CHIP eligible individuals at June 30, 2015 had been processed through UHIP, which uses the new modified adjusted gross income (MAGI) rules allowed under the Affordable Care Act (ACA).

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 various control deficiencies relating to overall system design and operation, compliance with EOHHS policies, and specific eligibility processing issues impacting the determination of Medicaid eligibility through the UHIP system.

We reviewed the results of various eligibility test samples required by the federal government and also performed other case specific testing to evaluate whether system controls over eligibility were operating effectively and whether adopted case management policies were in place and operating effectively. Utilizing data from interfaces (State Wage Income Collection Agency – SWICA and Unemployment Insurance benefits – UI) to validate self-attested income, we isolated cases where Medicaid eligibility was established but income reported through the interface would likely have required interface validation and worker resolution. We performed a sample of 19 of those cases. We noted the following regarding overall system design and operation as it relates to program eligibility:

- UHIP will currently prompt an applicant if it determines a discrepancy between their attested income and what was reported by the State's wage data source, SWICA, and allow the applicant to select from a list of several reasonable explanations to account for the discrepancy. If an applicant selects a reasonable explanation, the system will not create a task for a worker to gather further supporting documentation of eligibility. In an eligibility system where electronic validation of applicant information is a key control, control over eligibility would be greatly enhanced if only case workers could clear differences between applicant attestations and external source interfaces.

- UHIP's current phase 1 implementation significantly limits the amount of historical case information that can be viewed by system users, making it difficult to review or audit individual cases in the system.

- New MAGI eligibility determinations through UHIP allow applicants to attest to a variety of allowable deductions from income (i.e., alimony, tuition and fees, health savings account contributions, other business expenses, etc.) to derive their MAGI. These income deductions align consistently with those items an individual would claim on their federal tax return to derive adjusted gross income. Currently, this data is accepted based on applicant attestation without interface validation or a requirement for submission of supporting documentation.

- Periodic Eligibility Verification (PEV) and Medicaid Verification Batches (MVB), two important system design controls, did not become operational until April 2015. This represented a significant control deficiency during the majority of fiscal 2015 as these two controls are designed to periodically detect incorrect data attested by applicants or changes in applicant circumstances (e.g., began working or collecting unemployment, etc.) that could impact their eligibility for Medicaid. In addition, we also noted many instances after April 2015 where certain data interfaces were not updating information in recipient cases.

- 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. UHIP system controls were not yet operational to terminate this conditional eligibility if the individual's immigration or citizenship status was not validated within the 90 day period.

In addition to issues relating to system design and operations, specific concerns relating to compliance with policies and procedures were noted. EOHHS has developed policies and procedures related to UHIP system tasks developed as guidelines for working UHIP system tasks created when discrepancies with applicant attested data have been detected. The automated system interfaces represent a significant control within the UHIP eligibility system since the system was designed to accept client attestations without documentation. By design, workers are required to resolve tasks created by the system to ensure that eligibility determinations are being made based on accurate applicant data. We noted the following issues relating to compliance with policies and procedures when working system tasks in UHIP:

- tasks were improperly cleared resulting in applicants being found eligible based on attested income rather than income consistent with the support provided;

- tasks were cleared with no supporting documentation or notes being included in UHIP; and

- no supervisory review is currently required when tasks are cleared in UHIP to ensure adherence to applicable policies and procedures.

Most cases included in our sample required significant follow-up with and research by EOHHS to explain how certain eligibility determinations were ultimately made by UHIP. At the time of our audit, EOHHS could not fully resolve the questions posed in conjunction with our audit work. While it was apparent that the observations noted above were negatively impacting the eligibility determination process, an exact determination of questioned costs could not be fully determined due to lack of historical data displayed in UHIP and the inability of EOHHS to resolve our questions in a timely manner due to the on-going system implementation.

The system interfaces, which attempt to match the applicant attested data against the most current available data sources, serves as the main system control to ensure program integrity. Further, adopted policies and procedures to ensure consistent resolution of worker tasks within UHIP are also critical to effective program administration. We believe that the State should re-evaluate the system design and related procedures to ensure that effective controls over eligibility and program integrity are in place and operating effectively.

Questioned Costs: Unknown

RECOMMENDATIONS

2015-059a Implement specific controls (i.e., monthly sampling of interface data to ensure that it has updated timely and accurately in UHIP) to ensure that critical data interfaces are operating as intended.

2015-059b Reevaluate the policies and procedures relating to the resolution of system interface discrepancies tasked in UHIP. Consider tighter policies regarding documentation deemed acceptable for task resolution, additional worker training to improve compliance with established policies and procedures, subsequent review and monitoring of worker actions (i.e., require supervisory review and approval of task resolutions performed by case workers either before system acceptance or on a post review basis by worker supervisors) and mandating the attachment of supporting documentation to the UHIP case record as enhancements to current practice.

2015-059c Reconsider the UHIP design feature that allows applicants to provide reasonable explanations for reported discrepancies with system interfaces. This prevents tasks notifying case workers of the discrepancy from being created and resolved by a worker. This coupled with requiring applicants to provide more substantive documentation of terminated employment would enhance controls over eligibility and prevent applicants from circumventing interface detection.

2015-059d Program UHIP to show eligibility case workers more detail regarding discrepancies with external sources relating to income to allow workers better information to clear tasks (i.e., how many jobs an applicant has, what did previous interface matches indicate, etc.).

2015-059e Require that specific mandated supporting documentation be submitted in support of all deductions to income attested to by Medicaid applicants. Required documentation of income deductions should be submitted and validated by caseworkers as a standard part of the eligibility determination process.

2015-059f Ensure that UHIP Phase II functionality and available departmental resources are adequate to allow for timely follow-up on issues identified by quality control (IV&V, MEQC, PERM), program integrity, and federal audit (CMS and OAG) oversight groups.

Corrective Action / auditee views:

2015-059a – 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. We are also currently designing regular discrepancy and reconciliation reports to detect any errors in interfaces with external data sources.

2015-059b – 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 will be stored in 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.

2015-059c and 2015-059e – CMS has approved the Rhode Island Medicaid Verification Plan that allows the state to accept a reasonable explanation in the case of an income discrepancy. 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 will be stored in 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.

2015-059d and 2015-059f - 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: *July 2016 and ongoing*

Contact Person: *Matthew Harvey, Chief Operating Officer*
Phone: 401.462.6373

Finding 2015-060 ***(significant deficiency – new finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

MEDICAID ELIGIBILITY – REDETERMINATIONS - INRHODES

Federal regulations require annual redeterminations of Medicaid eligibility. For cases processed through INRHODES, fourteen (14) of seventy-nine (79) cases reviewed found untimely redeterminations that, in some instances, were years overdue.

42 CFR 435.913 requires the State Medicaid agency to maintain records to support the agency's eligibility decisions. 42 CFR 435.916 requires annual redeterminations of Medicaid eligibility except for very limited instances.

Most Medicaid eligibility was determined through UHIP in fiscal 2015; however, approximately 25% of participants (e.g., "complex" Medicaid) continued to be determined by INRHODES. Eligibility determinations processed through UHIP follow the new MAGI based procedures whereas those processed through INRHODES utilize pre-ACA procedures.

Our testing of Medicaid claims included (79) Medicaid cases processed through INRHODES. We found that fourteen (14) participants or approximately 18% of the cases in our test sample did not have eligibility redeterminations performed during the required twelve - month interval. Several of these cases were years overdue for redetermination.

In addition, we noted five (5) records containing one or more warnings from INRHODES that certain reported income data did not agree with reported system data interfaces designed to periodically validate or identify changes in an applicant's circumstances that could result in them no longer being Medicaid eligible. Case workers had not resolved the notifications in these records in a timely manner. This issue relates specifically to our repeat Finding 2015-057, *Income Eligibility and Verification System - IEVS*, which details specific concerns regarding untimely follow-up on INRHODES system case notifications of detected discrepancies between applicant data and external data interfaces. Both of these deficiencies pose the risk that Medicaid benefits were provided to ineligible program participants. Reasons for the past due redeterminations and other unresolved items included competing priorities at the various field offices and staffing shortages.

Questioned Costs: Unknown

RECOMMENDATION

2015-060 Identify and remedy the factors that are preventing redeterminations (and resolution of IEVS notifications of data discrepancies identified within specific cases) from being performed timely.

Corrective Action / auditee views:

The process for redeterminations of non-MAGI cases will be greatly improved and enhanced with the launch of RIBridges (UHIP Phase II) in July. Automatic renewal batch jobs and tasks queues for workers will ensure that all cases are reviewed for redetermination in a timely fashion.

Anticipated Completion Date: *July 2016*

Contact Person: *Matthew Harvey, Chief Operating Officer*
Phone: 401.462.6373

Finding 2015-061 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5021 and 1505RI1081
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

UNIFIED HEALTH INFRASTRUCTURE PROJECT (UHIP) – SYSTEM ERROR RESULTING IN INELIGIBLE MEDICAID BENEFICIARIES

A reconciliation by EOHHS and its contractors of individuals reported as Medicaid eligible in the MMIS compared to those eligible in UHIP detected that approximately 1,900 individuals had been deemed Medicaid eligible when in fact they were eligible to purchase health insurance through the State's Health Exchange. Preliminary research suggests a UHIP coding defect caused the dual classification; however, further investigation is required to determine the actual cause, impact on Medicaid eligibility, and amount of resulting ineligible program costs.

Our case review of Medicaid eligible individuals within UHIP during fiscal 2015 noted instances where applicants were being notified that they were eligible to purchase health insurance through the State's Health Insurance Exchange marketplace yet were not showing terminated Medicaid eligibility segments in the MMIS. In response to our case questions, EOHHS personnel informed us that they recently became aware of a coding issue within UHIP. This issue resulted in applicants being determined eligible to purchase a qualified health plan (QHP) through the State's Health Insurance Exchange marketplace with the system either initiating a Medicaid eligible segment in the MMIS or failing to terminate the current eligibility segment in the system.

We reviewed 10 of the approximately 1,900 cases determined to be potentially impacted by this system issue. While our review found evidence that some cases were clearly impacted and resulted in ineligible costs being incurred for individuals not eligible for Medical Assistance, it was not clear that all 1,900 cases were impacted in the same manner. Based on our audit work, it appeared that each case was going to require specific research to determine if eligibility was impacted, the time period the case was impacted for, and the exact amount of ineligible costs relating to each case. We found evidence that eligibility was end dated in the MMIS as cases were researched; however, no recoupment of capitation or claims had yet been performed.

EOHHS needs to further evaluate this issue, identify the extent of cases impacted, ensure that the system issue is resolved going forward, and recoup and credit the federal government for its share of expenditures incurred for coverage extended to individuals ineligible for Medical Assistance.

Questioned Costs: Unknown

RECOMMENDATIONS

2015-061a Require the UHIP contractor to determine the exact cause and timing of this issue to ensure that all potentially impacted cases have been identified.

2015-061b Consider whether deficiencies in system integration testing by the system contractor contributed to the system issue going undetected and address those issues to minimize the risk of significant system issues in future releases during the UHIP implementation.

2015-061c Completely review potentially impacted cases to ensure that the correct eligibility determination was made by UHIP and subsequently corrected in the MMIS.

2015-061d Recoup all claims and capitation payments made to providers and insurers for ineligible individuals and credit the federal grantor for its share of ineligible costs.

Corrective Action / auditee views:

Finding 2015-061a through 2015-061d: EOHHS will require our contractor to determine the root cause of this issue, and take steps to remediate it. Once this is done, we will reconcile all payments through the MMIS. As part of the launch of UHIP Phase 2, all functionality is undergoing rigorous integration and regression testing. EOHHS will continue to require robust reporting and documentation of testing procedures for all systems related to eligibility. All cases are now regularly reviewed for eligibility as part of the Medicaid renewal cycle and the post-eligibility verification process which will ensure that any eligibility discrepancies are resolved quickly. Lastly, EOHHS will credit the federal grantor for its share of all ineligible costs that are recouped.

Anticipated Completion Date: June 2016

Contact Person: Matthew Harvey, Chief Operating Officer
Phone: 401.462.6373

Finding 2015-062 ***(material weakness – new finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

UHIP NEWBORN ENROLLMENT DELAYS RESULTING IN INTERIM PROVIDER ADVANCES

Delays in the enrollment of Medicaid eligible newborns within UHIP has resulted in significant delays in related claims adjudication and payments to providers. These processing delays resulted in manual advances paid to providers.

The implementation of UHIP has resulted in delays in newborns being enrolled in Medicaid and a managed care plan. The previous eligibility system, INRHODES, allowed newborns to be added by workers as soon as verification of birth had been made. This allowed for more timely enrollment and eligibility acknowledgment in the MMIS. If needed, caseworkers could assign a temporary identification number to the newborn pending the award of the child’s social security number.

UHIP requires the applicant to initiate and enter changes in household composition such as the birth of a child. This has resulted in significant delays in enrollment and backlogs of claims for newborns, mostly for neonatal intensive care services, which can be high dollar claims. The enrollment issues have also resulted in delayed capitation payments to managed care organizations.

EOHHS authorized manual payment advances totaling several million dollars to the hospital providers most adversely impacted. EOHHS has recouped advances as newborn enrollment has been resolved and outstanding claims have processed. However, since the issue has not been systemically resolved through modified business processes, manual advances have continued. Manual advances, while sometimes necessary in certain limited instances, are not well controlled and thereby weaken controls over provider payments.

EOHHS should identify and implement the corrective actions needed to resolve the delays in the enrollment of newborns and discontinue provider advances.

Questioned Costs: Unknown

RECOMMENDATIONS

2015-062a Implement a long-term solution to minimize the delay in getting eligible newborns enrolled in Medical Assistance.

2015-062b Fully recoup outstanding provider advances and discontinue further advances to providers upon resolution of the backlog of newborn claims.

Corrective Action / auditee views:

2015-062a and 2015-062b: EOHHS is actively working to remediate issues related to newborn enrollment, and is putting processes in place to prevent such a backlog developing in the future. We have streamlined the process by which birth records are shared with EOHHS and transmitted to DHS for eligibility technicians to follow up with families. Going forward, we will involve *managed care plans in the process of reaching out to families to ensure that newborns are added to cases in a timely manner. Lastly, as part of the remediation efforts, EOHHS will reconcile and recoup all outstanding advances to providers and health plans.*

Anticipated Completion Date: *May 2016*

Contact Person: *Matthew Harvey, Chief Operating Officer*
Phone: 401.462.6373

Finding 2015-063 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER NON-CLAIMS BASED MEDICAID FINANCIAL ACTIVITY

Advance payments made to providers in limited instances are not sufficiently controlled to ensure appropriate accounting and timely recoupment.

Medicaid provider payments are typically made after claims are processed through the Medicaid Management Information Systems (MMIS). In certain limited 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.

Our fiscal 2014 audit highlighted weaknesses in this process when certain provider advances were not reported for financial reporting purposes. In response to this issue, the State's fiscal agent began maintaining a manual register of outstanding financial activity. Our review of this new register, provided as of October 5, 2015 and January 11, 2016, found this manual practice to be ineffective in addressing this weakness in controls. The October report was not accurate and EOHHS is not receiving and utilizing the report to oversee this aspect of the fiscal agent's responsibilities.

In addition to the advances described in Finding 2015-062, other provider advances have been made. Advance payments to providers are inherently risky; however, when required in limited instances, the payment should be under system control rather than through manual processes.

If provider advances are recorded in the MMIS, they will automatically recoup in the next processing cycle. In order to defer recoupment, the advances are not recorded within the MMIS as advance payments or provider receivables. While EOHHS has instituted a manual process to track these advance payments, we find the manual process lacks the appropriate controls to ensure all advances are known, tracked and recouped.

Procedures should be modified to automatically record advances and recoveries through a system default that allows the timing of recoupments to be modified as necessary. This would ensure that all advances are appropriately reflected both within the MMIS and the State's financial statements.

Questioned Costs: None

RECOMMENDATION

2015-063 Ensure all Medicaid non-claims based financial activity is recorded by modifying MMIS system default accounting procedures.

Corrective Action / auditee views:

EOHHS agrees with the Auditor's recommendation to track and record all advances within the MMIS as prepayments or provider receivables. EOHHS will work with HPE to modify the MMIS to automatically create an A/R for the recoupment of a manual payout. HPE will work with EOHHS to define criteria, transaction types and reason codes that would be applicable for the automatic A/R. These system modification discussions will further define the timing of the recoupment and ability for the recoupment date to be modified as authorized. HPE will add this system modification to the MMIS System Project list where it will be prioritized and scheduled.

However, until the process can be automated and put under an electronic system control, appropriate manual controls will have to continue to be enforced. Within the last 2 years, HPE has instituted a quality control process to review and audit all FACNs (manual payments) to ensure that advances cannot go undetected or forgotten. New procedures have also been put in place to ensure that Medicaid Finance, which must approve all FACNs, now receives from HPE regular updated reports of provider receivables. The list will be reviewed prior to approving any provider advance payment. Medicaid Finance will also make a point to regularly contact and inform applicable program managers about aging advance receivables.

Anticipated Completion Date: *September 30, 2016*

Contact Person: *Corsino Delgado, Associate Chief Financial Officer*
Phone: 401.462.2517

Finding 2015-064 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5021 and 1505RI1081
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER THE DETERMINATION OF CHIP ELIGIBILITY

EOHHS can improve controls over the timely identification of CHIP 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 Children's Health Insurance Program (CHIP) 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 CHIP federal financial participation rate. CHIP expenditures for fiscal 2015 approximated $61 million (federal share - $40 million), of which benefit claiming comprised $59.3 million.

EOHHS documented fiscal 2015 CHIP managed care capitation and fee-for-service claims totaling $63 million. EOHHS was unable to fully reconcile this detail to amounts in RIFANS, the State's accounting system and amounts claimed on federal reports. For fiscal 2015, the CHIP fee-for-service and capitation payments were identified through two separate and distinct processes:

- *individuals determined CHIP eligible through the new UHIP system* - program payments for related claims and capitation were identified within the MMIS as being expenditures for CHIP and were recorded each cycle in CHIP accounts in the State accounting system.

- *individuals determined eligible through the INRHODES system* - Medicaid Management Information System (MMIS) queries were required to identify CHIP claims and capitation for individuals meeting certain defined eligibility aid categories and, if applicable, third-party liability (TPL) or other insurance criteria, consistent with the eligibility criteria for CHIP. 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 CHIP eligible claiming are fully performed by contractors with no subsequent validation performed by EOHHS.

In the instances where eligibility was still derived through INRHODES for fiscal 2015, CHIP eligible individuals were first determined Medicaid eligible and then subsequently identified and reclassified as CHIP eligible in subsequent months. This process should be performed monthly to determine CHIP eligible claiming on a timely basis 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 CHIP eligible individuals because of existing system design constraints, continual changes regarding eligibility for CHIP, and federal limits on funding for the CHIP program.

During fiscal 2015, the determination of CHIP eligible claiming was still fragmented and in certain cases lagged for several months during the year. This often delayed CHIP 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 CHIP capitation and fee-for-service claim populations problematic. Approximately $27 million (46%) of the $59.3 million in CHIP benefit claiming was recorded in the State accounting system in July 2015 before the State closed the fiscal 2015 accounting period. Specific identification of CHIP 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 CHIP claiming is needed because the eligibility determination process is variable and entirely performed by consultants. CHIP claiming results should be subjected to an eligibility quality control process similar to that used for Medicaid claims. Such a process would provide additional control 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. Once all CHIP eligibility is determined through UHIP, EOHHS can likely utilize the MEQC and Payment Error Rate Measurement (PERM) processes as quality control measures for CHIP.

Questioned Costs: None

RECOMMENDATIONS

2015-064a Ensure that CHIP 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.

2015-064b Subject the results of queries used to accumulate eligible CHIP program costs to a quality control process to ensure that eligibility and allowable cost program criteria are met.

Corrective Action / auditee views:

2015-064a - EOHHS acknowledges the difficulties documented by the Auditor relating to FY 2015 activity, noting that in some measure these were due to unusual circumstances attendant upon the massive transition of recipients from InRhodes eligibility determination to UHIP which occurred during that year. The relocation of potential CHIP recipients to UHIP, along with maturation in that system, will both significantly reduce the exposure associated with the population identified in the second bullet of the finding, and make reconciliation and reporting far easier going forward, though some residual cleanup will be required in FY 2016 and perhaps minimally in FY 2017.

2015-064b - With the migration of the potential CHIP population to UHIP, in most instances CHIP eligibility is now clearly identified by aid category code in UHIP and MMIS, and direct expenditures associated with CHIP recipients are isolated in distinctive MMIS funding sources tracking to distinct RIFANS line sequences. These improvements mean that the MEQC and PERM quality oversight—already in use for the combined Medicaid/CHIP program—will now be able to specifically distinguish CHIP from T-XIX claiming in nearly all cases in FY 2016. Certain manual adjustments will need to continue, such as for the apportionment of CHIP-related premium subsidy costs for family coverage through RIte Share. EOHHS will make these adjustments on a timely basis, and will ensure that they are reviewed and approved by State staff.

Anticipated Completion Date: *June 30, 2017*

Contact Person: *Deborah Florio, Deputy Medicaid Director*
Phone: 401.462.0140

Finding 2015-065 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

MEDICAID ELIGIBILITY QUALITY CONTROL (MEQC) PROGRAM

The MEQC program must be adequately supported so that it can meet its control monitoring responsibilities over Medicaid eligibility. CMS-mandated quality control pilot projects accompanying the implementation of the Affordable Care Act were adversely impacted by

unresolved questions regarding what comprises errors and challenges in obtaining required information from the State's new Medicaid eligibility determination 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).

The Centers for Medicare and Medicaid Services (CMS) have issued guidance to State Medicaid Directors 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). The guidance discusses how to perform eligibility reviews under the Payment Error Rate Measurement (PERM) and the Medicaid Eligibility Quality Control (MEQC) programs. CMS 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 made significant changes to Medicaid and CHIP eligibility. The 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 are 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 pilot measurements over the 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 projects design includes its sampling plan, case review, quality control, and payment review methodologies and has been approved by CMS.

The MEQC program could not file final first and second round pilot project reports to CMS by the reporting deadlines because it had not received the required corrective action plans. The corrective action plans have been delayed by questions of whether certain findings actually represent errors. These questions remained unresolved at the time of our fieldwork. In addition to the lack of consensus regarding what constitutes an error, certain UHIP limitations have affected the MEQC staff's confidence that all errors have been identified in the first two rounds of pilot projects. These matters must be resolved before the MEQC program will be able to send final reports to CMS with confidence that the conclusions enclosed are correct.

UHIP's current design does not allow users to access historical data to evaluate eligibility status as of a particular date. Consequently, MEQC staff must rely upon eligibility data that does not precisely match the sampling period. This may affect the accuracy of eligibility evaluations made by the MEQC staff because factors affecting eligibility such as household income and employment status frequently change. This design limitation should be addressed as UHIP system development continues.

The MEQC function must be adequately supported to ensure that processes and control procedures are operating as designed. Data required to effectively analyze cases must be readily available to the MEQC staff in a manner that allows them to confidently conclude on the correctness of eligibility determinations. This will require more UHIP transparency as system development continues. Consensus on what constitutes an error and regarding corrective action plans must be reached before errors can be corrected. Once these conditions have been satisfied, final reports should be submitted to CMS as required.

Questioned Costs: None

RECOMMENDATIONS

2015-065a Obtain consensus on findings that the MEQC unit believes are errors and finalize the associated corrective action plans required to adequately address the underlying issues.

2015-065b Ensure that UHIP system development includes the capability to (1) provide historical eligibility data, and (2) is sufficiently transparent to MEQC staff so that they can access all data required to make an appropriate eligibility evaluation in accordance with federal guidelines.

2015-065c File final MEQC pilot project reports with CMS as required.

Corrective Action / auditee views:

2015-065a - The MEQC team has formalized its structure through involvement with the ESC pilots and is in the process of securing standardized routine forums for issues to be reviewed with appropriate actions to be discussed and tracked using data to drive policy and procedural changes across both DHS and EOHHS. DHS had received clarifications from CMS on outstanding questions around the State's implementation of its verification plan and five percent (5%) disregard with MAGI. The MEQC team has begun its internal review as a result of the clarifications to revise the State's Verification Plan and Medicaid rules and regulations for clarity. In addition, DHS will move forward with completion of its delinquent corrective actions plans in order to prepare final pilot reports for submission.

2015-065b - With the implementation of the Integrated Eligibility System (RIBridges) scheduled for July 12th 2016, information entered into RIBridges will be shared across all programs as all DHS eligibility decisions for TANF, SNAP and Medicaid will be integrated. RIBridges also brings statewide scanning capabilities, centralizes mail processing and moves RI's eligibility processes to full electronic data management. Notices will be bar coded and all documents received will be scanned into RIBridges, indexed appropriately ensuring all documents related to a case are intact and electronically assigned to workers via task queues. This operational enhancement will address several global errors identified over the past three plus years regarding inability to locate case files/notes/correspondence/etc. RIBridges will utilize interfaces and post eligibility verifications more and more as well as opening up accounts electronically to customers for increased transparency and accountability with maintaining accurate information. Customers will have 24-hour access to their accounts and can update account information in a timely fashion leading to increased accuracy with eligibility decisions.

The increased transparency noted above is both to the external customers and to our internal staff. The project to enhance the technology and adopt ACA changes was broken into two *phases; Phase 1 ACA/UHIP and Phase 2 integrated Human Services programs and complex Medicaid. Phase 1 brought a self-service portal to RI customers applying for affordable health coverage to meet the needs of the ACA expanded Medicaid. Phase 2 brings in all human service programs including enhancements to the self-service portal but also brings a fully integrated worker portal with advanced administrative functions. These enhancements provide full transparency to MEQC staff on historical eligibility data as well as tools to assist with pulling data and samples required to make an appropriate eligibility evaluation in accordance with Federal guidelines.*

2015-065c - *The MEQC team has begun its internal review with members of DHS and OHHS to revise its State's Verification Plan and Medicaid rules and regulations for clarity. As a result of the clarifications DHS will move forward with completion of its delinquent corrective actions plans in order to prepare final pilot reports for submission. The estimated timeframes for submitting the MEQC Pilot Project reports are as follows:*

- *Past due June 30, 2014 (Round One ESC Pilot CAP) – anticipated completion June 30, 2016;*
- *Past due December 31, 2014 (Round Two ESC Pilot CAP) – anticipated completion June 30, 2016;*
- *Past due June 30, 2015 (Round Three ESC Pilot CAP) – anticipated completion June 30, 2016; and*
- *June 30, 2016 (Round Four ESC Pilot CAP) – anticipated completion December 31, 2016.*

Anticipated Completion Date: *On-going*

Contact Person: *Kim Merolla-Brito, Administrator*
Phone: 401.462.6238

Finding 2015-066 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5021 and 1505RI1081
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER MANAGED CARE CAPITATION PAYMENTS AND CONTRACT SETTLEMENTS

EOHHS lacks strong oversight procedures regarding fiscal monitoring and contract settlement for its managed care organizations (MCO). Capitation payments to managed care organizations represent nearly 75% of all Medicaid outlays. EOHHS needs to develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled

each contract period. More stringent audit and financial monitoring procedures should be employed.

During fiscal 2015, the State paid approximately $1.5 billion in capitation payments to participating managed care organizations covering approximately 239,763 Medicaid eligible individuals (approximately 85% of total Medicaid enrollees). These capitations payments related to the following managed care programs within the State's Medicaid program:

Program Name	Enrollment (June 2015)	Expenditures (in millions)
Rite Care (Core, CSHCN, Foster Care)	146,638	$471
Rhody Health Partners (certain adults with disabilities)	14,197	$213
Rhody Health Options (long-term care population)	18,241	$261
Medicaid Expansion (newly eligible due to ACA implementation)	60,687	$524
Total	**239,763**	**$1,469**

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:

- ***Enhance controls over determination of MCO 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 Rhody Health monthly capitation is paid through the MMIS, identification of eligible individuals and the determination of capitation payment levels are not coded into the MMIS as they are for Rite Care. Controls should be enhanced to ensure that program assignment and related monthly capitation amounts are properly performed by the State.

- ***Validate managed care capitation payments and actual claims experience by program –*** 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.

- ***Improve oversight of MCO contract settlements*** **-** each managed care program contract defines the dates of service included in the contract period and a defined settlement period (usually one year after the contract end date) to allow for submission of all provider claims. The State relies extensively on its managed care consultant to evaluate and finalize amounts owed to or due from the State's participating managed care organizations for each separate program and contract period (usually a year or less).

  Final MCO contract settlements involve a comparison of the medical component of the capitation payment received with the underlying medical expenses relating to the same contract period. Controls do not currently exist to validate all aspects of the final settlement calculation. The medical component of the capitation payment received is difficult to validate due to timing differences between when the payment is reported by the State and MCOs. 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.

Approximately $208 million was estimated as overpayments to MCOs of which $133 million remained due to the State at June 30, 2015. These amounts mostly result from monthly capitation amounts paid for the Medicaid expansion population, a newly covered group under the federal Affordable Care Act, that significantly exceed the actual claims activity. These estimated overpayment amounts are well in excess of any typical risk share /gain share contract settlement amounts that routinely exist each year. Due to contract provisions in effect during fiscal 2015, the MCOs will be allowed to keep a portion of the excess capitation payments. Gain share provisions in the contract were intended to reward the MCOs for overall cost efficiencies attained through enhanced case management, preventative care, and enhanced coordination of services. The significant amounts due back to the State result from excessive capitation amounts and not from efficiencies achieved by the MCOs. Contract provisions must be modified to allow for the timely recoupment of excess payments that are outside of normal operations or expected efficiencies obtained by the MCOs.

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 MCOs;

- Detailed procedures to ensure that capitation payments are recorded consistently between the State and the MCOs to ensure validation of this important settlement amount;

- Identification of other settlement considerations where independent third party validation may be required (as the most efficient manner to achieve that objective). For example, audits may be required to identify MCO 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; and

- 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.

An independent audit should be required for selected controls employed by the MCOs as well as the overall medical and administrative costs measured under the contracts as a key 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

2015-066a Develop a comprehensive risk assessment and monitoring plan to ensure that managed care expenditures are validated and settled each contract period.

2015-066b 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.

2015-066c Require an independent audit of selected controls selected controls employed by the MCOs as well as the overall medical and administrative costs measured under the contracts.

Corrective Action / auditee views:

2015-066a - EOHHS recognizes the need for – and engages in - continuous improvement in the oversight of the State's managed care expenditures and contract settlements, particularly with their increasing share of Medicaid expenditures overall. While these expenditures and settlements are concurrently subject to the MCOs' mandatory independent audit, EOHHS will continue to probe areas where focused scrutiny could provide additional support as to the appropriateness and accuracy of these expenditures. Since 2009, EOHHS has had a monitoring plan in place that is updated on an annual basis. Additionally, to supplement the existing monitoring plan, EOHHS will develop a comprehensive risk assessment tool.

2015-066b - In collaboration among program staff, HPE, and the new EOHHS Director of Analytics, progress continues in the maturation of the State's ability to obtain and process acceptable and complete encounter data from the MCOs. Specific systems obstacles have been removed, and remaining sources of discrepancy have been identified and are being addressed.

2015-066c - EOHHS will explore the feasibility and expense of procuring the services of an independent auditor for those areas of MCO contracting with the State which are not currently subject to systematic review under the MCOs' mandatory external audit program.

Anticipated Completion Date: June 30, 2017

Contact Person: Deborah Florio, Deputy Medicaid Director
Phone: 401.462.0140

Finding 2015-067 ***(significant deficiency - new finding)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5021 and 1505RI1081
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

UHIP PROJECT MANAGEMENT AND GOVERNANCE

Governance for the UHIP development project can be enhanced to ensure contractual requirements are met by the lead development vendor and others and also to ensure that system defects and other implementation issues are identified, prioritized and corrected on a timely basis.

A complex project governance structure exists for the UHIP development project due to the scope of the project and the multiple state agencies involved (EOHHS, DHS, HealthSource RI, and Department of Administration).

System implementation issues are expected, to a degree, in any project of this complexity and duration. There is a considerable amount of contract compliance and "quality control" type information about the system in development available to the project governance team from the following sources:

- Independent Validation and Verification ("IV&V") vendor – contracted to provide independent validation and verification services to the State regarding evaluation of the contract deliverables, contract compliance, systems security, adherence to "best practices", etc.
- User acceptance testing – vendor charged with testing the system functionalities as they are developed and before being put into production. User acceptance testing is also performed by the State in determining readiness to implement the system.
- Federally required eligibility test samples (e.g., MEQC, PERM, Single Audit testing).

While we found that there was a comprehensive and active project management structure in place, the IV&V vendor has noted numerous issues which appear to be carried forward for extended time-frames. These issues present risks to the proper functioning of the UHIP system, system response time, system integration testing, and the viability of the system in the event of a system failure or disaster. Specifically, the IV&V vendor noted instances where:

- computer code is not being written consistent with industry best practices;
- service level agreements (SLA) are not being achieved causing performance issues;
- Functional Design Documentation (FDD) is lacking or incomplete;
- system integration and user acceptance testing procedures required improvement;
- external data interfaces utilized to validate applicant attestations were not operating as designed;

- change management processes were not being adhered to; and
- no disaster recovery testing was performed by the lead development vendor as required by contract.

In addition, the federal government has required large test samples of cases to demonstrate adherence to the new MAGI (modified adjusted gross income) based eligibility requirements as well as adherence to the system design documentation which the federal government approved. As more fully detailed in Finding 2015-065, the process of concluding on some of the sample case testing results has been limited by the present system functionalities which do not facilitate review of system and worker activities that led to Medicaid eligibility. Nonetheless, the test samples did provide relevant and valuable information about the actual functioning of the system.

The project governance team must react appropriately to this high volume, time sensitive information to ensure timely resolution of issues and to also ensure that IT risks and additional costs are avoided.

While reacting appropriately and timely to all this information is clearly a challenge, it is critically important in a project of this scope and dollar investment (anticipated at nearly $400 million in aggregate project development costs). Phase II of the project is scheduled for implementation in July 2016 and understandably that is consuming focus and resources. Known system defects that will be cleared by the implementation of Phase II should be documented as well as those that will require further prioritization and resolution.

Questioned Costs: None

RECOMMENDATION

2015-067 Ensure timely resolution of known system defects or other system implementation issues. Document those to be resolved through Phase II implementation and those that will require further prioritization and resolution.

Corrective Action / auditee views:

The UHIP interagency project management team and leadership team continue to closely monitor defects and other project concerns, and are positioned to respond quickly to any issues raised during user acceptance testing or by the IV&V vendor. After the Phase 2 launch, EOHHS will work with its partner agencies on a streamlined governance and project management structure to support the shift from development and implementation to ongoing operations and maintenance.

Anticipated Completion Date: June 30, 2017

Contact Person: Matthew Harvey, Chief Operating Officer
Phone: 401.462.6373

Finding 2015-068 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5021 and 1505RI1081
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

UHIP SYSTEM ACCESS CONTROLS – MULTI -FACTOR AUTHENTICATION

A UHIP system access control feature (multi-factor authentication log-on) was not operating as designed thereby weakening controls over access to the system.

UHIP was designed to require a multi-factor authentication access log-on feature for administrative users. While implemented, we discovered, through the access role provided to us during the audit that the multi-factor authentication was not operating as designed.

Multi-factor authentication is a recommended practice to increase security and reliably authenticate users remotely accessing systems via the internet. If one of the components is missing or supplied incorrectly, the user's identity is not established and access is denied.

More secure and robust system access controls were designed into the system to meet the stringent requirements of the Internal Revenue Service and other federal agencies that provide data to the UHIP system through various interfaces to ensure that access to such sensitive information is appropriately restricted.

Questioned Costs: None

RECOMMENDATION

2015-068 Ensure all required system access control features are functioning as designed and intended.

Corrective Action / auditee views:

Our maintenance and operation team regularly monitors all system functionality to ensure that it is working as designed. We will continue to monitor this feature and others, and immediately escalate if it is found to be compromised.

Anticipated Completion Date: *Complete*

Contact Person: *Matthew Harvey, Chief Operating Officer*
Phone: 401.462.6373

Finding 2015-069 ***(significant deficiency – new finding)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5021 and 1505RI1081
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

COMPREHENSIVE DEPARTMENTAL AUTOMATED DATA PROCESSING (ADP) RISK ANALYSIS AND SYSTEM SECURITY PROGRAM

EOHHS and DHS must enhance the required systems security oversight of the systems used to administer multiple federally funded programs. The plan must be sufficiently comprehensive and include timely reaction to and consideration of identified security issues and risk factors.

Federal regulation (45 CFR section 95.621) requires State agencies to review the ADP system security of installations involved in the administration of DHHS programs on a biennial basis or when a significant change to the security or system(s) occur. At a minimum, State agencies must establish and maintain an ADP security plan and implement a program for conducting periodic risk analyses to ensure that appropriate, cost-effective safeguards are incorporated into new and existing systems.

EOHHS and DHS are charged with managing and securing ADP systems, which process and administer various DHHS and state programs (Medicaid, TANF, etc.). In fiscal 2015, these programs had eligibility, benefit determinations, and payments processed through three different systems – INRHODES, MMIS and UHIP. Since each of these systems was involved with the administration of DHHS programs, the State agencies were required to determine appropriate ADP security requirements based upon recognized industry standards for each system, optimally within a comprehensive plan.

EOHHS and DHS largely utilize independent service organization control (SOC) reports to meet their security and risk monitoring activities. However, the ADP system security plan should be improved by (1) ensuring that the coverage provided by the SOC reports is supplemented with other monitoring procedures as required, and (2) developing a comprehensive plan encompassing all systems which meets the required federal components. Additionally, any deficiencies noted in the SOC reports must be evaluated timely from the perspective of whether it affects or diminishes any of the required controls over federal program administration with documentation of that consideration. For example, in one of the SOC reports for fiscal 2015, the auditors modified their opinion on the effectiveness of internal control procedures and highlighted various issues requiring resolution. EOHHS and DHS should act promptly to (1) consider the significance of these issues and impact on the State's internal controls procedures for the administration of the affected federal programs, and (2) require corrective action by the applicable contractor with appropriate follow-up to ensure the matter was resolved.

Due to the significance of these systems (UHIP and MMIS) to a variety of federal programs administered by the State, it is critical that adequate information systems security practices are continuously employed over these systems. The State must further its compliance efforts by developing a single, integrated ADP security plan and IT risk assessment process that meets federal requirements.

Questioned Costs: None

RECOMMENDATION

2015-069 Enhance compliance with federal ADP Risk Analysis and System Security Review requirements by creating a comprehensive, integrated plan for UHIP and the MMIS.

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Corrective Action / auditee views:

The following processes and procedures are currently in place:

MMIS - 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.

System Modification - 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.

The single largest transaction interface with the MMIS is the Eligibility feed it receives from RIBridges (fka UHIP) and InRhodes. As of July 2016, the latter will be sunset and the transaction file will be provided directly from RIBridges. Additional data validation and reconciliation efforts have and will continue to be discussed for that implementation, so data integrity continues to be maintained.

EOHHS has assigned a 24x7 on-call liaison with HPE, to provide approvals when system concerns or downtime may arise. When technical issues arise, for example, network/server problems, file transfer concerns, or system downtime, HPE contacts the EOHHS liaison. HPE provides root/cause information, and technical suggestions to correct the issue. Subsequently, EOHHS will provide guidance for the corrections and/or modifications.

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.

The meetings cover both system as well as physical security topics, the latter relating to the office space occupied by HPE in Warwick RI. 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.

Anticipated Completion Date: June 30, 2017

Contact Person: Ralph Racca, Administrator
Phone: 401.462.1879

Finding 2015-070 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5021 and 1505RI1081
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

FEDERAL REPORTING

Controls should be improved over the quarterly reporting of Medicaid and CHIP expenditures by improving the alignment of information reported by the MMIS and the State's accounting system. Timing differences between when Medicaid administrative expenditures are claimed on federal reports and when reported in the State's accounting system should also be resolved.

Federal regulations require that expenditures for the Medical Assistance Program (Medicaid) be reported on Form CMS-64. Expenditures for the Children's Health Insurance Program (CHIP) are also reported on Form CMS-64 for the basic children's population with all other eligible CHIP 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 CHIP expenditures. The processes required to accumulate information needed to prepare federal reports continue to be complex and require extensive manual effort. Although total program expenditures reported for both federal programs were able to be reconciled to RIFANS for fiscal 2015, 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. Significant delays in recognizing CHIP 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 CHIP 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 2015, Medicaid administrative expenditures reported on Form CMS-64 totaled $146.1 million (federal share - $96.8 million) while expenditures reported in the State's accounting system totaled $149.9 million (federal share - $103.6 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.

CHIP administrative expenditures for most of fiscal 2015 were not finalized until the year's final quarter. The delays were largely due to processing CHIP recipients through two different eligibility systems and difficulties in assembling the information required to compute CHIP administrative expenditures to be assigned to each quarter. Significant timing differences exist between CHIP administrative expenditures reported to the government on the quarterly reports and what was reported in the State's accounting system. These timing differences will improve as more CHIP recipients are processed through UHIP.

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

2015-070a Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.

2015-070b Reconcile administrative expenditures reported on federal reports with those reported in the State's accounting system.

Corrective Action / auditee views:

2015-070a - 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 Enterprise (HPE), put in place effective July 1, 2014 a process that interfaces MMIS transactions with the State's accounting system (RIFANS) and facilitates the process of reconciling expenditures reported on the CMS 64 and the State's accounting system. We will continue to evaluate additional enhancements for aligning RIFANS to MMIS and also to the CMS-64; however, this will require significant resources and a comprehensive team effort involving EOHHS, HPE, Accounts & Control, and the Budget Office.

2015-070b - 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 are the adjustments which occur at the agencies outside of the EOHHS hierarchy and control. We continue to work with our consultant to implement cost allocation plans (CAP) and indirect cost rate proposals (ICR), as applicable, at all of our EOHHS agencies. Once the CAP and ICR allocations are in place, the process for reconciling administrative expenditures should improve.

Anticipated Completion Date: *2015-070a: July 30, 2017; 2015–070b: March 2017*

Contact Person: *Robert Farley, Associate Director*
Phone: 401.462.6259

Finding 2015-071 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

COSTS NOT OTHERWISE MATCHABLE (CNOM)

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 $14.6 million (federal share - $7.2 million) in CNOM expenditures during fiscal 2015, a decrease of 54% from the $31.6 million claimed in the prior year. These included early intervention services to young children, community support services for the elderly, 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 eligibility systems) or by the service provider. Consequently, determination of recipient eligibility for CNOM expenditures lacks the comprehensive controls over eligibility for Medicaid enrollees. We observed the following control weaknesses 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 2015 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 (representing approximately 35% of CNOM expenditures) 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.

- 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 2015 CNOM expenditures and credit the federal government for amounts determined to be claimed in error. In the future, EOHHS should ensure that all CNOM claiming processes are fully operational prior to claiming these expenditure populations to the Medicaid program.

Questioned Costs: None

RECOMMENDATIONS

2015-071a Subject all CNOM claiming to the system edits and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.

2015-071b 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.

2015-071c Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditures to the Medicaid program.

Corrective Action / auditee views:

2015-071a - 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.

Effective July 1, 2015, BHDDH's Behavioral Healthcare Division no longer has CNOM funding.

BHDDH's 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.

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, HPE 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 HPE by DEA so that HPE 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.

2015-071b - EOHHS agrees with the Auditor's recommendation. In addition to the Prior Authorizations that are included in the MMIS claims processing system for DEA CNOM individuals, DEA staff also performs quarterly reviews of claims data samples that they retrieve from the HPE data team. DEA staff then matches the claims data to the Prior Authorization information to determine if they match.

2015-071c - EOHHS agrees with and intends to comply with the Auditor's recommendation.

Anticipated Completion Date: *Ongoing*

Contact Person: *Robert Farley, Associate Director*
Phone: 401.462.6259

Finding 2015-072 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
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 fiscal 2015. Transactions affecting eligibility are transmitted daily from INRHODES (which included UHIP transmitted eligibility data during fiscal 2015) 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. EOHHS reviews the reports and is responsible for making the appropriate corrections to ensure the accuracy and reliability of the systems. There was approximately $26,893 in questioned costs (federal share – approximately $13,454) 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 2015, RIte Share expenditures approximated $6.5 million covering approximately 9,500 individuals. Since the inception of RIte Share, EOHHS has accumulated a receivable balance totaling $875,580 (federal share - $438,030) 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 may 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.

Provider Recoveries

Our review of provider recoveries noted approximately $1.4 million (estimated federal share - $840,000) in outstanding assessments relating to CNOM audits (for services reimbursed in prior fiscal years) conducted by EOHHS's Program Integrity Unit. Upon identification, the federal share of these recoveries should be credited back to the federal government.

Questioned Costs: $1,291,484

RECOMMENDATION

2015-072 Reimburse the federal government for program overpayments within the timeframe mandated by federal regulations.

Corrective Action / auditee views:

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, Deputy Medicaid Director*
Phone: 401.462.0140

PROVIDER RECOVERIES:

EOHHS agrees with the Auditor's recommendation to track and record all advances within the MMIS as prepayments or provider receivables. EOHHS will work with HPE to modify the MMIS to automatically create an A/R for the recoupment of a manual payout. HPE will work with EOHHS to define criteria, transaction types and reason codes that would be applicable for the automatic A/R. System modification discussion will further define the timing of the recoupment and ability for the recoupment date to be modified as authorized. HPE will add this system modification to the MMIS System Project list where it will be prioritized and scheduled.

However, until the process can be automated and put under an electronic system control, appropriate manual controls will have to continue to be enforced. Within the last 2 years HPE has instituted a quality control process to review and audit all FACNs (manual payments) that ensure that advances cannot go undetected or forgotten. New procedures have also been put in place to ensure that Medicaid Finance, which must approve all FACNs, now receives from HPE regular updated reports of provider receivables. The list will be reviewed prior to approving any provider advance payment. Medicaid Finance will also make a point to regularly contact and inform applicable program managers about aging advance receivables.

Anticipated Completion Date: *September 30, 2016*

Contact Person: *Corsino Delgado, Associate Chief Financial Officer*
Phone: 401.462.2517

Finding 2015-073 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
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 allocating sufficient resources to identify, investigate, and refer suspected fraud and abuse cases. The SURS unit (operated by the State's fiscal agent) had seventy-eight (78) Level III investigations going back to 2009 on hold at June 30, 2015 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.

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.

The SURS unit had seventy-eight (78) Level III investigations going back to 2009 on hold at June 30, 2015 due to insufficient personnel resources and additional demands imposed on the unit by the State. Supplemental work is regularly assigned to the SURS unit, which impacts the 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.

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.

A recent federal HHS Office of the Inspector General review of the State Medicaid Fraud Control Unit included a recommendation to work with the State Medicaid agency to increase referrals to the Unit. Level III cases are those most likely to require referral to the Medicaid Fraud Control Unit.

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.

<u>Questioned Costs:</u> None

<u>RECOMMENDATION</u>

2015-073 Ensure that sufficient resources are employed by the State to fully comply with Medicaid surveillance and utilization review program regulations in a timely manner.

<u>Corrective Action / auditee views:</u>

The SURS team has made significant improvements towards addressing the backlog of Level III cases showing a 37 percent improvement. At the close of 2015, the total Level III reviews numbered <u>73</u>. Of the 73 Level III reviews, 26 provider reviews and 4 recipient reviews were closed and 35 provider reviews and 8 recipient reviews were opened. In 2015, 179 total reviews were performed, plus 27 special projects. Significant progress has been made on the older Level IIIs, while new cases are added. 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 will reduce the backlog significantly and keep new cases current.

<u>Anticipated Completion Date</u>: July 2017

Contact Person: *Ralph Racca, Administrator*
Phone: 401.462.1879

Finding 2015-074 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
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. These services include homemaker, nursing services, meal preparation, residential support, and respite care services and totaled approximately $300 million in fiscal 2015.

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 for periods when the recipient of certain home and community based services was actually hospitalized (or in another residential setting such as hospice or nursing facilities) and therefore unavailable to receive home 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 (e.g., specific service dates) makes it impossible to determine whether incompatible services were paid in these instances.

Controls over these claims 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

2015-074 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 issued an RFP for an Electronic Visit Verification (EVV) solution in SFY15. Sandata, the selected vendor and the State held a kickoff meeting and provider informational sessions in February to begin the design build of the EVV solution. Once implemented in June 2016, the EVV solution will eliminate span billing issues. In addition, service level authorizations will be transmitted to MMIS from RI Bridges and CSM. MMIS will send provider, eligibility, and authorization extracts to Sandata to ensure clean claims are sent to MMIS for adjudication.

Anticipated Completion Date: *June 2017*

Contact Person: *Ralph Racca, Administrator*
Phone: 401.462.1879

Finding 2015-075 ***(significant deficiency – new finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER INPATIENT HOSPITAL AND LONG-TERM CARE FACILITY RATE SETTING

RI Medicaid implemented new reimbursement methodologies for inpatient hospital and long-term care facilities in fiscal years 2011 and 2014, respectively. Both methodologies establish fixed rate reimbursements to providers determined by applying certain acuity based factors to an underlying base rate to derive specific reimbursements for hospital and nursing facility claims. The State has not fully complied with State plan provisions relating to annual review and provider audit requirements outlined within these approved methodologies.

42 CFR section 447.250 requires that the State Plan provide for payment for hospital and long-term care facility services through the use of rates that the State determines are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated facilities to provide services in conformity with State and Federal laws and regulations. The State initiated its DRG methodology for inpatient hospital services as an amendment to its approved Section 1115 Global Medicaid Waiver (and is now in the process of amending its State Plan for the change) in fiscal 2011. The State's implementation of a RUG methodology for nursing facility providers was submitted via a State Plan amendment and implemented in fiscal 2014 (with CMS approval received in June 2015).

Inpatient Reimbursement

EOHHS reimburses hospitals using a Diagnosis Related Groups (DRG) methodology that replaced the traditional cost reimbursement rate setting model requiring settlements with providers based on filed cost reports. The methodology produces a fixed reimbursement rate by applying multipliers to an approved base rate. The multipliers applied depend upon diagnosis, acuity, and other factors. The DRG payment methodology serves to reimburse hospitals based on the underlying illness rather than the length of the patient stay to promote efficient and effective patient treatment.

The State Plan amendment relating to the DRG reimbursement methodology includes a requirement for annual reviews of the payment method. This requirement indicates that the "scope of the annual review will include at least the DRG algorithm version, the DRG relative weights, the DRG Base Price(s), the outlier thresholds, outlier payment parameters, policy adjustors, and the age adjustors. With respect to the DRG Base Price, the department will take into consideration at least the following factors in deciding what change, if any, to implement: changers or levels of beneficiary access to quality care; the Centers for Medicare and Medicaid Services National CMS Prospective Payment System (IPPS) Hospital Input Price Index; technical corrections to offset changes to DRG Relative Weights or policy adjustors; changes in how hospitals provide diagnosis and procedure codes on claims; and budget allocations."

EOHHS has made annual adjustments to the base rate for inflation and State budget factors and has updated the DRG software for new releases. However, it has not conducted a comprehensive review reflecting all the elements outlined in the scope of the review as described in the State plan. EOHHS should conduct these required annual methodology reviews, to ensure that established inpatient hospital rates are in compliance with federal regulations.

Due to the significance that provider coding has on the amount reimbursed under the new methodology, EOHHS should also consider procedures to ensure that hospital providers are appropriately coding hospital claims in compliance with federal requirements. Such procedures should be designed to detect provider "upcoding" and could include periodic provider audits, surveillance utilization review detection analytics, or special projects performed by the Medicaid program integrity unit.

<u>*Nursing Facility Reimbursement*</u>

EOHHS adopted a full Resource Utilization Groups ("RUG") system for long-term care reimbursement on June 1, 2013. Under the RUG system, each long-term care facility has a base per diem rate that applies to all residents that is comprised of direct nursing care and other direct care costs, indirect care, fair rental value, property taxes, direct care and gain/loss policy adjustors, and a provider assessment. Each long-term care resident is assigned a RUG score that reflects each individual's expected resource utilization. A RUG score multiplier adjusts the provider base rate to a recipient-specific per diem rate to reflect the anticipated costs of caring for each resident.

Before the adoption of the full RUG method, EOHHS reimbursed its long-term care facilities using a facility-specific per diem rate based upon annual cost reports submitted by each nursing facility. Facilities were assigned an interim per diem rate pending EOHHS Rate Setting Unit desk or field audit. The Rate Setting Unit performed annual desk audits and occasional field audits through fiscal 2010. Unaudited 2010 cost reports were utilized as the base costs in the new full RUG method.

The CMS-approved RUG methodology includes a requirement that the state conduct a rate review in fiscal 2016 to determine if the original cost components used to establish the base rates are still appropriate. The review process has not been finalized but it will not meet the requirements for an audit according to EOHHS. The reviews will be conducted every three years. Long-term care facilities must continue to submit annual cost reports. EOHHS has not conducted desk or field audits of the long-term care facilities' cost reports since fiscal 2010 and does not plan to conduct periodic audits going forward. The recently approved State Plan amendment requires audits of the financial and statistical records of each participating provider in operation.

EOHHS needs to formalize the specifics of its periodic reviews of the nursing facility RUG methodology. This process should ensure that underlying facility data utilized to reevaluate the established rates is accurate and consistently reported by all facilities.

Questioned Costs: None

RECOMMENDATIONS

2015-075a Comply with annual review requirements to ensure that inpatient hospital reimbursement rates are consistently updated in accordance with the approved State plan.

2015-075b Formalize the process for conducting periodic reviews (including procedures to address audit requirements) of the nursing facility reimbursement rates in accordance with the approved State plan.

Corrective Action / auditee views:

2015-075a - EOHHS disagrees with the finding that it does not conduct annual reviews of inpatient hospital payment rates. Reviews, in some form, are conducted annually. EOHHS will enhance its review process by undertaking a comprehensive review of outlier thresholds, outlier payment parameters and policy adjustors every 3-5 years.

2015-075b - EOHHS agrees with and intends to comply with the Auditor's recommendation. EOHHS no longer has the resources to conduct desk audits of nursing home cost reports. For the current price-based reimbursement methodology, we believe the annual UPL demonstration required by CMS plus the statutorily required triennial review of nursing home costs satisfies the audit requirement in the State Plan.

Anticipated Completion Date: Ongoing

Contact Person: Lawrence Ross, Assistant Director
Phone: 401.462.6025

Finding 2015-076 ***(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 2013-2014 and 2014-2015
Federal Award Numbers: 1405RI5MAP and 1505RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER DISPROPORTIONATE SHARE PAYMENTS

EOHHS lacks controls to ensure the accuracy of uncompensated care data provided by the hospitals in support of Medicaid uncompensated care reimbursements made to such hospitals.

Section 1923 of the Social Security Act (the "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.

EOHHS made DSH payments totaling $139 million (federal share - $69.5 million) in fiscal 2015 to hospitals meeting the requirements outlined in the Act. The majority of DSH payments are determined based on the proportion of each qualifying hospital's uncompensated care to the total uncompensated care costs for all qualifying hospitals. Each 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 2015, the audit for the federal fiscal year ended September 30, 2011 was filed by EOHHS. 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 these control deficiencies to ensure that DSH program expenditures comply with federal regulations. The most recently completed DSH audit identified one hospital that received DSH payments in excess of its hospital-specific DSH payment limit. 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.

Questioned Costs: None

RECOMMENDATION

2015-076 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: July 2017

Contact Person: Lawrence Ross, Assistant Director
Phone: 401.462.6025

Summary Schedule of Prior Audit Findings

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program	10.551	14-029
State Administrative Matching Grants for SNAP	10.561	14-027, 14-028
Child Nutrition Cluster:		
School Breakfast Program	10.553	14-030, 14-055
National School Lunch Program	10.555	14-030, 14-055
Special Milk Program for Children	10.556	14-030, 14-055
Summer Food Service Program for Children	10.559	14-030, 14-055
Supportive Housing Program	14.235	14-031
Unemployment Insurance	17.225	13-038, 14-032, 14-033, 14-034
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	14-026, 14-035, 14-036, 14-037, 14-038
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	14-039, 14-040, 14-041, 14-042, 14-043, 14-044
Federal Transit – Formula Grants	20.507	14-039, 14-040, 14-041, 14-042, 14-043, 14-044
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	14-049, 14-050
Federal Work-Study Program	84.033	14-045, 14-049, 14-050
Federal Perkins Loan Program – Federal Capital Contributions	84.038	14-049, 14-050
Federal Pell Grant Program	84.063	14-049, 14-050
Federal Direct Student Loans	84.268	14-046, 14-047, 14-048, 14-049, 14-050
Special Education Cluster:		
Special Education – Grants to States	84.027	14-055
Special Education – Preschool Grants (IDEA Preschool)	84.173	14-055
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	14-051, 14-052, 14-053, 14-054
ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants	84.395	14-055
ARRA - Race to the Top – Early Learning Challenge	84.412	14-056
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	14-026, 14-057
Temporary Assistance for Needy Families	93.558	14-026, 14-058, 14-059, 14-060, 14-061, 14-062
Low-Income Home Energy Assistance Program	93.568	14-063

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
CCDF Cluster:		
Child Care and Development Block Grant	93.575	14-026, 14-058, 14-064
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	14-026, 14-058, 14-064
Foster Care - Title IV-E	93.658	14-065, 14-066
Social Services Block Grant	93.667	14-026, 14-061
Children's Health Insurance Program	93.767	14-026, 14-060, 14-067, 14-068, 14-069, 14-070
Medicaid Cluster:		
Medical Assistance Program	93.778	13-069, 13-078, 14-026, 14-060, 14-065, 14-066, 14-067, 14-068, 14-070, 14-071, 14-072, 14-073, 14-074, 14-075, 14-076, 14-077

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*
13-038	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				
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				
13-069b		Re-adjudicate 2013 nursing facility claims using reimbursement rates established using the State's federally-approved rate methodology for fiscal 2013.		x				
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.						
13-078b		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	DCYF has no current plans to implement this recommendation. DCYF billing to Medicaid has decreased significantly since the implementation of a provider time study process utilized to allocate contracted placements to Medicaid. This decrease in Medicaid billing for children in the State's custody has minimized the control deficiency represented by the originally cited issue.

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
14-026		20.205 93.525 93.558 93.575 93.596 93.667 93.767 93.778	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.						
	14-026		Continue efforts to enhance compliance with FFATA reporting through statewide monitoring and periodic training for state agencies.	11-41b 12-38b 13-029b	x				
14-027		10.561	The Department of Human Services can improve monitoring of its subrecipient, the University of Rhode Island (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.						
	14-027a		We recommend that management of the University implement policies and procedures to ensure that proper information is collected and reviewed.	13-035	x				
	14-027b		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.		x				
14-028		10.561	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.						
	14-028a		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.	12-42		x			DHS is requesting more documentation with invoices.
	14-028b		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.			x			DHS is working on improving its payment process.
	14-028c		Amend the June 30, 2014 federal financial report to correct expenditures not previously reported.		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
	14-028d		Consider additional cost centers or accounts to simplify SNAP expenditure reporting.			x			DHS will soon implement a new cost allocation system which will address these issues.
14-029		10.551	The Department of Human Services can improve controls over the preparation of the FNS-46 SNAP *Issuance Reconciliation Report* by using data and reports generated directly from the Department's INRHODES computer system.						
	14-029		Prepare the FNS-46 reports based on information from the Department's INRHODES computer system.		x				
14-030		10.553 10.555 10.556 10.559	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.						
	14-030		Make necessary modifications to the computer system used to account for USDA-Donated Foods to ensure compliance with federal regulations.	13-030			x		See Corrective Action Plan for Finding 2015-028.
14-031		14.235	During a HUD review of the financial management and oversight of certain grants, Rhode Island Housing was unable to provide documentation in accordance with 24 CFR Part 85.20(6) to properly support funds drawn against the 2010, 2011, and 2012 grant years.						
	14-031		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.		x				
14-032		17.225	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.						

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
	14-032a		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.	10-45b 11-45f 12-44b 13-037a		x			See Corrective Action Plan for Finding 2015-031.
	14-032b		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.	11-45e 11-45g 12-44a 13-037b	x				
14-033		17.225	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.						
	14-033a		Modify the EmployRI computer system so that claimants receiving unemployment benefits will not be classified as inactive from a job services perspective.					x	
	14-033b		Require all users who are unemployment compensation recipients to access the EmployRI computer system using a unique user ID and password.					x	
14-034		17.225	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 investigations are ongoing and the amount of any questioned costs or potential misuse of federal funds is not presently determinable.						See Current Year Finding 2015-034.
14-035		20.205	RIDOT should further enhance its quality assurance program to ensure that required materials tests are performed and documented consistent with federal and RIDOT policy.						
	14-035a		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.	07-58a 08-53a 09-44a 10-51a 12-50a 13-039a			x		See Corrective Action Plan for Finding 2015-036.

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*
	14-035b		Update the Procedures for Uniform Record Keeping (PURK) manual to include all current policies and procedures. Maintain and distribute the PURK manual electronically.	13-039b			x		See Corrective Action Plan for Finding 2015-036.
	14-035c		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 13-039c			x		See Corrective Action Plan for Finding 2015-036.
	14-035d		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.	06-33b 07-58c 08-53c 09-44c 10-51c 11-51c 12-50d 13-039d			x		See Corrective Action Plan for Finding 2015-036.
	14-035e		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.	06-33a 07-58b 08-53b 09-44b 10-51b 11-51b 12-50c 13-039e			x		See Corrective Action Plan for Finding 2015-036.
14-036		20.205	RIDOT can enhance its monitoring of subrecipients as required by federal program requirements.						
	14-036a		Identify all federal awards passed through to subrecipients by project.	08-54b 09-45b 10-52b 11-52b 12-51b 13-041a			x		See Corrective Action Plan for Finding 2015-037.
	14-036b		Enhance written policies and procedures over subrecipient monitoring. Document the Department's monitoring plan and document the monitoring performed.	08-54a 09-45a 10-52a 11-52a 12-51a 13-041c			x		See Corrective Action Plan for Finding 2015-037.

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*
	14-036c		Ensure all subrecipient audits are completed timely and management decisions are issued within six months of audit report receipt.		x				
14-037		20.205	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.						
	14-037a		Finalize the draft Utility Accommodation Policy and obtain FHWA approval.	13-042			x		See Corrective Action Plan for Finding 2015-038.
	14-037b		Improve Utility Accommodation file documentation to demonstrate compliance with federal requirements.				x		See Corrective Action Plan for Finding 2015-038.
14-038		20.205	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.						
	14-038		Enhance policies, procedures, and controls to ensure compliance with Value Engineering analysis requirements contained in 23 CFR 627.	12-53 13-043			x		See Corrective Action Plan for Finding 2015-039.
14-039		20.500 20.507	RIPTA - Management could improve documentation of its compliance with certain program requirements by ensuring consistent use of its requisition forms for all federal award program expenditures.						
	14-039		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.	13-045	x				
14-040		20.500 20.507	RIPTA – Prior to April 2014, there was no formal documentation of the Planning Department's determination as to the necessity of FTA approval prior to disposal of equipment and real property acquired with federal funds. New policies and procedures requiring formal documentation of this process were put in place in April 2014.						
	14-040		We recommend that RIPTA ensure its amended policies and procedures for the disposal of equipment acquired with federal awards is properly implemented.	13-046	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*
14-041		20.500 20.507	RIPTA - The Disadvantaged Business Enterprise (DBE) file for a vendor selected was incomplete. Documentation related to the vendor payment of the approved DBE subcontractors was not available.						
	14-041		We recommend that RIPTA ensure DBE participation is monitored and documented in a timely manner in accordance with federal requirements.	13-047	x				
14-042		20.500 20.507	RIPTA - Two CMAQ service charges to RIPTA's operating fund were not properly documented. RIPTA was unable to provide adequate supporting documentation.						
	14-042		We recommend that RIPTA properly maintain all supporting documentation used to prepare CMAQ service reimbursement in accordance with OMB – Circular A-87.			x			See Corrective Action Plan for Finding 2015-040.
14-043		20.500 20.507	RIPTA - Management was unable to provide certified payroll documentation for one transaction selected that was subject to Davis-Bacon Act requirements.						
	14-043		We recommend that RIPTA ensure certified payrolls documentation be maintained in accordance with its policies and procedures.		x				
14-044		20.500 20.507	RIPTA – During our controls testing, we noted one transaction over $5,000 was not competitively bid and there was no documentation on file substantiating the reasons why the service was not bid.						
	14-044		We recommend that RIPTA properly document non-competitive procurements in accordance with its procurement policies and procedures and State Laws and regulations.		x				
14-045		84.033	RIC – Student timesheets were not being maintained in accordance with federal regulations.						
	14-045		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.		x				
14-046		84.268	URI - The University does have a policy in place to ensure that student status reporting is completed timely, but the information uploaded was not independently reviewed to ensure the reports generated were accurate.						

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
	14-046		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.		x				
14-047		84.268	URI - The University did not transmit information to the National Student Clearinghouse during one month.						
	14-047		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.				x		See Corrective Action Plan for Finding 2015-047.
14-048		84.268	CCRI - Staff did not effectively monitor the accuracy of the information related to retroactive status changes to determine if they were properly reflected on the NSLDS website.						
	14-048		We recommend that the Community College establish a process requiring a designated individual to manually review the information being uploaded to ensure that the software is pulling the accurate information on a test basis.	12-58 13-053	x				
14-049		84.007 84.033 84.038 84.063 84.268	RIC – In two cases, current year credit balances in excess of $200 were applied to prior year charges.						
	14-049		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 student 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.		x				
14-050		84.007 84.033 84.038 84.063 84.268	RIC - In two cases, current year credit balances were applied to prior year charges instead of refunded to the student, in violation of the 14 day refund policy.						
	14-050		The College should review refund procedures currently in effect and determine the necessary changes to ensure improved adherence to the 14-day refund requirement.		x				

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14-051		84.126	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.						
	14-051a		Ensure authorization of delegated purchasing authority is maintained currently.		x				
	14-051b		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).			x			See Corrective Action Plan for Finding 2015-042.
14-052		84.126	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.						
	14-052a		Implement formal procedures to request, review, and approve user system access.			x			By 4/30/16, will develop written procedures to request, review, and approve user access based on position.
	14-052b		Review the system access of all users matching actual job functions to system functionalities and ensure appropriate segregation of duties has been maintained. Limit system administrator access roles to employees actually requiring such wide system responsibilities.		x				
	14-052c		Perform periodic reviews of user access rights.			x			By 4/30/16, will develop written procedures to request, review, and approve user access.
14-053		84.126	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.						
	14-053a		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.		x				

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14-053b		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.			x			See Corrective Action Plan for Finding 2015-045.
14-053c		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.			x			See Corrective Action Plan for Finding 2015-045.
14-053d		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.			x			See Corrective Action Plan for Finding 2015-045.
14-054	84.126	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.						
14-054a		Review all FFY 2013 SF-425 reports, resolve the variances in the reporting of non-Federal share expenditures, and discuss required revisions with RSA.			x			See Corrective Action Plan for Finding 2015-044.
14-054b		Improve controls to monitor and ensure compliance with the VR program MOE requirement.			x			See Corrective Action Plan for Finding 2015-044.
14-055	10.553 10.555 10.556 10.559 84.027 84.173 84.395	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.						
14-055		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.		x				
14-056	84.412	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.						

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	14-056		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.			x			See Corrective Action Plan for Finding 2015-049.
14-057		93.525	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.						
	14-057a		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.	13-057a 13-057b		x			See Corrective Action Plan for Finding 2015-050.
	14-057b		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.	13-057c		x			See Corrective Action Plan for Finding 2015-050.
14-058		93.558 93.575 93.596	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.						
	14-058		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.	05-63a 06-43a 07-70a 08-67a 09-56a 10-57a 11-58a 12-61a 13-058		x			See Corrective Action Plan for Finding 2015-056.
14-059		93.558	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.						

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	14-059a		Report all grant expenditures in the proper period. Verify quarterly and cumulative amounts before reporting.			x			See Corrective Action Plan for Finding 2015-055.
	14-059b		Monitor transfer amounts so that limits are not exceeded each quarter.		x				
14-060		93.558 93.767 93.778	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 in 10 out of 40 case files in our sample was not resolved timely.						
	14-060a		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 13-060a		x			See Corrective Action Plan for Finding 2015-057.
	14-060b		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 13-060b		x			See Corrective Action Plan for Finding 2015-057.
14-061		93.558 93.667	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.						

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	14-061a		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.	12-64a 13-061a		x			DHS will be notifying subrecipients when their current contract renews in SFY2016 to ensure that they are aware of audit report requirement.
	14-061b		Notify all subrecipients of federal award data and compliance requirements, including changes in funding source.	12-64b 13-061b	x				
	14-061c		Require subrecipients to submit appropriate documentation when requesting payment of federal funds.	12-64c 13-061c	x				
14-062		93.558	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.						
	14-062		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.				x		See Corrective Action Plan for Finding 2015-054.
14-063		93.568	The Department of Human Services can significantly improve its monitoring of subrecipients in a number of areas to ensure compliance with program requirements.						
	14-063a		Perform client data reviews, vendor monitoring, and fiscal reviews of LIHEAP subrecipients and document the monitoring procedures performed.		x				
	14-063b		Evaluate the impact of subrecipient activities on DHS's ability to comply with applicable federal regulations.		x				
14-064		93.575 93.596	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.						
	14-064		Review active Child Care cases referred by other units for possible over-payments and take appropriate action to recover any over-payments found.	13-064			x		See Corrective Action Plan for Finding 2015-058.
14-065		93.658 93.778	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.						

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	14-065a		Implement controls to support federal claims for reimbursement resulting from aggregate payments to "system of care" network providers.			x			
				As of November 1, 2015 the Networks began submitting actual costs of the individual providers via receipts, payroll registers, and census data attained from invoices submitted by the providers to receive payments on a reimbursement basis. At this time, the Department utilized the aforementioned data to make direct payments to providers. Beginning April 1st, the Department will receive invoices directly from the providers and subsequently issue payments without administrative support from the lead agencies. The Department is currently developing policies and procedures to monitor and control the costs of (SOC) services provided directly by providers. This will create a direct link between the payment made directly to the service provider and the federal claim. The Department ensures Medicaid eligibility for children in a residential placement by utilizing an interface between INRHODES and RICHIST. However, for children in a community placement the Department determines Medicaid eligibility through manual look-ups on INRHODES. All Federal claims for reimbursement from the ""system of care"" are supported in RICHIST.					
	14-065b		Reconcile the direct child care costs of the "system of care" providers to the "shadow claims" created in RICHIST to enable child specific claiming.			x			DCYF matched census data to data in RICHIST for all of SFY14.
	14-065c		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".			x			DCYF began working with the RI Bureau of Audits beginning May 2015 to audit system of care providers, validate census data, and ensure rates.
14-066		93.658 93.778	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.						
	14-066a		Enhance procedures for reviewing the quarterly cost allocation to obtain reasonable assurance that the cost allocation plan is operating as designed.			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*
								DCYF has implemented procedures to ensure the cost allocation plan is operating as designed. DCYF maps the initial collection of data using a data request form. The form is created by the consultant and reviewed by DCYF for timeliness and accuracy. The form is customized each quarter as input data is added or deleted from the cost allocation process. Timeliness of the data in ensured by the recently introduced Cost Allocation Plan (CAP) calendar. An adjustment tracker is used to confirm that the correct original data amounts are inputted into the cost allocation plan. The initial operational and administrative costs are analyzed and monitored through the Cost Allocation process – input through output. The input costs and cost allocation plan output are compared to each other and to historical trends in conjunction with cyclical variances to ensure the quality of the CAP output data. A quality analysis process guided by an extensive Quality Analysis work sheet ensures that the functionality of the CAP database is properly processing inputs into the CAP output. Finally, a variance analysis of the actual amount to be claimed on the CB-496 is compared to historical claims. This enables DCYF to identify and logically explain variances or modify amounts claimed to more accurately reflect the input data.
14-066b		Develop more robust procedures for monitoring the costs incurred for the two “system of care” network providers and the residential care providers.			x			As of November 1, 2015 the Networks began submitting actual costs of the individual providers via receipts, payroll registers, and census data attained from invoices submitted by the providers to receive payments on a reimbursement basis. DCYF reviews census data. DCYF commissioned an audit by the Rhode Island Bureau of Audits in May 2015 to system of care providers, validate census data, and ensure rates.
14-066c		Modify procedures for calculating the Foster Care penetration rate to include children pending eligibility in the population of all children in foster care.		x				
14-067	93.767 93.778	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.						
14-067a		Implement specific controls that ensure that critical data interfaces are operating as intended.			x			See Corrective Action Plan for Finding 2015-059.

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	14-067b		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.			x			See Corrective Action Plan for Finding 2015-059.
	14-067c		Explore system controls to prevent UHIP case tasks from being cleared without clear documentation and notes being provided by the eligibility technician.				x		See Corrective Action Plan for Finding 2015-059.
	14-067d		Evaluate whether the UHIP Phase II implementation will sufficiently address the various eligibility control weaknesses noted.			x			See Corrective Action Plan for Finding 2015-059.
14-068		93.767 93.778	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.						
	14-068a		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.	09-86 10-85a 10-88 11-84a 11-86 12-79a 12-80 13-072 13-077a 13-077c		x			See Corrective Action Plan for Finding 2015-066.
	14-068b		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.	10-85 11-84b 12-79b 13-077b		x			See Corrective Action Plan for Finding 2015-066.
14-069		93.767	EOHHS can improve controls over the timely identification of CHIP 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.						

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	14-069a		Ensure that CHIP 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.	12-71 13-065		x			See Corrective Action Plan for Finding 2015-064.
	14-069b		Subject the results of queries used to accumulate eligible CHIP 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 13-065		x			See Corrective Action Plan for Finding 2015-064.
14-070		93.767 93.778	Controls should be improved over the quarterly reporting of Medicaid and CHIP 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.						
	14-070a		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 13-066a		x			See Corrective Action Plan for Finding 2015-070.

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	14-070b		Reconcile administrative expenditures reported on the CMS-64 report 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 13-066b			x		See Corrective Action Plan for Finding 2015-070.
14-071		93.778	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.						
	14-071a		Subject all CNOM claiming to the system edits and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.	09-76a 10-78a 11-73a 12-72a 13-067a		x			See Corrective Action Plan for Finding 2015-071.
	14-071b		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.	11-73b 12-72b 13-067b		x			See Corrective Action Plan for Finding 2015-071.
	14-071c		Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditures to the Medicaid program.	09-76c 10-78c 11-73c 12-72c 13-067c		x			See Corrective Action Plan for Finding 2015-071.
14-072		93.778	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.						

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	14-072a		Evaluate staffing resources in the MEQC unit to ensure compliance with federal monitoring and reporting responsibilities.	10-80a 11-76 12-73a 13-068a		x			See Corrective Action Plan for Finding 2015-065.
	14-072b		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.	12-73b 13-068b		x			See Corrective Action Plan for Finding 2015-065.
14-073		93.778	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.						
	14-073		Improve controls over Medicaid DSH payments by implementing the recommendations made within completed DSH audits.	08-102 09-84 10-83 11-83 12-75 13-070		x			See Corrective Action Plan for Finding 2015-076.
14-074		93.778	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.						
	14-074		Reimburse the federal government for program overpayments within the timeframe mandated by federal regulations.	13-071		x			See Corrective Action Plan for Finding 2015-072.
14-075		93.778	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.						
	14-075		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.	10-76d 11-79d 12-81 13-073	x				

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14-076		93.778	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.						
	14-076		Ensure that sufficient resources are employed by the State to fully comply with Medicaid surveillance and utilization review program regulations in a timely manner.	13-075		x			See Corrective Action Plan for Finding 2015-073.
14-077		93.778	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.						
	14-077		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 13-076		x			See Corrective Action Plan for Finding 2015-074.