

State of Rhode Island
and Providence Plantations

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2006

Mission

“The Office of the Auditor General exists to support the State Legislature and Federal Government in meeting their constitutional responsibilities and to help improve the performance and accountability of government”



ERNEST A. ALMONTE, CPA, CFE
Auditor General
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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS
GENERAL ASSEMBLY

OFFICE OF THE AUDITOR GENERAL

- ◆ Integrity
- ◆ Reliability
- ◆ Independence
- ◆ Accountability

March 12, 2007

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

I am pleased to submit the State's *Single Audit Report* for the fiscal year ended June 30, 2006. This audit was required by both state law (sections 22-13-4 and 35-7-10 of the General Laws) and the federal Single Audit Act.

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

Respectfully submitted,

Ernest A. Almonte, CPA, CFE
Auditor General

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Financial Statements



Basic Financial Statements

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State) as of and for the year ended June 30, 2006 which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of:

- certain component units which represent 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 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 1% of the revenues of the business-type activities; and
- component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates 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, is based on the reports of the other auditors.

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Joint Committee on Legislative Services

Except as discussed in the following two paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

We were unable to obtain sufficient evidence regarding the completeness of accounts payable, amounts due from other governments and agencies, deferred revenue and related expenditures and federal revenue reported for the Intermodal Surface Transportation (IST) Fund, a major fund, due to weaknesses in accounting controls over the accumulation and reporting of information included in these account classifications.

We were unable to obtain sufficient evidence regarding the completeness and valuation of encumbrances outstanding at June 30, 2006 disclosed in the notes to the basic financial statements for the Intermodal Surface Transportation and Grant Anticipation Revenue Vehicle (GARVEE) major funds.

In our opinion, except for the effects of such adjustments, if any, on the IST Fund as might have been considered to be necessary had we been provided sufficient evidence regarding accounts payable, amounts due from other governments and agencies, deferred revenue and related expenditures and federal revenue, and except for the effects of such adjustments, if any, on the amount of encumbrances outstanding disclosed for the IST and GARVEE major funds at June 30, 2006, 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 each major fund and the aggregate remaining fund information of the State as of June 30, 2006 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, 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,

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and the aggregate discretely presented component units of the State as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 17 to the basic financial statements, beginning net assets of the governmental activities on the statement of net assets were increased by \$747 million for the retroactive recognition of the State's investment in infrastructure (net of accumulated depreciation) for fiscal years 1981 to 2001.

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

The Management's Discussion and Analysis, on pages A-5 through A-17, the Budgetary Comparison Schedules on pages A-93 through A-117, and the Schedules of Funding Progress on page A-118 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, on federal expenditures recorded within the Intermodal Surface Transportation Fund as might have been considered to be necessary

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Joint Committee on Legislative Services

had we been provided sufficient evidence regarding accounts payable, based on our audit and the reports of the other auditors, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Ernest A. Almonte". The signature is written in a cursive style with a large initial 'E'.

Ernest A. Almonte, CPA, CFE
Auditor General

December 29, 2006

Management's Discussion and Analysis

The following is a discussion and analysis of the financial activities of the State of Rhode Island and Providence Plantations (the State) for the fiscal year ended June 30, 2006. Readers are encouraged to consider the information presented here in conjunction with the letter of transmittal, which can be found at the front of this report, and with the State's financial statements, which follow this section.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Assets** The total assets of the State exceeded total liabilities at June 30, 2006 by \$1,190.7 million. This amount is presented as "net assets" on the Statement of Net Assets for the Total Primary Government. Of this amount, (\$940.2) million was reported as unrestricted net assets, \$671.8 million was restricted net assets, and \$1,459.1 million was invested in capital assets, net of related debt.
- **Changes in Net Assets** In the Statement of Activities the State's total net assets increased by \$96.6 million in fiscal year 2006. Net assets of governmental activities increased by \$88.4 million, while net assets of the business-type activities increased by \$8.2 million.

Fund Financial Statements

- The State's governmental funds reported a combined ending fund balance of \$916.6 million, an increase of \$85.0 million in comparison with the previous fiscal year.
- The General Fund ended the current fiscal year with an unreserved, undesignated balance of \$38.3 million, a decrease of \$0.4 million in comparison with the previous fiscal year.
 - ◆ The Budget Reserve Account ended the fiscal year with a balance of \$95.4 million, an increase of \$4.5 million in comparison with the previous fiscal year.
- The Intermodal Surface Transportation Fund ended the fiscal year with an unreserved fund balance of \$22.7 million, which was a decrease of \$9.9 million from the previous year.
- The GARVEE Fund ended its fiscal year with a fund balance of \$314.3 million of which \$8.1 million is reserved for debt. The fund balance increased by \$118.4 million as a result of the issuance of additional bonds.
- The Rhode Island State Lottery transferred \$323.9 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of \$16.3 million in comparison with the previous fiscal year.

Overview of the Financial Statements

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

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

Management's Discussion and Analysis

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial

Management's Discussion and Analysis

statements focus on the individual parts of the State government, and report the State's operations in more detail than the government-wide financial statements. The State's funds are divided into three categories: governmental, proprietary and fiduciary.

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

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

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

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

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proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State’s CAFR.

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

Major Features of the Basic Financial Statements

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

Notes to the Financial Statements

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

Required Supplementary Information

The basic financial statements and accompanying notes are followed by a section of required supplementary information, including information concerning the State's progress in funding its obligation to provide pension benefits to its employees. This section also includes a budgetary comparison schedule for each of the State's major governmental funds that have a legally mandated budget.

Other Supplementary Information

Management's Discussion and Analysis

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

Government-Wide Financial Analysis

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The State's combined net assets (governmental and business-type activities) totaled \$1,190.7 million at the end of fiscal year 2006, compared to \$347.4 million at the end of the prior fiscal year, before restatement. The primary reason for the \$843.3 million increase was the \$774.5 million increase in investment in capital assets net of related debt, primarily caused by addition of the State's infrastructure assets for fiscal years 1981 through 2001 as required by GASB Statement No. 34. The governmental activities has unrestricted net assets of (\$929.5) million.

A portion of the State's net assets reflects its investment in capital assets such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt outstanding that was needed to acquire or construct the assets. The State uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the State's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources. An additional portion of the State's net assets represents resources that are subject to external restrictions on how they may be used.

State of Rhode Island's Net Assets as of June 30, 2006
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 1,581,097	\$ 1,464,055	\$ 329,272	\$ 257,003	\$ 1,910,369	\$ 1,721,058
Capital assets	2,405,706	1,456,908	151,591	124,874	2,557,297	1,581,782
Total assets	<u>3,986,803</u>	<u>2,920,963</u>	<u>480,863</u>	<u>381,877</u>	<u>4,467,666</u>	<u>3,302,840</u>
Long-term liabilities outstanding	2,219,442	1,992,541	286,281	199,987	2,505,723	2,192,528
Other liabilities	736,626	732,911	34,525	30,010	771,151	762,921
Total liabilities	<u>2,956,068</u>	<u>2,725,452</u>	<u>320,806</u>	<u>229,997</u>	<u>3,276,874</u>	<u>2,955,449</u>
Net assets:						
Invested in capital assets, net of related debt	1,591,074	816,578	(131,941)	(71,413)	1,459,133	745,165
Restricted	369,137	315,370	302,689	233,476	671,826	548,846
Unrestricted	(929,476)	(936,437)	(10,691)	(10,183)	(940,167)	(946,620)
Total net assets	<u>\$ 1,030,735</u>	<u>\$ 195,511</u>	<u>\$ 160,057</u>	<u>\$ 151,880</u>	<u>\$ 1,190,792</u>	<u>\$ 347,391</u>

As indicated above, the State reported a deficit balance in unrestricted net assets of \$940.2 million at June 30, 2006 in the Government-wide Statement of Net Assets. This deficit results primarily from the State's use of general obligation bond proceeds (which are reported as debt of

Management's Discussion and Analysis

the primary government) for non-capital expenditures deemed to provide important benefits for the general public. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. Examples of these uses of general obligation bond proceeds include but are not limited to the following:

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

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

Changes in Net Assets

The State's net assets increased by \$96.6 million during the current fiscal year. Total revenues of \$7,253.3 million were more than expenses of \$7,156.7 million. Approximately 38.5% of the State's total revenue came from taxes, while 27.3% resulted from grants and contributions (including federal aid). Charges for various goods and services provided 31.8% of the total revenues. The State's expenses covered a range of services. The largest expenses were for human services, 36.7% and intergovernmental, 16.9%. In fiscal year 2006, governmental activity expenses exceeded program revenues, which resulted in the use of \$2,949.0 million in general revenues (mostly taxes). On the other hand, net program revenues from business-type activities in fiscal year 2006 exceeded expenses by \$305.4 million.

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State of Rhode Island's Changes in Net Assets For the Fiscal Year Ended June 30, 2006 (Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 360,728	\$ 351,784	\$ 1,947,732	\$ 1,835,511	\$ 2,308,460	\$ 2,187,295
Operating grants and contributions	1,821,134	1,794,965	2,342	2,633	1,823,476	1,797,598
Capital grants and contributions	156,828	97,681			156,828	97,681
General revenues:						
Taxes	2,794,230	2,687,684			2,794,230	2,687,684
Interest and investment earnings	25,644	14,443	8,826	10,875	34,470	25,318
Miscellaneous	114,362	104,411	6,752	7,633	121,114	112,044
Gain on sale of capital assets		853				853
Payments from component units	14,715	18,503			14,715	18,503
Total revenues	<u>5,287,641</u>	<u>5,070,324</u>	<u>1,965,652</u>	<u>1,856,652</u>	<u>7,253,293</u>	<u>6,926,976</u>
Program expenses:						
General government	527,841	503,659			527,841	503,659
Human services	2,622,935	2,512,628			2,622,935	2,512,628
Education	287,119	264,385			287,119	264,385
Public safety	370,706	336,069			370,706	336,069
Natural resources	74,695	65,913			74,695	65,913
Transportation	323,517	226,529			323,517	226,529
Intergovernmental	1,213,050	1,127,496			1,213,050	1,127,496
Interest	92,121	116,171			92,121	116,171
Lottery			1,409,134	1,330,298	1,409,134	1,330,298
Convention Center			37,862	35,746	37,862	35,746
Employment insurance			197,724	209,018	197,724	209,018
Total expenses	<u>5,511,984</u>	<u>5,152,850</u>	<u>1,644,720</u>	<u>1,575,062</u>	<u>7,156,704</u>	<u>6,727,912</u>
Change in net assets before transfers and special items	(224,343)	(82,526)	320,932	281,590	96,589	199,064
Special items				11,948		11,948
Transfers	312,755	293,993	(312,755)	(293,993)		
Change in net assets	88,412	211,467	8,177	(455)	96,589	211,012
Net assets - Beginning	195,511	(15,956)	151,880	152,335	347,391	136,379
Cumulative effect of prior period adjustments	746,812				746,812	
Net assets - Beginning, as restated	<u>942,323</u>	<u>(15,956)</u>	<u>151,880</u>	<u>152,335</u>	<u>1,094,203</u>	<u>136,379</u>
Net assets - Ending	<u>\$ 1,030,735</u>	<u>\$ 195,511</u>	<u>\$ 160,057</u>	<u>\$ 151,880</u>	<u>\$ 1,190,792</u>	<u>\$ 347,391</u>

Financial Analysis of the State's Funds

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the State's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of \$916.6 million, an increase of \$85.0 million. Reserved fund balances are not available for new spending because they have already been committed as follows: (1) \$95.4 million for a "rainy day" account, (2) \$69.5 million for continuing appropriations, (3) \$83.5

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million principally for liquidating debt, (4) \$135.8 million for employment insurance programs and (5) \$1.4 million for other restricted purposes. Approximately 53.8% (\$492.8 million) of the ending fund balance is designated by the State's management, consistent with the limitations of each fund.

The major governmental funds of the primary government are:

General Fund. The General Fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved fund balance of the General Fund was \$38.3 million, while total fund balance was \$203.2 million. As a measurement of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 0.8% of total General Fund expenditures, while total fund balance represents 4.0% of the same amount. The General Fund's unreserved fund balance decreased from \$38.7 million to \$38.3 million, a decrease of \$0.4 million during the current fiscal year.

Intermodal Surface Transportation Fund. The Intermodal Surface Transportation Fund (ISTEA) is a special revenue fund that accounts for the collection of gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. At the end of the current fiscal year, unreserved fund balance of the ISTEA fund was \$22.7 million, while the total fund balance was \$24.1 million. Total fund balance of the ISTEA fund decreased by \$9.9 million during the current fiscal year. Although the State did not have as harsh of a winter as expected and money was saved on that portion of the ISTEA fund's responsibility, it has been a busy construction season and the prior year's fund balance was used to partially fund this year's projects.

GARVEE Fund. The GARVEE Fund is a capital projects fund that accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds, related expenditures and the two cents per gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds. The GARVEE Fund ended the fiscal year with a fund balance of \$314.3 million, an increase of \$118.4 million. The reason for this increase was that \$227.0 million of bonds were issued in March 2006.

General Fund Budgetary Highlights

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 98% of available general revenue sources, which consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established. Adjustments to general revenue receipt estimates resulted in a change of (\$30.3) million, -1.0%, between the original budget and the final budget. General revenue appropriations changed from the original budget by (\$15.2) million, -0.5%. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations are listed below.

Management's Discussion and Analysis

	Original Budget vs. Final Budget Change	Percent
General revenues	(In thousands)	
Taxes		
Personal Income	\$ (39,134)	-3.8%
Business Corporations	48,475	44.3%
Sales and Use	(12,888)	-1.5%
Departmental Revenue	(26,529)	-8.5%
Other Miscellaneous	14,291	75.4%
Transfer from Lottery	(18,000)	-5.1%
Other General Revenue	3,452	
Total Change in Estimated Revenue	<u>\$ (30,333)</u>	-1.0%
General revenue appropriations		
Department		
Administration	\$ (6,276)	-1.4%
Children, Youth and Families	3,378	2.1%
Health	5,593	17.5%
Human Services	(46,102)	-6.0%
Mental Health, Retardation and Hospitals	9,571	4.0%
Corrections	12,291	8.3%
Judicial	4,106	5.7%
Other	2,217	
Total Change in Appropriations	<u>\$ (15,222)</u>	-0.5%

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, 2006, amounts to \$2,557.3 million, net of accumulated depreciation of \$1,423.7 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was about 61.7% in terms of net book value, primarily caused by addition of the State's infrastructure assets for fiscal years 1981 through 2001 as required by GASB Statement No. 34. The RICCA issued \$92.5 million in taxable bonds to acquire the land and net operating assets of the Dunkin' Donuts Center from the Providence Redevelopment Authority. The acquisition price was \$28.5 million with the balance being dedicated to renovation of the facility.

Actual expenditures to purchase or construct capital assets were \$327.6 million for the year. Of this amount, \$198.6 million was used to construct or reconstruct roads. Depreciation charges for the year totaled \$113.4 million.

Management's Discussion and Analysis

State of Rhode Island's Capital Assets as of June 30, 2006
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
Capital assets not being depreciated						
Land	\$ 332,092	\$ 326,514	\$ 45,558	\$ 31,474	\$ 377,650	\$ 357,988
Intangibles	106,146	90,989			106,146	90,989
Construction in progress	401,673	133,878	3,272	306	404,945	134,184
Total capital assets not being depreciated	839,911	551,381	48,830	31,780	888,741	583,161
Capital assets being depreciated						
Land improvements	3,700	3,601			3,700	3,601
Buildings	438,954	430,678	161,258	148,481	600,212	579,159
Building improvements	208,343	199,469			208,343	199,469
Equipment	204,521	170,620	11,275	8,196	215,796	178,816
Intangibles	1,196	1,196			1,196	1,196
Infrastructure	2,062,959	530,050			2,062,959	530,050
	2,919,673	1,335,614	172,533	156,677	3,092,206	1,492,291
Less: Accumulated depreciation	1,353,878	430,087	69,772	63,583	1,423,650	493,670
Total capital assets being depreciated	1,565,795	905,527	102,761	93,094	1,668,556	998,621
Total capital assets (net)	\$ 2,405,706	\$ 1,456,908	\$ 151,591	\$ 124,874	\$ 2,557,297	\$ 1,581,782

Significant capital projects under construction include relocation of a segment of interstate highway, a county courthouse, a traffic tribunal courthouse, youth correctional facilities and a State Police headquarters.

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

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of \$50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of \$1,990.5 million of which \$842.5 million is general obligation debt, \$418.3 million is special obligation debt and \$729.7 million is debt of the blended component units. The State's total bonded debt increased by \$211.2 million during the current fiscal year. This increase is the net of a \$41.2 million increase in general obligation debt, an increase of \$190.3 million in special obligation debt and a decrease of \$20.3 million in the blended component units debt. Additionally, the State has extended its credit through contractual agreements of a long-term nature, which are subject to annual appropriations.

During the current fiscal year, the State issued \$93.4 million of general obligation bonds and \$227.4 million of special obligation bonds. These bonds have been assigned ratings by Fitch, Inc. (Fitch), Moody's Investors Service (Moody's) and Standard and Poor's Rating Services (Standard and Poor's).

The State does not have any debt limitation. Bonds authorized by the voters, that remain unissued as of the end of the current fiscal year, amounted to \$302.1 million. Additional

Management's Discussion and Analysis

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

In October 2005, Standard and Poor's raised the underlying rating for general obligation bonds of the State from AA- to AA.

Conditions Expected to Affect Future Operations

In November 2006 the voters of the State approved an amendment to the Rhode Island Constitution that will restrict, beginning July 1, 2007, the use of excess funds in the Rhode Island Capital Fund solely for capital projects. Also, the amendment will, beginning July 1, 2012, increase the budget reserve account by limiting annual appropriations to ninety seven (97%) percent of estimated revenues and increasing the cap on the budget reserve account to five (5%) per cent of estimated revenue.

In anticipation of the implementation of GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, the State has obtained an actuarial estimate of the unfunded liability relating to retiree medical benefits. The unfunded liability was estimated to be approximately \$600 million for State employees and \$29 million for the State's share for teachers as of December 2003. The actuarially based funding of this liability is reflected in the State's five-year budget forecast and would require an estimated rate of contribution of 8.57% of payroll. The State is obtaining an updated estimate based upon the actual standard adopted by GASB taking into account the pension reform provisions impacting the Employees' Retirement System which were enacted during the 2005 session of the General Assembly.

Economic Factors

As evidenced by Rhode Island's performance during the most recent national recession, Rhode Island's ability to weather a slowdown has strengthened significantly compared to prior recessionary periods. More recently, the State's economy has underperformed the region and nation as a whole, most likely because it had not experienced the declines that other states experienced during the recession. According to the U.S. Bureau of Labor Statistics, Rhode Island experienced an increase in non-farm employment of 3,108 jobs, or 0.6 percent in FY 2006. In FY 2005, Rhode Island gained 3,500, an increase of 0.7 percent over FY 2004. On a calendar year basis, Rhode Island added 7,500 jobs in 2004 and 2005. The November 2006 Revenue Estimating Conference's Consensus Economic Forecast projects Rhode Island non-farm employment to total 495,300 in FY 2007, an increase of 0.5 percent over FY 2006, and 499,200 in FY 2008, an increase of 0.8 percent over projected FY 2007.

According to Moody's Economy.com's November 2006 *Forecast Report: U.S., New England, and Rhode Island*, "[I]n recent years, housing growth entirely offset the drag from manufacturing. Yet as housing slows and with not much improvement expected in manufacturing, overall growth will weaken." The housing market in Rhode Island is contracting with 20 percent fewer housing starts year-to-date from the spring. However, Rhode Island's "[N]on-housing related jobs will offset some of the effects from the housing downturn." In addition, an upside risk to the forecast cited by Moody's Economy.com (11/2006) has come to fruition in that a \$50 million bond referendum for affordable housing construction passed on

Management's Discussion and Analysis

November 7. The bond is expected to result in a “spurring” of “the [S]tate’s construction industry,” as well as “boost the [S]tate’s homeownership rate, a vital component to enhancing the economic well-being of the [S]tate’s residents.” Since FY2002, the State’s construction activity has been enhanced as a result of the provision of historic structure tax credits which have created economic incentives to stimulate the redevelopment and reuse of Rhode Island’s historic structures. As of September 2006, qualified construction costs totaled \$403.4 million for completed projects, and were estimated to be \$720.7 million for active and proposed projects. This would result in an estimated \$121.0 million in tax credits for completed projects, and \$216.2 million for active and proposed projects.

The education and health services sector accounts for 19.4 percent of Rhode Island total non-farm employment, well above the U.S. average of 13.1 percent. This sector was been responsible for the creation of 73.2 percent of the State’s net jobs in 2005. Rhode Island construction employment increased since the fourth quarter of 2004 and peaked in the first quarter of 2006 fueled by the State’s exceptionally strong housing and commercial real estate markets as well as substantial government spending on road improvement and pollution abatement projects. The State’s manufacturing sector, which had begun to stabilize after an employment decline of 2.9 percent in 2004, once again has turned down, decreasing by 3.2 percent in 2005. Finally, Rhode Island’s “small business economy” has performed well, recording a 13.0 percent increase in the “number of small business births between 2003 and 2004 to a level that now surpasses the previous high in 2000.” In addition, to the sharp increase in small business births, Rhode Island’s “small business terminations have fallen 15.0 percent since peaking in 2002.” This confluence of rising small business births and declining small business terminations “is a positive development, as it brings new talent and ideas into the marketplace.”

Rhode Island personal income growth has also accelerated over the past year, however, the gap between Rhode Island and U.S. personal income growth has narrowed again during this period. In FY 2004, Rhode Island personal income growth was 4.61 percent versus 4.90 percent for U.S. personal income growth, a difference of 29 basis points. In FY 2005, Rhode Island personal income growth was 4.19 percent and U.S. personal income growth was 6.10 percent, a difference of 191 basis points. In FY 2006, Rhode Island personal income growth accelerated to an annual rate of 4.56 percent, however, for the country as a whole the personal income growth rate was 5.90 percent. The reversal of the spread between Rhode Island and U.S. personal income growth is a result of the rebound of the national economy from its recessionary level in 2002. It should be noted that Rhode Island experienced a mild economic downturn in 2002 relative to that of the United States as a whole.

According to Moody’s Economy.com (11/2006) Rhode Island payroll employment growth is forecast to stabilize at around a 1.0 percent annualized rate. One of the catalysts for near- to medium-term growth remains rising national defense spending. Moody’s Economy.com (11/2006) notes that “the [S]tate is expected to gain about 861 jobs following the Base Realignment & Closure (BRAC) approvals, mostly at the Newport Naval Station” from the final approval of Commission’s recommendations. These jobs tend to be ones that require high levels of human capital and are being added to complement the already existing job base not only at Naval Station Newport but also at nearby Raytheon. Aquidneck Island has become a national center for the development and testing of undersea surveillance, control and warfare systems.

Management’s Discussion and Analysis

One of the “main threats” to the State’s economic performance is the high tax burden imposed on Rhode Island businesses and households. High property taxes at the local level and high personal income tax rates at the state level drive Rhode Island’s heavy tax burden. The former discourages businesses that are making relocation decisions from choosing Rhode Island. The latter discourage entrepreneurs and venture capitalists from enhancing new business development in the State giving Rhode Island a less dynamic economy than Connecticut and Massachusetts. However, it is expected that “Rhode Island’s economic competitiveness will be enhanced by several pro-business initiatives approved by the state legislature.” These include the personal income flat-tax option, the reduction in the annual cap on property tax, and the Biotechnology Jobs Growth Act.

The biotechnology industry cluster that has begun to emerge in Rhode Island should positively impact the State’s long term economic performance. According to Moody’s Economy.com (11/2006), “Presently, the industry employs 4,700 workers in the state and Amgen plans to add 450 workers over the remainder of the year.” The state’s “desire to keep biotech companies growing in the state and attracting new ones led to the recently legislated Biotechnology Jobs Growth Act, which extends the duration of the state’s investment tax credit from seven to 15 year for biotechnology companies, subject to their meeting specific wage and employment targets.” The State’s chief assets for the development of a viable biotechnology industry cluster are its “quality work force”, “educational programs at the Community College of Rhode Island and the University of Rhode Island that were developed to train workers specifically for the industry”, a compact geography, and its responsive government at the state and local levels.

Requests for Information

This financial report is designed to provide a general overview of Rhode Island's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional information should be sent to finreport@mail.state.ri.us. The State’s Comprehensive Annual Financial Report may be found on the State Controller’s home page, <http://controller.doa.state.ri.us>. Requests for additional information related to component units should be addressed as listed in Note 1 of the financial statements.

State of Rhode Island and Providence Plantations

Statement of Net Assets

June 30, 2006

(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business - Type Activities	Totals	
Assets				
Current assets:				
Cash and cash equivalents	\$ 453,969	\$ 13,800	\$ 467,769	\$ 450,264
Funds on deposit with fiscal agent	403,948	179,621	583,569	
Investments	185		185	228,150
Receivables (net)	305,476	57,446	362,922	206,433
Restricted assets:				
Cash and cash equivalents		16,574	16,574	182,102
Investments	72,452		72,452	149,208
Due from primary government				3,457
Due from component units	9,105		9,105	
Internal balances	2,823	(2,823)		
Due from other governments and agencies	240,889	1,152	242,041	3,699
Inventories	2,874	1,022	3,896	2,555
Other assets	48,207	852	49,059	17,399
Total current assets	<u>1,539,928</u>	<u>267,644</u>	<u>1,807,572</u>	<u>1,243,267</u>
Noncurrent assets:				
Investments				491,468
Receivables (net)	7,673		7,673	2,300,937
Restricted assets:				
Cash and cash equivalents				224,690
Investments		57,733	57,733	7,110
Other assets				166,452
Due from component units	22,683		22,683	
Capital assets - nondepreciable	839,911	48,830	888,741	530,220
Capital assets - depreciable (net)	1,565,795	102,761	1,668,556	1,036,937
Other assets	10,813	3,895	14,708	88,542
Total noncurrent assets	<u>2,446,875</u>	<u>213,219</u>	<u>2,660,094</u>	<u>4,846,356</u>
Total assets	<u>3,986,803</u>	<u>480,863</u>	<u>4,467,666</u>	<u>6,089,623</u>
Liabilities				
Current Liabilities:				
Cash overdraft	4,357		4,357	714
Accounts payable	433,746	12,330	446,076	75,640
Due to primary government				9,105
Due to component units	3,457		3,457	
Due to other governments and agencies		1,336	1,336	700
Deferred revenue	14,711	2,257	16,968	21,160
Other current liabilities	115,788	4,324	120,112	252,868
Current portion of long-term debt	164,567	7,250	171,817	266,928
Obligation for unpaid prize awards		7,028	7,028	
Total current liabilities	<u>736,626</u>	<u>34,525</u>	<u>771,151</u>	<u>627,115</u>
Noncurrent Liabilities:				
Due to primary government				21,979
Due to other governments and agencies				4,301
Deferred revenue		10,000	10,000	1,217
Notes payable				4,576
Loans payable				238,636
Obligations under capital leases	216,887		216,887	19,868
Compensated absences	22,658		22,658	23,700
Bonds payable	1,934,232	276,281	2,210,513	3,141,302
Other liabilities	45,665		45,665	129,402
Total noncurrent liabilities	<u>2,219,442</u>	<u>286,281</u>	<u>2,505,723</u>	<u>3,584,981</u>
Total liabilities	<u>2,956,068</u>	<u>320,806</u>	<u>3,276,874</u>	<u>4,212,096</u>
Net Assets				
Invested in capital assets, net of related debt	1,591,074	(131,941)	1,459,133	808,946
Restricted for:				
Budget reserve	95,376		95,376	
Transportation	1,354		1,354	
Capital projects	9,115		9,115	
Debt	83,496	74,306	157,802	554,319
Employment insurance programs	135,762	228,383	364,145	
Other	43,046		43,046	158,367
Nonexpendable-education	988		988	74,501
Unrestricted	(929,476)	(10,691)	(940,167)	281,394
Total net assets	<u>\$ 1,030,735</u>	<u>\$ 160,057</u>	<u>\$ 1,190,792</u>	<u>\$ 1,877,527</u>

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

State of Rhode Island and Providence Plantations
Statement of Activities
For the Year Ended June 30, 2006
(Expressed in Thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	Charges for Services	Operating grants and contributions	Capital grants and contributions	Primary Government		Totals	
					Governmental activities	Business-type activities		
Primary government:								
Governmental activities:								
General government	\$ 527,841	\$ 146,575	\$ 67,422	\$ 139	\$ (313,705)	\$	\$ (313,705)	\$
Human services	2,622,935	127,738	1,392,154	470	(1,102,573)		(1,102,573)	
Education	287,119	5,638	31,004		(250,477)		(250,477)	
Public safety	370,706	53,851	38,718	5,889	(272,248)		(272,248)	
Natural resources	74,695	27,487	19,609	9,793	(17,806)		(17,806)	
Transportation	323,517	(561)	115,710	140,537	(67,831)		(67,831)	
Intergovernmental	1,213,050		156,517		(1,056,533)		(1,056,533)	
Interest and other charges	92,121				(92,121)		(92,121)	
Total governmental activities	<u>5,511,984</u>	<u>360,728</u>	<u>1,821,134</u>	<u>156,828</u>	<u>(3,173,294)</u>		<u>(3,173,294)</u>	
Business-type activities:								
State lottery	1,409,134	1,731,315				322,181	322,181	
Convention center	37,862	17,018				(20,844)	(20,844)	
Employment security	197,724	199,399	2,342			4,017	4,017	
Total business-type activities	<u>1,644,720</u>	<u>1,947,732</u>	<u>2,342</u>			<u>305,354</u>	<u>305,354</u>	
Total primary government	<u>\$ 7,156,704</u>	<u>\$ 2,308,460</u>	<u>\$ 1,823,476</u>	<u>\$ 156,828</u>	<u>(3,173,294)</u>	<u>305,354</u>	<u>(2,867,940)</u>	
Component units	<u>\$ 1,124,131</u>	<u>\$ 779,064</u>	<u>\$ 44,159</u>	<u>\$ 53,642</u>				<u>(247,266)</u>
General Revenues:								
Taxes					2,794,230		2,794,230	
Interest and investment earnings					25,644	8,826	34,470	49,639
Miscellaneous					114,362	6,752	121,114	24,869
Gain on sale of capital assets								13,661
Transfers					312,755	(312,755)		
Payments from component units					14,715		14,715	
Payments from primary government								275,590
Total general revenues and transfers					<u>3,261,706</u>	<u>(297,177)</u>	<u>2,964,529</u>	<u>363,759</u>
Change in net assets					88,412	8,177	96,589	116,493
Net assets - beginning, as restated					942,323	151,880	1,094,203	1,761,034
Net assets - ending					<u>\$ 1,030,735</u>	<u>\$ 160,057</u>	<u>\$ 1,190,792</u>	<u>\$ 1,877,527</u>

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, 2006
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 193,742	\$ 5,566	\$	\$ 208,571	\$ 407,879
Funds on deposit with fiscal agent			323,822	80,126	403,948
Investments				185	185
Restricted investments				72,452	72,452
Receivables (net)	239,491	13,440	1,870	40,671	295,472
Due from other funds	16,991				16,991
Due from component units	6,190				6,190
Due from other governments and agencies	159,515	81,374			240,889
Loans to other funds	5,572				5,572
Other assets	42,297			156	42,453
Total assets	\$ 663,798	\$ 100,380	\$ 325,692	\$ 402,161	\$ 1,492,031
Liabilities and Fund Balances					
Liabilities					
Accounts payable	344,889	41,715	8,500	16,124	411,228
Due to other funds		1,617	2,845	10,782	15,244
Due to component units		3,457			3,457
Loans from other funds				22	22
Deferred revenue	28,334	29,227			57,561
Other liabilities	87,378	303		264	87,945
Total liabilities	460,601	76,319	11,345	27,192	575,457
Fund Balances					
Reserved for:					
Budget reserve	95,376				95,376
Appropriations carried forward	69,490				69,490
Debt			8,117	75,379	83,496
State infrastructure bank		1,354			1,354
Employment insurance programs				135,762	135,762
Unreserved, reported in:					
General fund	38,331				38,331
Special revenue funds		22,707		52	22,759
Capital projects funds			306,230	162,788	469,018
Permanent fund				988	988
Total fund balances	203,197	24,061	314,347	374,969	916,574
Total liabilities and fund balances	\$ 663,798	\$ 100,380	\$ 325,692	\$ 402,161	\$ 1,492,031

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

State of Rhode Island and Providence Plantations
 Reconciliation of the Balance Sheet of the Governmental Funds
 to Statement of Net Assets for Governmental Activities
 June 30, 2006
 (Expressed in Thousands)

Fund balance - total governmental funds \$ 916,574

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

Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds. 2,405,706

Bond, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds. (2,397,451)

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 76,847

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net assets of the internal service funds are reported with governmental activities. 29,059

Net assets - total governmental activities \$ 1,030,735

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

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)

	General	Intermodal Surface Transportation	GARVEE	Other Governmental Funds	Total Governmental Funds
Revenues:					
Taxes	\$ 2,479,554	\$ 142,410	\$	\$ 170,997	\$ 2,792,961
Licenses, fines, sales, and services	253,768	23		66	253,857
Departmental restricted revenue	105,765	(584)			105,181
Federal grants	1,713,287	249,088			1,962,375
Income from investments	2,000	271	7,443	15,227	24,941
Other revenues	31,546	5,395		42,221	79,162
Total revenues	4,585,920	396,603	7,443	228,511	5,218,477
Expenditures:					
Current:					
General government	318,675			197,002	515,677
Human services	2,614,712			1,896	2,616,608
Education	263,735			20,559	284,294
Public safety	361,567			80	361,647
Natural resources	69,538			2,001	71,539
Transportation		212,476	32,852	1,920	247,248
Capital outlays	35,479	114,471	99,727	50,727	300,404
Intergovernmental	1,186,887	18,344		7,819	1,213,050
Debt service:					
Principal	73,700	1,068	37,440	5,455	117,663
Interest and other charges	51,381	223	11,622	42,038	105,264
Total expenditures	4,975,674	346,582	181,641	329,497	5,833,394
Excess (deficiency) of revenues over (under) expenditures	(389,754)	50,021	(174,198)	(100,986)	(614,917)
Other financing sources (uses):					
Bonds and notes issued			227,435	93,385	320,820
Proceeds from the sale of Certificates of Participation				6,000	6,000
Premium and accrued interest			13,963	2,335	16,298
Operating transfers in	441,060	42,150	51,297	59,395	593,902
Payments from component units	14,715				14,715
Other	28,105			208	28,313
Operating transfers out	(75,731)	(102,050)		(102,395)	(280,176)
Total other financing sources (uses)	408,149	(59,900)	292,695	58,928	699,872
Net change in fund balances	18,395	(9,879)	118,497	(42,058)	84,955
Fund balances - beginning	184,802	33,940	195,850	417,027	831,619
Fund balances - ending	\$ 203,197	\$ 24,061	\$ 314,347	\$ 374,969	\$ 916,574

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

State of Rhode Island and Providence Plantations
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2006
 (Expressed in Thousands)

Net change in fund balances - total governmental funds	\$	84,955
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.		
		200,477
Bond, notes, and certificates of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
		(220,469)
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.		
		11,822
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.		
		11,627
Change in net assets - total governmental activities	\$	<u>88,412</u>

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

State of Rhode Island and Providence Plantations
Statement of Net Assets
Proprietary Funds
June 30, 2006
(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	\$ 9,926	\$ 2,436	\$ 1,438	\$ 13,800	\$ 46,090
Restricted cash and cash equivalents		16,574		16,574	
Funds on deposit with fiscal agent			179,621	179,621	
Receivables (net)	7,735	479	49,232	57,446	9,148
Due from other funds					2,343
Due from other governments and agencies			1,152	1,152	
Inventories	1,022			1,022	2,874
Other assets	271	581		852	5,754
Total current assets	<u>18,954</u>	<u>20,070</u>	<u>231,443</u>	<u>270,467</u>	<u>66,209</u>
Noncurrent assets:					
Restricted investments		57,733		57,733	
Capital assets - nondepreciable		48,830		48,830	
Capital assets - depreciable (net)	1,314	101,447		102,761	2,923
Other assets		3,895		3,895	130
Total noncurrent assets	<u>1,314</u>	<u>211,905</u>		<u>213,219</u>	<u>3,053</u>
Total assets	<u>20,268</u>	<u>231,975</u>	<u>231,443</u>	<u>483,686</u>	<u>69,262</u>
Liabilities					
Current Liabilities					
Cash overdraft					4,357
Accounts payable	10,706	1,624		12,330	22,519
Due to other funds	1,099		1,724	2,823	1,267
Due to other governments and agencies			1,336	1,336	
Loans from other funds					5,550
Deferred revenue	317	1,940		2,257	
Other current liabilities	1,743	2,581		4,324	3,587
Bonds payable		7,250		7,250	
Obligations under capital leases					215
Obligation for unpaid prize awards	7,028			7,028	
Total current liabilities	<u>20,893</u>	<u>13,395</u>	<u>3,060</u>	<u>37,348</u>	<u>37,495</u>
Noncurrent Liabilities:					
Unearned contract revenue	10,000			10,000	
Bonds payable		276,281		276,281	
Total noncurrent liabilities	<u>10,000</u>	<u>276,281</u>		<u>286,281</u>	
Total liabilities	<u>30,893</u>	<u>289,676</u>	<u>3,060</u>	<u>323,629</u>	<u>37,495</u>
Net Assets					
Invested in capital assets, net of related deb	1,314	(133,255)		(131,941)	2,708
Restricted for:					
Debt		74,306		74,306	
Employment insurance program			228,383	228,383	
Unrestricted	(11,939)	1,248		(10,691)	29,059
Total net assets	<u>\$ (10,625)</u>	<u>\$ (57,701)</u>	<u>\$ 228,383</u>	<u>\$ 160,057</u>	<u>\$ 31,767</u>

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

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended June 30, 2006
(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	\$ 1,731,315	\$ 16,570	\$ 198,420	\$ 1,946,305	\$ 332,741
Grants			2,342	2,342	
Miscellaneous		448	979	1,427	
Total operating revenues	1,731,315	17,018	201,741	1,950,074	332,741
Operating expenses:					
Personal services	4,232	7,162		11,394	20,457
Supplies, materials, and services	196,285	12,529		208,814	299,607
Prize awards	1,208,324			1,208,324	
Depreciation and amortization	293	6,964		7,257	676
Benefits paid			191,924	191,924	
Total operating expenses	1,409,134	26,655	191,924	1,627,713	320,740
Operating income (loss)	322,181	(9,637)	9,817	322,361	12,001
Nonoperating revenues (expenses):					
Interest revenue		668	8,158	8,826	703
Other nonoperating revenue	2,343		4,409	6,752	
Interest expense		(11,207)		(11,207)	
Other nonoperating expenses			(5,800)	(5,800)	54
Total nonoperating revenue (expenses)	2,343	(10,539)	6,767	(1,429)	757
Income (loss) before transfers	324,524	(20,176)	16,584	320,932	12,758
Transfers in		16,336	971	17,307	
Transfers out	(323,899)		(6,163)	(330,062)	(971)
Change in net assets	625	(3,840)	11,392	8,177	11,787
Total net assets - beginning	(11,250)	(53,861)	216,991	151,880	19,980
Total net assets - ending	\$ (10,625)	\$ (57,701)	\$ 228,383	\$ 160,057	\$ 31,767

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

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds			Governmental Activities	
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Cash flows from operating activities:					
Cash received from customers	\$ 1,738,318	\$ 18,314	\$ 201,590	\$ 1,958,222	\$ 335,907
Cash received from grants			2,342	2,342	
Cash payments to suppliers for goods and services	(3,964)	(12,528)		(16,492)	(290,823)
Cash payments to employees for services	(4,413)	(6,997)		(11,410)	(20,642)
Cash payments to prize winners	(1,214,133)			(1,214,133)	
Cash payments for commissions	(190,567)			(190,567)	
Cash payments for benefits			(192,019)	(192,019)	
Other operating revenue (expense)			979	979	54
Net cash provided by (used for) operating activities	325,241	(1,211)	12,892	336,922	24,496
Cash flows from noncapital financing activities:					
Loans from other funds					6,050
Repayment of loans to other funds					(500)
Operating transfers in		16,336	971	17,307	
Operating transfers out	(324,350)		(5,948)	(330,298)	(971)
Net transfers from (to) fiscal agent			(6,841)	(6,841)	
Negative cash balance implicitly financed					4,357
Repayment of prior year negative cash balance implicitly financed	(24)			(24)	(1,761)
Net cash provided by (used for) noncapital financing activities	(324,374)	16,336	(11,818)	(319,856)	7,175
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(75,780)		(75,780)	(517)
Interest paid on capital obligations		(10,149)		(10,149)	
Acquisition of capital assets	(57)	(33,028)		(33,085)	(320)
Proceeds from bonds		160,239		160,239	
Net cash provided by (used for) capital and related financing activities	(57)	41,282		41,225	(837)
Cash flows from investing activities:					
Proceeds from sale and maturity of investments		(57,733)		(57,733)	
Interest on investments	1,217	808		2,025	702
Net cash provided by (used for) investing activities	1,217	(56,925)		(55,708)	702
Net increase (decrease) in cash and cash equivalents	2,027	(518)	1,074	2,583	31,536
Cash and cash equivalents, July 1	7,899	19,528	364	27,791	14,554
Cash and cash equivalents, June 30	\$ 9,926	\$ 19,010	\$ 1,438	\$ 30,374	\$ 46,090
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	322,181	(9,637)	9,817	322,361	12,001
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	293	6,964		7,257	676
Other revenue (expense) and operating transfer in (out)	501			501	54
Net changes in assets and liabilities:					
Receivables, net	85	209	3,169	3,463	4,442
Inventory	(267)			(267)	(387)
Prepaid items		(71)		(71)	3,704
Other assets	(70)			(70)	
Accounts and other payables	1,339	(164)	(94)	1,081	4,194
Accrued expenses	567	400		967	(188)
Deferred revenue	137	1,088		1,225	
Prize awards payable	475			475	
Total adjustments	3,060	8,426	3,075	14,561	12,495
Net cash provided by (used for) operating activities	\$ 325,241	\$ (1,211)	\$ 12,892	\$ 336,922	\$ 24,496

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

State of Rhode Island and Providence Plantations
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006
(Expressed in Thousands)

	Pension Trust	Private Purpose	
		Touro Jewish Synagogue	Agency
Assets			
Cash and cash equivalents	\$ 22,026	\$	\$ 16,689
Deposits held as security for entities doing business in the State			66,899
Receivables			
Contributions	15,933		
Due from state for teachers	12,568		
Miscellaneous	2,203		
Total receivables	<u>30,704</u>		
Investments, at fair value			
Equity in Short-Term Investment Fund	21,663		
Equity in Pooled Trust	7,229,722		
Plan specific investments	20,486		
Other investments		2,155	
Total investments before lending activities	<u>7,271,871</u>	<u>2,155</u>	
Invested securities lending collateral	<u>1,400,373</u>		
Property and equipment, at cost, net of accumulated depreciation	<u>11,379</u>		
Total assets	<u>8,736,353</u>	<u>2,155</u>	<u>83,588</u>
Liabilities			
Securities lending liability	1,400,373		
Accounts payable	6,804		
Deposits held for others			83,588
Total liabilities	<u>1,407,177</u>		<u>83,588</u>
Net assets held in trust for pension and other benefits	<u>\$ 7,329,176</u>	<u>\$ 2,155</u>	<u>\$</u>

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

State of Rhode Island and Providence Plantations
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2006
(Expressed in Thousands)

	Pension Trust	Private Purpose Touro Jewish Synagogue
Additions		
Contributions		
Member contributions	\$ 163,370	\$
Employer contributions	202,433	
State contributions for teachers	54,538	
Interest on service credits purchased	1,530	
Total contributions	421,871	
Investment income		
Net appreciation (depreciation) in fair value of investments	568,203	129
Interest	89,132	
Dividends	87,896	35
Other investment income	64,247	70
	809,478	234
Less investment expense	30,090	
Net income from investing activities	779,388	234
Securities Lending		
Securities lending income	27,076	
Less securities lending expense	24,320	
Net securities lending income	2,756	
Total net investment income	782,144	234
Total additions	1,204,015	234
Deductions		
Benefits		
Retirement benefits	462,439	
Cost of living adjustment	112,689	
SRA Plus Option	28,410	
Supplemental benefits	1,086	
Death benefits	3,254	
Total benefits	607,878	
Refund of contributions	9,826	
Administrative expense	6,959	
Distribution		89
Total deductions	624,663	89
Change in net assets	579,352	145
Net assets held in trust for pension benefits		
Net assets - beginning	6,749,824	2,010
Net assets - ending	\$ 7,329,176	\$ 2,155

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

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2006

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State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

Blended Component Units

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

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

Rhode Island Refunding Bond Authority (RIRBA) - This authority was created by law for the purpose of loaning money to the State to provide funds to pay, redeem, or retire certain general obligation bonds. In fiscal 1998, the State abolished the R.I. Public Buildings Authority (RIPBA) and assigned the responsibility for managing RIPBA's outstanding debt to the RIRBA. RIPBA was previously reported as a blended component unit. The RIRBA is authorized to issue bonds. Even though it is legally separate, the RIRBA is reported as if it

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2006

were part of the primary government because it provides services entirely to the primary government. For more detailed information, a copy of the financial statements can be obtained by writing to the Deputy General Treasurer, Office of General Treasurer, 40 Fountain Street, Providence, RI 02903.

Rhode Island Economic Policy Council (RIEPC) - This council is a non-profit organization created by executive order in March 1995 and incorporated in January 1996. The purpose of the council is to work closely with State officials to identify issues facing the State's economy, to develop and recommend creative strategies and policies to address them, to advise the State legislature in policy matters relating to economic development, and to administer a program designed to foster private technology commercialization and plant and process modernization through research centers, higher education partnerships and cluster collaboratives. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Economic Policy Council, 3 Davol Square, Box 185, Providence, RI 02903.

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

Discretely Presented Component Units

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

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

Central Falls School District - The Rhode Island General Assembly passed an act which provided for the State to assume an administrative takeover of the Central Falls School District. The Governor appointed a special State administrator who replaced the school

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2006

committee. The State administrator reports to the Commissioner of Elementary and Secondary Education. The District's purpose is to provide elementary and secondary education to residents of the City of Central Falls. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 21 Hadley Avenue, Central Falls, RI 02863.

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

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

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

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

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

Rhode Island Health and Educational Building Corporation (RIHEBC) - This Corporation has the following purposes: (1) to assist in providing financing for education facilities for colleges and universities operating in the State; (2) to assist hospitals in the State

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2006

in the financing of health care facilities; (3) to assist stand-alone, non-profit assisted-living and adult daycare facilities; (4) to assist in financing a broad range of non-profit health care providers; and (5) to assist in financing non-profit secondary schools and child care centers. RIHEBC issues bonds, notes and leases which are special obligations of RIHEBC payable from revenues derived from the projects financed or other moneys of the participating education institution or health care institution. The bonds, notes and leases do not constitute a debt or pledge of the faith and credit of RIHEBC or the State and accordingly have not been reported in the accompanying financial statements. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Health and Educational Building Corporation, 170 Westminster Street, Suite 1200, Providence, RI 02903.

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

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

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

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

Rhode Island Clean Water Finance Agency (RICWFA) - This Agency was established in 1991 for the purpose of providing financial assistance in the form of loans to municipalities, sewer commissions and waste water management districts in the State for the construction or

State of Rhode Island and Providence Plantations
Notes to the Basic Financial Statements
June 30, 2006

upgrading of water pollution abatement projects. RICWFA receives capital grants from the State and federal governments and is authorized to issue revenue bonds and notes. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Clean Water Finance Agency, 235 Promenade Street, Suite 119, Providence, RI 02908.

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

Rhode Island Water Resources Board Corporate (RIWRBC) - This Board was created by law to foster and guide the development of water resources including the establishment of water supply facilities and lease these facilities to cities, towns, districts, and other municipal, quasi-municipal or private corporations engaged in the water supply business in the State. RIWRBC is authorized to issue revenue bonds which are payable solely from revenues generated by the lease of its facilities or the sale of water. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Water Resources Board Corporate, 100 North Main Street, Providence, RI 02903.

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

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

Rhode Island Underground Storage Tank Responsibility (RIUSTR) – The Board provides a mechanism for Rhode Island underground storage tank owners, including city, town and State facilities, to comply with the financial responsibility requirements established by the US Environmental Protection Agency. For more detailed information, a copy of the financial statements can be obtained by writing to the Rhode Island Underground Storage Tank Review Board, 235 Promenade Street, Suite 455, Providence, RI 02908.

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C. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

The State reports the following major funds:

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

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

GARVEE Fund. This fund accounts for the proceeds of the Grant Anticipation Revenue Vehicle (GARVEE) and the RI Motor Fuel Tax (RIMFT) revenue bonds,

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related expenditures and the two cents a gallon gasoline tax that is dedicated for the debt service of the RIMFT bonds.

The State reports the following major proprietary funds:

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

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

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

Additionally, the State reports the following fund types:

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

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

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Fiduciary Fund Types:

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

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

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

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

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

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

E. Cash and Cash Equivalents

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

Except for certain internal service funds, the State does not pool its cash deposits. For those internal service funds that pool cash, each fund reports its share of the cash on the Statement of Net Assets. Cash overdrafts, if any, are reported as due to other funds along with the applicable due from other funds.

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F. Funds on Deposit with Fiscal Agent

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

G. Investments

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

H. Receivables

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

I. Due From Other Governments and Agencies

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

J. Interfund Activity

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

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

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K. Inventories

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

L. Capital Assets

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

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

Asset Category	Capitalization Thresholds	Estimated Useful Lives
Capital Assets (Depreciable)		
Land improvements	\$100,000	20 years
Buildings	\$100,000	20 - 50 years
Building Improvements	\$250,000	10 - 20 years
Furniture and equipment	\$5,000	3 - 10 years
Intangibles	\$1 million	5 years
Infrastructure	\$1 million	7 - 75 years

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

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

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M. Bonds Payable

In the Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds, bond discounts/premiums and issuance costs are recognized in the current period. Bond discounts, premiums and issuance costs in the government-wide financial statements are deferred and amortized over the term of the bonds using the straight-line method. For proprietary fund types and component units bond discounts, premiums and issuance costs are generally deferred and amortized over the term of the bonds using the straight-line method for issuance costs and the interest method for discounts and premiums. Bond discounts and premiums are presented as an adjustment to the face amount of bonds payable. Deferred bond issuance costs are included in other assets.

N. Obligations under Capital Leases

The construction and acquisition of certain State office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by the R.I. Refunding Bond Authority, the R.I. Economic Development Corporation, or by a trustee pursuant to a lease/purchase agreement with the State (See Note 7(D)).

O. Compensated Absences

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

P. Other Liabilities

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

Q. Fund Balances

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

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

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R. New Pronouncements

The State implemented the following GASB statements:

Statement No. 42, *Accounting and Financial Reporting For Impairment of Capital Assets and for Insurance Recoveries* - No events occurred during the fiscal year that met the new reporting requirements.

Statement No. 44, *Economic Condition Reporting: The Statistical Section, an amendment of NCGA Statement 1*.

Statement No. 46, *Net Assets Restricted by Enabling Legislation* - The changes are detailed in Note 8.

Statement No. 47, *Accounting for Termination Benefits* - No events occurred during the fiscal year that met the new reporting requirements.

Note 2. Budgeting and Budgetary Control

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

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

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

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

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the policy of management to lapse all unexpended appropriations, except those of the legislative and judicial branches.

Note 3. Cash, Cash Equivalents and Investments

Cash

Primary Government

At June 30, 2006, the carrying amount of the State's cash deposits was \$116,729,000 and the bank balance was \$133,429,000. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: a. Uncollateralized b. Collateralized with securities held by the pledging financial institution, or c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name. Of the bank balance, \$798,000 was covered by federal depository insurance and \$71,477,000 was collateralized with securities held by the pledging financial institution, as it's agent but not in the State's name. The remaining amount, \$61,153,000 was uninsured and uncollateralized. The carrying amount and bank balance includes \$21,724,000 of certificates of deposit.

The General Fund borrowed \$20,000,000 in December 2005, from the R.I. Temporary Disability Fund (TDI), as permitted under RIGL 35-3-23, and \$20,000,000 in March 2006, from the Health Insurance Internal Service fund to cover a cash shortfall. These loans were repaid in full as of June 30, 2006. TDI received \$442,650 in interest, which reflected the average General Fund investment rate for the applicable period. The ISTEAFund also borrowed \$10,000,000 from the General Fund in September 2005, which was repaid in June 2006.

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, 2006.

Investments

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

Short-term cash equivalent type investments are made by the General Treasurer in accordance with guidelines established by the Commission. Investments of the pension trust

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funds are made by investment managers in accordance with the Commission's stated investment objectives and policies. Investments of certain blended component units are not made at the direction of the Commission, but are governed by specific statutes or policies established by their governing body.

Of the State's investments equaling \$130,370,000 the Tobacco Settlement Financing Corporation, a non-major governmental fund, has restricted investments totaling \$72,452,000. Investment 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.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is mitigated by the State's minimum rating criteria policy, collateralization and maximum participation by any one issuer is limited to 35% of the total portfolio. As of June 30, 2006, the State's investments in Citigroup, Abbey National NA LLC, and GE Capital Corporation commercial paper were rated A1+ by Standard and Poors and P1 by Moody's. The State's investments in J. P. Morgan Chase and Morgan Stanley commercial paper were rated A1 by Standard and Poors and P1 by Moody's. The State's investments in US Government Agency Securities were rated AAA by Moody's. The State's investment in mutual funds were rated Aaa by Moody's. The State's Investment Agreements are not rated.

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. Of the State's \$82,134,000 investment in repurchase agreements, \$714,000 of underlying securities are held by the investment's counterparty, not in the name of the State.

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

Type	Issuer	Amount	Percentage
Commercial Paper	Morgan Stanley CP	51,528	5.7%
Investment Agreements	Morgan Stanley	49,796	5.5%
Investment Agreements	AIG Matched Funding Corp	208,363	23.1%
Repurchase Agreements	Bank of New York Trust Co.	57,734	6.4%

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

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The State's investments (expressed in thousands) at June 30, 2006 are as follows.

Investment Type	Fair Value	Investment Maturities (in Years)	
		Less Than 1	1-5
U.S. Government Agency Securities	\$ 19,867	\$ 19,867	\$ 0
Money Market	241,770	241,770	0
Commercial Paper	154,213	154,213	0
Repurchase Agreements	82,134	24,400	57,734
	497,984	\$ 440,250	\$ 57,734
Less amounts classified as cash equivalents	367,614		
Investments	\$ 130,370		

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2006 are as follows:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More Than 10
Money Market	\$ 90,286	90,286	0	0	0
Investment Agreements	313,663	68,690	241,096	0	3,877
Funds on deposit with fiscal agent	\$ 403,949	\$ 158,976	\$ 241,096	\$ 0	\$ 3,877

The State's investments in money market mutual fund investments as part of funds on deposit with fiscal agent included the following: Federated Government Obligation Tax Managed Fund rated AAAM by Standard & Poors and with an average maturity of 30 days; First American Treasury Obligations Fund rated AAAM by Standard & Poors and with an average maturity of 3 days; and JPMorgan 100% US Treasury Securities Money Market Fund rated AAAM-G by Standard and Poors with an average maturity of 38 days.

Investment agreements are not rated investments. Purchase of investment agreements is generally governed by a trust agreement in connection with a debt issuance where debt proceeds are held in trust until used for their intended purpose. The trust agreement specifies a minimum credit quality rating of the corporate issuer of the investment agreement.

Fiduciary Funds

Pension Trusts

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

Cash

At June 30, 2006, the carrying amounts of the ERS cash deposits was \$22,026,000 and the bank balance was \$22,444,000. The bank and book balances represent the ERS deposits in short-term trust accounts which include demand deposit accounts, bank money market accounts, overnight repurchase agreements and a certificate of deposit (ERSP \$8,500,000).

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Of the bank balance, \$9,034,000 is covered by federal depository insurance. The remaining bank balance of \$13,410,000 is fully collateralized.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the ERS's deposits were required to be collateralized at June 30, 2006.

Investments

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

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds most assets of the ERS in two pooled trusts, Short-term Investment Trust and Pooled Trust. Each plan holds units in the trusts. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust. Certain investments are not pooled and are held by only one plan (Plan specific investments).

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

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The following table presents the fair value (expressed in thousands) of investments by type at June 30, 2006:

Investment Type	Fair Value
U.S. Government Securities	\$ 582,488
U.S. Government Agency Securities	469,461
Collateralized Mortgage Obligations	43,548
Corporate Bonds	586,883
International Corporate Bonds	34,754
Domestic Equity Securities	1,191,377
International Equity Securities	1,521,897
Foreign Currencies	31,154
Private Equity	436,470
Real Estate	294,751
Money Market Mutual Fund	170,432
Commingled Funds - Domestic Equity	1,779,963
Commingled Funds - International Equity	128,693
Investments at Fair Value	7,271,871
Securities Lending Collateral Pool	1,400,373
Total	<u>\$ 8,672,244</u>

Interest Rate Risk

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

Duration is a measure of a debt security's exposure to fair value changes arising from changes in interest rates. It uses the present value of cash flows, weighted for those cash flows as a percentage of the investment's full price. The ERS manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. Currently each portfolio's duration must be within +/- 20-35% of the effective duration of the appropriate index. The fixed income indices currently used by the ERS are:

- Salomon Brothers Broad Investment Grade Bond Index
- Lehman US TIPS Index
- Lehman Brothers MBS Fixed Rate Index
- CS First Boston High Yield Index
- Lehman Corporate Index

At June 30, 2006, no fixed income manager was outside of the policy guidelines.

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The following table shows the ERS's fixed income investments by type, fair value (expressed in thousands) and the effective duration at June 30, 2006:

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	\$ 582,488	5.56
U.S. Government Agency Securities	469,461	4.37
Collateralized Mortgage Obligations	43,548	3.29
Corporate Bonds	586,883	4.13
International Corporate Bonds	34,754	16.81
Total Fixed Income	<u>\$ 1,717,134</u>	4.92

The ERS also invested in a short-term money market mutual fund that held investments with an average maturity of 27 days. The maximum maturity of any instrument in the money market mutual fund is 13 months.

The ERS invests in various mortgage-backed securities, such as collateralized mortgage obligations (CMO), interest-only and principal-only (PO) strips. They are reported in U.S. Government Agency Securities and Collateralized Mortgage Obligations in the table above. CMO's are bonds that are collateralized by whole loan mortgages, mortgage pass-through securities or stripped mortgage-backed securities. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. Cash flows are distributed to different investment classes or tranches in accordance with the CMO's established payment order. Some CMO tranches have more stable cash flows relative to changes in interest rates while others are significantly sensitive to interest rate fluctuations. The ERS may invest in interest-only (IO) and principal-only strips (PO) in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

Credit Risk

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

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

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

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

The ERS's exposure to credit risk (expressed in thousands) as of June 30, 2006 is as follows:

Quality Rating *	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds	International Corporate Bonds
Aaa	\$ 28,974	\$ 469,461	\$ 81,860	\$
Aa	138		46,736	
A	1,753		119,568	
Baa	6,165		88,012	11,034
Ba	473		62,736	
B			157,043	
Caa			14,972	
Ca			429	
C			1,384	
Not rated	6,045		14,143	23,719
Fair Value	<u>\$ 43,548</u>	<u>\$ 469,461</u>	<u>\$ 586,883</u>	<u>\$ 34,753</u>

The ERS's investment in a short-term money market mutual fund was unrated but held investments with an average quality rating of A-1+ / P-1.

Concentration of Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2006 all securities were registered in the name of the ERS and were held in the possession of the ERS's custodial bank, State Street Bank and Trust.

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Foreign Currency Risk

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

The ERS's exposure to foreign currency risk (expressed in thousands) at June 30, 2006, was as follows:

Currency	Currency	Equities	Fixed Income	Total
Australian Dollar	\$ (52)	\$ 89,743	\$	\$ 89,691
Brazilian Real		6,589		6,589
Canadian Dollar	(575)	68,815		68,240
Danish Krone	6	645		651
Euro Currency	15,262	527,160	23,719	566,141
Hong Kong Dollar	315	33,283		33,598
Hungarian Forint		1,794		1,794
Indian Rupee		7,709		7,709
Indonesian Rupiah	253	1,600		1,853
Japanese Yen	3,103	291,102		294,205
Mexican Peso	15	5,835	953	6,803
New Taiwan Dollar		12,443		12,443
New Zealand Dollar	13	5,230		5,243
Norwegian Krone	12	14,491		14,503
Pound Sterling	1,861	311,965		313,826
Russian Ruble		3,353		3,353
Singapore Dollar	101	21,753		21,854
South African Rand	81	6,941		7,022
South Korean Won	1,756	20,645		22,401
Swedish Krona	8,859	21,394	10,082	40,335
Swiss Franc	140	65,810		65,950
Thailand Baht	4	3,597		3,601
Total	<u>\$ 31,154</u>	<u>\$ 1,521,897</u>	<u>\$ 34,754</u>	<u>\$ 1,587,805</u>

The ERS also had exposure to foreign currency risk through its investment in international commingled equity funds.

Derivatives and Other Similar Investments

Some of the ERS's investment managers are allowed to invest in certain derivative type transactions, including forward foreign currency transactions and futures contracts. According to investment policy guidelines, derivative type instruments may be used for hedging purposes and not for leveraging plan assets.

Forward Foreign Currency Contracts – The ERS enters into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. These contracts involve risk in excess of the amount reflected in the ERS's Statements of Fiduciary Net Assets. The face or contract amount in U.S. dollars reflects the total exposure the ERS has in that particular currency contract. By

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policy, no more than 25% of actively managed foreign equity securities (at fair value) may be hedged into the base currency (US Dollars). The U.S. dollar value of forward foreign currency contracts is determined using forward currency exchange rates supplied by a quotation service. Losses may arise due to changes in the value of the foreign currency or if the counterparty does not perform under the contract.

Futures contracts – The ERS uses futures to manage its exposure to the stock, money market, and bond markets and the fluctuations in interest rates and currency values. Buying futures tends to increase the ERS's exposure to the underlying instrument. Selling futures tends to decrease the ERS's exposure to the underlying instrument, or hedge other ERS investments. Losses may arise from changes in the value of the underlying instruments, if there is an illiquid secondary market for the contracts, or if the counterparties do not perform under the contract terms.

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

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

Securities Lending

Policies of the State Investment Commission permit the ERS to enter into securities lending transactions. The ERS has contracted with State Street Bank & Trust Company (SSB) as third party securities lending agent to lend the ERS's debt and equity securities for cash, securities and sovereign debt of foreign countries as collateral at not less than 100% of the market value of the domestic securities on loan and at not less than 100% of the market value of the international securities on loan. In practice, securities on loan are collateralized at 102%. There are no restrictions on the amount of loans that can be made. The contract with the lending agent requires them to indemnify the ERS if the borrowers fail to return the securities. Either the ERS or the borrower can terminate all securities loans on demand. The cash collateral received on security loans was invested in the lending agent's short-term investment pool. At June 30, 2006 the investment pool had a weighted average maturity of 58 days and an average final maturity of 479 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The ERS is not permitted to pledge or sell collateral securities received unless the borrower defaults. There were no losses during the fiscal year resulting from default of the borrowers or lending agent.

At June 30, 2006, management believes the ERS has no credit risk exposure to borrowers because the amounts the ERS owes the borrowers do not exceed the amounts the borrowers owe the ERS. The securities on loan at year-end were \$1,381,551,261 (fair value), and the collateral received for those securities on loan was \$1,407,928,257 (fair value).

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Private Purpose Trusts

The private purpose trusts had investments of \$2,155,000 in a mutual fund. The average maturity of the fund was not available.

Note 4. Receivables

Receivables at June 30, 2006 (expressed in thousands) consist of the following:

	Taxes	Accounts	Accrued Interest	Notes and Loans	Allowance for Uncollectibles	Total Receivables
Governmental Activities:						
General	\$ 262,857	\$ 107,630	\$	\$ 485	\$ (123,082)	\$ 247,890
Intermodal Surface Transportation	12,440			1,000		13,440
Other governmental	41,377	875	1,870		(1,581)	42,541
Internal Service		9,148		130		9,278
Total - governmental activities	\$ 316,674	\$ 117,653	\$ 1,870	\$ 1,615	\$ (124,663)	\$ 313,149
Amounts not expected to be collected in the subsequent year and recorded as deferred revenue						
General	\$ 5,611	\$ 8,012				
Intermodal Surface Transportation		29,227				
Business-type activities:						
State Lottery	\$	\$ 8,091	\$	\$	\$ (356)	\$ 7,735
Convention Center		682			(203)	479
Employment Security	49,433	10,110			(10,311)	49,232
Total - business-type activities	\$ 49,433	\$ 18,883	\$	\$	\$ (10,870)	\$ 57,446
Component Units	\$	\$ 120,695	\$ 30,244	\$ 2,456,379	\$ (62,500)	\$ 2,544,818

Component Units

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

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Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables, as of June 30, 2006, are the result of operations and expected to be reimbursed within the fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable
Governmental Funds		
Major Funds		
General Fund	\$ 16,991	\$
Intermodal Surface Transportation Fund		1,617
GARVEE		2,845
Other		
Bond Capital		9,447
RI Temporary Disability Insurance		1,010
COPS		325
Total Other		10,782
Total Governmental	16,991	15,244
Proprietary Funds		
Enterprise		
RI Lottery		1,099
Employment Security Trust Fund		1,724
Total Enterprise		2,823
Internal Service		
Assessed Fringe Benefits		285
Central Utilities	219	
Information Processing		803
Central Postage		93
Centrex	1,081	
Pastore Communications		46
Central Pharmacy	661	
Central Laundry	92	
Automotive Maintenance		10
Central Warehouse	175	
Correctional Industries		27
Health Insurance	115	
Records Center		3
Total Internal Service	2,343	1,267
Totals	\$ 19,334	\$ 19,334

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Note 6. Capital Assets

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

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 326,513	\$ 5,579	\$	\$ 332,092
Intangibles	90,989	15,157		106,146
Construction in progress	233,216	243,371	(74,914)	401,673
Total capital assets not being depreciated	<u>650,718</u>	<u>264,107</u>	<u>(74,914)</u>	<u>839,911</u>
Capital assets being depreciated:				
Land improvements	3,601	99		3,700
Buildings	430,678	8,276		438,954
Building Improvements	199,470	8,873		208,343
Furniture and equipment	170,833	41,734	(8,046)	204,521
Intangibles	1,196			1,196
Infrastructure	2,001,572	61,387		2,062,959
Total capital assets being depreciated	<u>2,807,350</u>	<u>120,369</u>	<u>(8,046)</u>	<u>2,919,673</u>
Less accumulated depreciation for:				
Land improvements	2,339	183		2,522
Buildings	146,337	8,333		154,670
Building Improvements	117,583	8,778		126,361
Furniture and equipment	131,109	17,495	(7,369)	141,235
Intangibles	415	239		654
Infrastructure	856,565	71,871		928,436
Total accumulated depreciation	<u>1,254,348</u>	<u>106,899</u>	<u>(7,369)</u>	<u>1,353,878</u>
Total capital assets being depreciated, net	<u>1,553,002</u>	<u>13,470</u>	<u>(677)</u>	<u>1,565,795</u>
Governmental activities capital assets, net	<u>\$ 2,203,720</u>	<u>\$ 277,577</u>	<u>\$ (75,591)</u>	<u>\$ 2,405,706</u>

Certain beginning balances were restated due to the addition of retrospective infrastructure for fiscal years 1981 through 2001 and adjustments to other capital asset records.

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

General government	\$ 7,113
Human services	8,643
Education	2,939
Public safety	9,691
Natural resources	3,166
Transportation	75,347
Total depreciation expense - governmental activities	<u>\$ 106,899</u>

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Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 31,474	\$ 14,084	\$	\$ 45,558
Construction in progress	306	3,121	(155)	3,272
Total capital assets not being depreciated	31,780	17,205	(155)	48,830
Capital assets being depreciated:				
Buildings	148,481	12,777		161,258
Machinery and equipment	8,196	3,404	(325)	11,275
Total capital assets being depreciated	156,677	16,181	(325)	172,533
Less accumulated depreciation	63,583	6,511	(321)	69,772
Total capital assets being depreciated, net	93,094	9,670	(4)	102,761
Business-type activities capital assets, net	<u>\$ 124,874</u>	<u>\$ 26,875</u>	<u>\$ (159)</u>	<u>\$ 151,591</u>

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 79,898	\$ 6,478	\$ (2,188)	\$ 84,188
Construction in progress	339,728	161,372	(55,068)	446,032
Total capital assets not being depreciated	419,626	167,850	(57,256)	530,220
Capital assets being depreciated:				
Buildings	985,223	42,376	(1,572)	1,026,027
Land improvements	133,525	11,107		144,632
Machinery and equipment	246,631	32,570	(12,828)	266,373
Infrastructure	309,895	15,271		325,166
Total capital assets being depreciated	1,675,274	101,324	(14,400)	1,762,198
Less accumulated depreciation for:				
Buildings	363,500	36,364	(1,223)	398,641
Land improvements	66,960	9,551		76,511
Machinery and equipment	142,724	19,798	(10,222)	152,300
Infrastructure	91,877	5,932		97,809
Total accumulated depreciation	665,061	71,645	(11,445)	725,261
Total capital assets being depreciated, net	1,010,213	29,679	(2,955)	1,036,937
Total capital assets, net	<u>\$ 1,429,839</u>	<u>\$ 197,529</u>	<u>\$ (60,211)</u>	<u>\$ 1,567,157</u>

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Note 7. Long-Term Obligations

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

A. Bonds Payable

At June 30, 2006, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government				Component Units	
	Governmental Activities		Business Type Activities		Principal	Interest
	Principal	Interest	Principal	Interest		
2007	\$ 92,178	\$ 111,675	\$ 7,250	\$ 14,275	\$ 151,098	\$ 144,051
2008	91,791	103,648	8,975	14,286	184,671	139,049
2009	96,599	96,276	9,285	13,853	123,175	131,475
2010	84,284	91,382	9,740	13,408	86,184	127,105
2011	78,660	87,337	10,205	12,938	84,784	123,587
2012-2016	488,860	363,525	59,010	56,507	519,877	553,411
2017-2021	311,915	258,248	73,445	40,602	491,535	439,856
2022-2026	206,295	191,297	58,070	22,225	466,577	320,308
2027-2031		167,686	27,305	11,745	480,807	217,207
2032-2036	168,260	126,462	23,900	3,727	387,297	115,453
2037-2041		116,156			309,520	21,988
2042-2046	371,700	23,231			7,945	1,242
	<u>\$ 1,990,542</u>	<u>\$ 1,736,923</u>	<u>\$ 287,185</u>	<u>\$ 203,566</u>	<u>\$ 3,293,470</u>	<u>\$ 2,334,732</u>

Primary Government

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

Included in the current interest bonds is \$19,665,000 of general obligation multi-modal variable rate demand bonds maturing in fiscal year 2020. These bonds were initially issued in the weekly rate mode but can be changed by the issuer (the State) to a daily, commercial paper or term rate mode. The interest rate is determined either weekly or daily based on the mode; interest is paid monthly. The owners of the bonds in a weekly mode can require the State (acting through its remarketing and tender agents) to repurchase the bonds. The remarketing agent is authorized to use its best efforts to resell any purchased bonds by adjusting the interest rate offered. The State has entered into a standby bond purchase agreement (liquidity facility) with the tender agent and a commercial bank (the bank). The remarketing agent is required to offer for sale all bonds properly tendered for purchase. In the event the remarketing agent is unable to remarket tendered bonds, the standby bond purchase agreement provides that the bank agrees to purchase any bonds from time to time in an amount not to exceed the principal amount plus accrued interest up to 37 days at an interest rate not to exceed 12% per annum, subject to the terms and provisions of the liquidity facility. This agreement has been extended through December 15, 2015. The State is required to pay the bank at an interest rate based on its prime lending rate or the federal funds rate plus 1/2 of 1 percent, whichever is higher. The standby bond purchase agreement

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remains in effect until the payment in full of the principal and interest on all bonds purchased by the bank.

The Rhode Island Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue 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 which are payable solely from certain pledged revenues derived from two cents (\$.02) per gallon of the thirty cents (\$.30) per gallon Motor Fuel Tax. The bonds provide the state matching funds for the Grant Anticipation Revenue Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The obligation of the State to make payments to the trustee of future federal aid revenues and future pledged motor fuel taxes is subject to annual appropriation by the General Assembly. During fiscal year 2006, RIEDC issued Grant Anticipation Revenue bonds and Motor Fuel Tax Revenue bonds of \$184,620,000 and \$42,815,000, respectively.

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

In June 2002, the Tobacco Settlement Financing Corporation (TSFC), a blended component unit, issued \$685,390,000 of Tobacco Asset-Backed Bonds (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. As stated in the bond indenture, the Bonds are payable as to principal and interest solely out of the assets of the TSFC pledged for such purpose; neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal or of the interest on the Bonds; the Bonds do not constitute an indebtedness of the State or any political subdivision of the State; the Bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC; the Bonds do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof and the State has no obligation or intention to satisfy any deficiency or default of any payment of the Bonds. The TSFC has no taxing power. During the year ended June 30, 2006, TSFC utilized \$5,455,000 of excess collections to early redeem an equal amount of outstanding bonds.

In fiscal year 2002, several governmental entities had created component units similar to the TSFC. These entities were not consistent as to the inclusion of the component unit in their Comprehensive Annual Financial Reports (CAFRs) with GASB Statement No. 14, *The Financial Reporting Entity* as the only guidance to a rather unique situation. Therefore, there was a lack of comparability amongst the CAFRs. GASB issued Technical Bulletin, *Tobacco Settlement Recognition and Financial Reporting Entity Issues*, which, amongst other things, made it clear that the TSFC should be blended rather than discretely presented.

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

During November 2001, the RICCA issued Refunding Revenue Bonds, 2001 Series A (the bonds), in the aggregate principal amount of \$101,315,000. The Bonds may bear interest at Daily Rates, Weekly Rates, or Term Rates, as defined in the Bond Resolution adopted by the RICCA on October 18, 2001, for periods selected from time to time by the RICCA and determined by UBS Painewebber, Inc. (UBS), as Remarketing Agent under the Remarketing Agreement (the Agreement) dated November 6, 2001. In addition, the RICCA may convert the Bonds to fixed rate bonds. The Bonds initially bear interest at the weekly rate as determined by UBS and are payable in monthly installments. Total interest paid to the Bondholders for the year ended June 30, 2006 was \$1,892,305. The Bonds mature in varying installments through May 15, 2027; \$63,205,000 of these bonds remain outstanding at June 30, 2006.

Concurrent with the issuance of the 2001 Series A Refunding Revenue Bonds, the RICCA entered into an interest rate swap agreement (the Swap Agreement) with UBSAG, Stamford Branch (UBSAG). Under the terms of the Swap Agreement, the RICCA agrees to pay to UBSAG a fixed interest rate of 3.924% on the outstanding principal amount of the Bonds each May 15th and November 15th through May 15, 2027. In exchange, UBSAG agrees to pay to the RICCA interest at the Weekly Rate on a monthly basis through May 15, 2027. The Swap Agreement contains a barrier option early termination date of November 15, 2006 and every fixed rate payment due date thereafter. In addition, UBSAG has the right, but not the obligation, on providing 30 calendar days notice prior to the early termination date, to terminate the Swap Agreement if the averaged Weekly Rate has exceeded 5.25% per annum within the preceding 180 days. Such termination shall not require the consent of the RICCA and no fees, payments or other amounts shall be payable by either party in respect of this termination. Total interest paid by the RICCA to UBSAG for the year ended June 30, 2006 under the Swap Agreement was \$2,232,900. Total interest received by the RICCA from UBSAG for the years ended June 30, 2006 under the Swap Agreement was \$1,711,600. By entering into the Swap Agreement, the RICCA converted variable rate bonds to fixed rate bonds to minimize interest rate fluctuation risk.

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At June 30, 2006, the fair value of RICCA's liability for the interest rate swap was approximately \$1,047,000.

Concurrently, the RICCA entered into a standby bond purchase agreement with Dexia Credit Local (Dexia). Under the terms of the standby bond purchase agreement, Dexia agrees from time to time during the commitment period, as defined by the standby bond purchase agreement, to purchase bonds from the RICCA that bear interest at variable rates. The purchase price shall not exceed the aggregate amount of principal and interest outstanding on said bonds at the time of purchase. Under the terms of the standby bond purchase agreement, Dexia agrees to purchase the bonds when notified by U.S. Bank (the Bonds' paying agent). The initial purchase price is \$102,480,817, which consists of the original \$101,315,000 of principal plus accrued interest.

The termination date of the standby bond purchase agreement is the later of November 1, 2006 or when all principal and interest on any bonds purchased by Dexia have been paid in full. Under the terms of the standby bond purchase agreement, the RICCA is obligated to pay a fee equal to .165% per annum of the outstanding bond principal and interest. Fees paid by the RICCA for the year ended June 30, 2006 totaled \$109,725.

During August 2005, RICCA issued Refunding Revenue Bonds, 2005 Series A, in an aggregate principal amount of \$34,610,000 for the purpose of refunding certain of the RICCA's outstanding 1993 Series C Refunding Revenue Bonds and to pay the costs of issuance. The 2005 Series A Bonds mature between 2006 and 2023 and bear interest at rates ranging from 3.5% to 5%. Proceeds from this refunding were used to acquire direct obligations guaranteed by the United States of America (the "Escrow Securities") the principal of and interest on which, when due, provided money sufficient to pay on August 31, 2005, the redemption price of the 1993 Series C Refunding bonds maturing in years 2008 through 2023, inclusive of interest on the 1993 Series C Refunding Bonds on and prior to such redemption date. As a result of this in-substance defeasance, total debt service requirements were reduced by approximately \$2,300,000.

During December 2005, RICCA issued Civic Center Revenue Bonds, 2005 Series A (federally taxable), in an aggregate principal amount of \$33,000,000 for the purpose of (i) financing the Center acquisition, (ii) paying capitalized interest on these bonds. The Civic Center Revenue Bonds, 2005 Series A were a short-term private placement with Merrill Lynch, Pierce, Fenner & Smith, maturing September 1, 2006. The bonds bore interest at a variable rate, initially 4.811%, based on the one month London InterBank Offered Rate (LIBOR) plus .50%. The bonds were subject to optional early redemption prior to maturity at the election of RICCA at any time on or after April 1, 2006, at a redemption price equal to 100% of the principal amount redeemed, plus accrued interest and unpaid interest at the redemption date. RICCA exercised this option during June 2006.

During June 2006, RICCA issued Civic Center Revenue Bonds, 2006 Series A, (federally taxable) (2006 Series A Bonds) in an aggregate principal amount of \$92,500,000 for the purpose of (i) financing or refinancing the acquisition, renovation, equipping, improvement and redevelopment of the Center, (ii) redeeming the \$33,000,000 Civic Center Revenue Bonds, 2005 Series A previously issued by RICCA, (iii) paying the costs of issuance, and

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(iv) paying capitalized interest on the 2006 Series A Bonds. The bonds mature between 2008 and 2035 and bear interest at rates ranging from 5.38% to 6.06%.

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

RICCA is limited to the issuance of bonds or notes in an aggregate principal amount of \$353,000,000. At June 30, 2006, total outstanding bond and note indebtedness equals \$287,200,000.

At June 30, 2006 general obligation bonds authorized by the voters and unissued amounted to \$302,100,000. 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.

See Note 13 for information concerning contingent liabilities relating to "Moral Obligation" bonds.

Component Units

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

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

The R.I. Student Loan Authority issued tax exempt Student Loan Revenue Bonds that are secured by eligible student loans, the monies in restricted funds established by the trust indenture and all related income. The proceeds of the issuance and operating cash were used to refund bonds and to originate and purchase eligible student loans.

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

In June 2006, the Airport Corporation (RIAC), RIEDC and the Rhode Island Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to \$42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998. The purpose of the Agreement is to reimburse RIEDC and RIDOT and to provide funding to RIAC for a portion of eligible project costs related to the Intermodal Facility Project. RIAC is permitted under the agreement to make requisitions of funds for eligible project costs and it is anticipated that such requisitions will occur in fiscal years 2007-2010. Upon completion of the project, RIAC will begin making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments will be made on behalf of RIEDC (the borrower per the Agreement) and it is anticipated that repayments will commence in fiscal year 2010 with a final maturity of January 2042. Such repayments are payable solely from the net revenues derived from the Intermodal Facility. As of June 30, 2006, RIAC had no borrowings under this agreement.

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

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

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

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The \$80,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority is limited by mortgage balances that it has insured, \$21,924,000 at June 30, 2006 (See Note 21). The insured mortgages are guaranteed by the State.

B. Notes Payable

Notes payable (expressed in thousands) at June 30, 2006 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.	\$ 1,987
R.I. Housing and Mortgage Finance Corporation bank notes, 4.21% to 5.54% interest, payable through 2007.	78,000
R.I. Economic Development Corporation (R.I. Airport Corporation) note payable at 4.15% interest, payable through 2015	857
R.I. Resource Recovery Corporation notes due in installments through 2010, 5 % interest.	3,550
	<u>84,394</u>
Less: current payable	(79,818)
	<u><u>\$ 4,576</u></u>

C. Loans Payable

Component Units

Loans payable include liabilities of the Narragansett Bay Commission (NBC) to the R.I. Clean Water Finance Agency (RICWFA) of \$258,756,858.

D. Obligations Under Capital Leases

Primary Government

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

The State's obligation under capital leases at June 30, 2006 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds.

Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2006.

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Fiscal Year Ending June 30	COPS
2007	\$ 25,425
2008	25,390
2009	24,901
2010	23,693
2011	20,852
2012 - 2016	92,977
2017 - 2021	68,890
2022 - 2026	37,421
Total future minimum lease payments	<u>319,549</u>
Amount representing interest	(92,794)
Present value of future minimum lease payments	<u>\$ 226,755</u>

E. Compensated Absences

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

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

F. Other Long-Term Liabilities

Items in this category include, but are not limited to, income on invested general obligation bond proceeds, determined to be arbitrage earnings in accordance with federal regulations. These amounts are generally payable to the federal government five years after the bond issuance date. Retainage payable is also included since the related construction projects are not expected to be completed in the subsequent fiscal period. In addition, this section includes special obligation notes with R.I. Housing and Mortgage Finance Corporation.

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G. Changes in Long-Term Debt

During the fiscal year ended June 30, 2006, the following changes (expressed in thousands) occurred in long-term debt:

Primary Government

	Balance July 1	Additions	Reductions	Balance June 30	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities						
General obligation bonds payable:						
Current interest bonds	\$ 800,306	\$ 93,385	\$ (51,448)	\$ 842,243	\$ 46,192	\$ 796,051
Capital appreciation bonds	610		(306)	304	186	118
Accreted interest on capital appreciation bonds	9,570	2,633	(6,084)	6,119	4,724	1,395
Premium and deferred amount on refunding	33,147	2,238	(2,835)	32,550		32,550
	<u>843,633</u>	<u>98,256</u>	<u>(60,673)</u>	<u>881,216</u>	<u>51,102</u>	<u>830,114</u>
RIEDC Grant Anticipation Bonds	186,050	184,620	(32,290)	338,380	24,560	313,820
Premium	17,895	12,362	(2,400)	27,857		27,857
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	42,255	42,815	(5,150)	79,920	3,630	76,290
Premium	80	1,600	(45)	1,635		1,635
Revenue bonds - RIRBA	74,615		(14,295)	60,320	17,610	42,710
Net premium/discount and deferred amount on refunding	2,689		(2,098)	591		591
Tobacco Settlement Asset-Backed Bonds	674,830		(5,455)	669,375		669,375
Net premium/discount	(29,539)		1,379	(28,160)		(28,160)
Bonds payable	<u>1,812,508</u>	<u>339,653</u>	<u>(121,027)</u>	<u>2,031,134</u>	<u>96,902</u>	<u>1,934,232</u>
Certificates of Participation (COP)	230,760	6,000	(10,005)	226,755	15,215	211,540
Premium	5,650		(303)	5,347		5,347
Other capital leases	1,704		(1,704)			
Obligations under capital leases	<u>238,114</u>	<u>6,000</u>	<u>(12,012)</u>	<u>232,102</u>	<u>15,215</u>	<u>216,887</u>
Compensated absences	64,648	62,310	(55,537)	71,421	48,763	22,658
Other long-term liabilities	43,681	13,772	(8,101)	49,352	3,687	45,665
	<u>\$ 2,158,951</u>	<u>\$ 421,735</u>	<u>\$ (196,677)</u>	<u>\$ 2,384,009</u>	<u>\$ 164,567</u>	<u>\$ 2,219,442</u>
Business type activities						
Revenue bonds	\$ 202,855	\$ 160,110	\$ (75,780)	\$ 287,185	\$ 7,250	\$ 279,935
Add: bond premium	2,803	2,112	(357)	4,558		4,558
Less: issuance discounts	2,293		(1,441)	852		852
Deferred amounts on refunding	7,078	1,229	(947)	7,360		7,360
	<u>\$ 196,287</u>	<u>\$ 160,993</u>	<u>\$ (73,749)</u>	<u>\$ 283,531</u>	<u>\$ 7,250</u>	<u>\$ 276,281</u>

H. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources, in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. On June 30, 2006, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	\$ 307,348
R.I. Convention Center Authority	39,910
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	310,570
R.I. Economic Development Corporation	65,820
R.I. Turnpike and Bridge Authority	31,000

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I. Conduit Debt

The R.I. Industrial Facilities Corporation, the R.I. Health and Educational Building Corporation and the R.I. Economic Development Corporation issue revenue bonds, equipment acquisition notes, and construction loan notes to finance various capital expenditures for Rhode Island business entities. The bonds and notes issued by the corporations are not general obligations of the corporations and are payable solely from the revenues derived from the related projects. They neither constitute nor give rise to a pecuniary liability for the corporations nor do they represent a charge against their general credit. Under the terms of the various indentures and related loan and lease agreements, the business entities make loan and lease payments directly to the trustees of the related bond and note issues in amounts equal to interest and principal payments due on the respective issues. The payments are not shown as receipts and disbursements of the corporations, nor are the related assets and obligations included in the financial statements. The amount of conduit debt outstanding on June 30, 2006 was \$120,000,000, \$1,861,192,452 and \$899,119,000 respectively. Certain issues of conduit debt are moral obligations of the State and the current amounts outstanding are disclosed in Note 13.

Note 8. Net Assets/Fund Balances

Governmental Activities Unrestricted Net Assets

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

	Governmental Activities
Deficit	\$ (1,014,247)
General Revenue	
Unrestricted balance	38,331
Appropriations carried forward	17,381
Internal Service Funds	29,059
Unrestricted Net Assets	\$ (929,476)

The State issues debt for various purposes that does not result in the acquisition of capital assets. Included in the liabilities of the governmental activities on the Statement of Activity is \$1,023,247,000 of such debt, which causes the above deficit.

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Certain portions of net assets were reclassified from unrestricted net assets to restricted net assets due to the implementation of GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*. The changes are listed below (expressed in thousands).

Reclassified from Unrestricted Net Assets to Restricted Net Assets for	General Fund	Other Governmental Funds	Total Change
Capital Projects	\$ 9,115	\$	\$ 9,115
Nonexpendable-education		988	988
Other	42,994	52	43,046
	<u>\$ 52,109</u>	<u>\$ 1,040</u>	<u>\$ 53,149</u>

In the general fund, other is the balance in restricted receipt accounts where the revenues from fees are restricted as to use by enabling legislation. In other governmental funds, other is the fund balance of special revenue funds that are created by legislation for a particular purpose.

Changes in General Fund Reserved Fund Balances

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

	Reserved Fund Balance July 1	Additions	Reductions	Reserved Fund Balance June 30
State Budget Reserve Account	\$ 90,887	\$ 63,584	\$ (59,095)	\$ 95,376
Appropriations carried forward				
General revenue	13,489	17,381	(13,489)	17,381
Departmental restricted revenue	34,303	42,994	(34,303)	42,994
Other	7,424	9,115	(7,424)	9,115
Total	<u>\$ 146,103</u>	<u>\$ 133,074</u>	<u>\$ (114,311)</u>	<u>\$ 164,866</u>

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

Appropriations carried forward, as authorized by the Governor, can only be used for the same purpose as intended in the original budget as enacted by the General Assembly.

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Note 9. Taxes

Tax revenue reported on the Statement of Activities is reported net of the allowance for uncollectible amounts. Tax revenue on the Statement of Revenues, Expenditures and Fund Balances – Governmental Funds is reported net of the uncollectible amount and the amount that will not be collected within one year (unavailable). The unavailable amount is reported as deferred revenue. The detail of the general revenue taxes as stated on the Statement of Activities and the Governmental Funds Balance Sheet is presented below (expressed in thousands):

	Governmental Funds	Statement of Activities
General Fund		
Personal Income Tax	\$ 996,792	\$ 995,777
General Business Taxes:		
Business Corporation Tax	164,984	165,092
Non-resident Contractor Tax	71	71
Gross Earnings Tax-Public Utilities	96,027	96,108
Income Tax-Financial Institutions	3,989	4,672
Tax on Insurance Companies	52,878	52,870
Tax on Deposits-Banking Institutions	1,494	1,505
Health Care Provider Assessment	11,205	11,206
Nursing Facilities Provider Assessments	35,798	35,785
Sub-total - General Business Taxes	366,446	367,309
Sales and Use Taxes:		
Sales and Use Tax	857,677	858,249
Providence Place Sales Tax	11,486	11,486
Motor Vehicle Tax	49,675	49,675
Rental Vehicle Surcharge	2,951	2,949
Fuel Use Tax on Motor Carriers	31	38
Cigarette Tax	123,844	124,409
Smokeless Tobacco Tax	2,497	2,556
Alcoholic Beverage Import Fees	10,845	10,845
Tax on Mfg. of Beers, Liquors, etc.	25	25
Sub-total - Sales and Use Taxes	1,059,031	1,060,232
Other Taxes:		
Inheritance Tax	39,204	39,424
Simulcast Wagering	2,241	2,241
Dog Racing - Pari-mutuel Betting	1,231	1,231
Dog Racing - Tax on Breakage	18	18
Realty Transfer Tax	14,571	14,571
Mobile Home Conveyance Tax	20	20
Sub-total - Other Taxes	57,285	57,505
Total - General Fund	2,479,554	2,480,823
Intermodal Surface Transportation Fund		
Gasoline	142,410	142,410
Other Governmental Funds	170,997	170,997
Total Taxes	\$ 2,792,961	\$ 2,794,230

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Note 10. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2006 are presented below (expressed in thousands):

Fund Financial Statements

	Transfers	Description
Governmental activities		
Major Funds		
General Fund		
Major Funds		
Intermodal Surface Transportation	\$ 50,753	Debt service and operating assistance
Nonmajor Funds		
Bond Capital	58,531	Debt service and capital projects
RI Temporary Disability Insurance	1,173	Operating assistance
COPS	541	Art Projects
Business-Type Activities		
Lottery	323,899	Net income
Employment Security	6,163	Operating assistance
ISTEA Fund		
Bond Capital	42,150	Infrastructure
GARVEE		
Intermodal Surface Transportation	51,297	Debt Service
Nonmajor Fund		
Bond Capital		
General Fund	59,095	Debt service and capital projects
Economic Policy Council		
General Fund	300	Operating assistance
Total Governmental Activities	593,902	
Business-Type Activities		
Employment Security		
Assessed Fringe Benefits	971	Reimbursement for State employee's unemployment compensation
Convention Center		
General Fund	16,336	Debt service
Total operating transfers	\$ 611,209	

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately \$12,098,000 for the fiscal year ended June 30, 2006.

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, 2006:

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Fiscal Year Ending June 30		
2007	\$	10,288
2008		7,882
2009		7,596
2010		7,297
2011		6,129
2012 - 2016		20,546
2017 - 2021		5,809
Total	<u>\$</u>	<u>65,547</u>

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

Note 12. Commitments

Primary Government

Commitments arising from encumbrances outstanding as of June 30, 2006 are listed below (expressed in thousands).

Major funds		
General	\$	21,137
ISTEA		317,032
GARVEE		89,898
Total major funds		<u>428,067</u>
Other governmental funds		106,321
Total encumbrances outstanding	<u>\$</u>	<u>534,388</u>

The primary government is committed at June 30, 2006 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with bond proceeds and federal grants. Encumbrances within the general fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2006 under contractual obligations with various service providers, which will be funded through appropriations of general revenue, and federal and restricted revenues in succeeding fiscal years.

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with Providence Place Group Limited Partnership (PPG). The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements developed by PPG. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer, during the first 20 years only, of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) \$3,680,000 in the first five years and \$3,560,000 in years 6 through 20.

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The R.I. Convention Center Authority (RICCA) has several active construction projects as of June 30, 2006, the most significant of which is the renovation of the Dunkin' Donuts Center. The Authority's construction related commitments at year-end are \$50,236,000. Also, RICCA has entered into management contracts with vendors under which these vendors will provide various services relating to the operation of the convention center and parking garages.

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

On July 18, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with UTGR, Inc., the owners of Lincoln Park, to operate one of the State's licensed video lottery facilities. The agreement entitles UTGR, Inc. to compensation ranging from 26% to 28.85% of video lottery net terminal income at the facility. The Lottery has authorized an additional 1,750 video lottery terminals to be installed at Lincoln Park and UTGR, Inc. has agreed to invest no less than \$125 million in the construction and development of its gaming facility during the first three (3) years of the agreement. UTGR, Inc. has the right and option to extend the term of the agreement for two (2) successive five (5) year periods by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if UTGR, Inc. is not in default of any major term or condition of the agreement and the full-time employee requirement at Lincoln Park has been met.

On November 23, 2005, the Lottery entered into a five (5) year Master Video Lottery Terminal Contract with Newport Grand, to continue to operate one of the State's licensed video lottery facilities. The agreement entitles Newport Grand to 26% of video lottery net terminal income at the facility. The Lottery has authorized an additional 800 video lottery terminals to be installed at Newport Grand, which has agreed to invest no less than \$20 million in the construction and development of its gaming facility during the first three (3) years of the agreement. Newport Grand has the right and option to extend the term of the agreement for one (1) additional five (5) year period by giving notice to the Lottery at least ninety (90) days prior to the expiration of the agreement. The option can be exercised if Newport Grand is not in default of any major term or condition and the full-time employee requirement at Newport Grand has been met.

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Component Units

The R.I. Airport Corporation (RIAC), a subsidiary and component unit of RIEDC, was obligated for completion of certain airport improvements under commitments of approximately \$84,910,000 which is expected to be funded from current available resources and future operations.

The Narragansett Bay Commission has entered into various engineering and construction contracts for the design and improvement of its facilities as part of a capital improvement program. Commitments under these contracts aggregated approximately \$74,121,000 at June 30, 2006.

A portion of the Rhode Island Resource Recovery Corporation (RIRRC) landfill is a designated Superfund site. During 1996, the RIRRC entered into a Consent Decree with the United States Environmental Protection Agency (EPA) concerning remedial actions taken by RIRRC for groundwater contamination. The Consent Decree requires the establishment of a trust in the amount of \$27,000,000 for remedial purposes. The Central Landfill Remediation Trust Fund Agreement was approved August 22, 1996 by the EPA. In accordance with the terms of the agreement, RIRRC has deposited approximately \$33,300,000 into the trust fund and has disbursed approximately \$5,200,000 for remediation expenses through June 30, 2006. Additionally, trust fund earnings, net of changes in market value have totaled approximately \$9,545,000.

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

The Environmental Protection Agency (EPA) established closure and postclosure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. In 2004, RIRRC reviewed and revised its estimates relating to methane gas monitoring as required by the EPA and leachate pretreatment costs and flows. In addition, the RIRRC began construction of the Phase I and Phase II/III caps. In 2005, RIRRC began landfilling in Phase V and further revised its estimates relating to capping, maintenance and leachate flow costs. In 2006, RIRRC reviewed and revised its estimates relating to closure costs, leachate pretreatment and gas collection system and maintenance costs as required by RIDEM. The net effect of the changes in assumptions on the provision for landfill closure and postclosure care costs was a decrease in operating income of approximately \$11,300,000 in 2006. The total estimate of future landfill closure and postclosure care costs was increased to approximately \$95,224,000 at June 30, 2006.

The liability for closure and postclosure care costs at June 30, 2006 of \$52,025,953 is recorded in the statements of net assets, as noted below, with \$39,400,000 remaining to be

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recognized at June 30, 2006. The detail of the recorded liability (expressed in thousands) is listed below.

	2006
Phase V	\$ 14,091
Phase IV	17,783
Phases II and III	4,086
Phase I	16,066
	<u>\$ 52,026</u>

Based on the estimates of RIRRC engineers, approximately 98% and 27% of capacity for Phase IV and Phase V, respectively, has been used to date, and it is expected that full capacity will be reached during fiscal 2007 for Phase IV and fiscal 2011 for Phase V.

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

Included in restricted assets on the accompanying statement of net assets is \$31,176,982 at June 30, 2006, consisting of amounts placed in trust to meet the financial requirements of closure and postclosure care costs related to Phases II, III, IV, and V. RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these costs.

The R.I. Housing and Mortgage Finance Corporation had loan commitments of \$39,884,000 under various loan programs at June 30, 2006.

The R.I. Turnpike and Bridge Authority has entered into various contracts for maintenance of its bridges. At June 30, 2006 remaining commitments on these contracts approximated \$11,210,000, primarily due in one year or less.

The R.I. Public Transit Authority is committed under construction contracts in the amount of \$2,936,224 at June 30, 2006.

The R.I. Higher Education Assistance Authority is required to return to the federal government \$1,116,117 as it's share of Reserve Funds pursuant to the 1998 reauthorization of the Higher Education Act recall from guaranty agencies. The Authority's share is payable in three installments. As of June 30, 2006, the amount outstanding is \$736,637, payable in two installments of \$368,319 and \$368,318 on September 1, 2006 and 2007, respectively.

The R.I. Children's Crusade has committed \$1,781,031 toward scholarships for tuition during the 2006/2007 school year. This represents approximately 820 students for an average award of approximately \$2,100 per student. As of June 30, 2006, the estimated value of the potential future scholarship costs through the year 2019 is estimated to be between \$4,600,000 and \$16,100,000.

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Note 13. Contingencies

Primary Government

The State is involved in various civil lawsuits which could result in monetary loss to the State. The lawsuits are in various developmental stages, some to the point that a favorable decision, with no or minimal loss is anticipated, others, where the outcome and amount of loss, if any, cannot be determined and others which are still in the discovery stage.

Litigation has been initiated against the State and the State's Fire Marshal arising out of a tragic fire at a nightclub in West Warwick, Rhode Island. The fire resulted in 100 deaths and injuries to approximately 300 people. Numerous suits have been served upon the State and its Fire Marshal. There is no way to estimate the potential claims against the State and/or its employees. The State intends to contest any liability on its part or that of its employees. In any event, the Attorney General believes the State and its employees have immunity from suit based upon R.I. General Law § 23-28.2-17 of the State Fire Code. In addition, the Attorney General is of the view the State and its employees have immunity under the Public Duty Doctrine. Moreover, should total immunity not be available (which is denied), damages in any tort action against the State ought to be subject to the \$100,000 per plaintiff limitation contained in the State's Tort Claims Act.

Tobacco Settlement Financing Corporation

In June 2002, the Tobacco Settlement Financing Corporation (Corporation), a blended component unit, issued revenue bonds (asset-backed instruments that are secured solely by the Tobacco Settlement Revenues (TSR's) receivable by the Corporation) that are the sole obligation of the Corporation. The State sold to the Corporation its future rights in the (TSR's) under the Master Settlement Agreement and the Consent Decree and Final Judgement (the MSA). When the Corporation's obligations with the bonds have been fulfilled, the TSR's will revert back to the State.

The TSR payments are dependent on a variety of factors, which include, but are not limited to:

- the financial capability of the participating cigarette manufacturers to pay TSR's;
- future cigarette consumption which impacts the TSR payment; and
- future legal and legislative challenges against the tobacco manufacturers and the master settlement agreement that provides for the TSR payments.

Numerous lawsuits have been filed against tobacco manufacturers, states and public entities some alleging, that the Master Settlement Agreement (MSA) violates the U.S. Constitution, state constitutions, federal antitrust and civil rights laws, Medicaid agreements and state consumer protection laws. If these suits are successful, the MSA could be deemed void or unenforceable. Some of the lawsuits seek to prevent the states from receiving any monies under the MSA, and/or to prevent tobacco manufacturers from increasing prices to pay for MSA payments. In the event of an adverse court ruling, the Corporation may not have adequate financial resources to service its debt obligations.

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The Non-Participating Manufacturers (NPMs) adjustment would permit the Participating Manufacturers (PM) (Philip Morris, Inc., R.J. Reynolds Tobacco Company, Brown & Williamson Tobacco Corporation, and Lorillard Tobacco Company) to reduce their MSA payments provided that the Original Participating Manufacturers' (OPMs) Market Share Loss exceeds 2% of the OPMs' 1997 market share, that the MSA was a significant factor for the PMs' market share loss, and that the PMs prevailed in proving the states failed to diligently enforce the MSA and the escrow statutes. The State of Rhode Island has adopted the Model Statute (which is a Qualifying Statute under the MSA). "Diligently Enforcement" is not defined in the MSA or the Qualifying Statute.

In 2005, Rhode Island along with the other Settling States and the PMs initiated a Significant Factors Determination (SFD) proceeding to determine if the MSA was a significant fact in the PM's market share loss greater than 2% for calendar year 2003. On March 27, 2006, The Brattle Group made its final determination that the MSA was a significant factor contributing to the market share loss for calendar year 2003.

On March 31, 2006, Philip Morris made its full \$3.4 billion payment, even though it believes that it is entitled to a 2003 NPM adjustment. On March 31, 2006, Lorillard paid approximately \$558 million of its 2006 Annual MSA Payment to the Settling States and deposited the balance of the 2006 MSA Annual Payment, \$108 million into the Disputed Payments Account pending final non-appealable resolution of the 2003 NPM Adjustment. Reynolds American paid approximately \$ 1.3 billion of its Annual MSA Payment for 2006 to Settling States and deposited \$647 million in the Disputed Payment Account pending final non-appealable resolution of the 2003 NPM Adjustment issue. According to the co-chairs of the NAAG Tobacco Committee, in a statement released on April 18, 2006, the Annual Payments paid by Lorillard and Reynolds American to the Settling States constitute about 82% of the amount that was due. The three SPMs from whom the largest payments were due made substantial payments. However, one of the three SPMs paid a portion of its payment to the Disputed Payments Account, and the other two SPMs each withheld a portion of the payment due from them. As required by the MSA, the Settling States have given the PMs 30 day notices prior to initiating proceedings to compel the PMs to make the 2006 Annual Payment without diminution for the 2003 NPM Adjustment. Some Settling States initiated actions in their MSA courts, but the PMs countered with Motions to Compel Arbitration. There is a lack of continuity in the court decisions whether or not the NPM adjustment issues are the jurisdiction of state courts or arbitration. Twenty-four state trial courts have concluded that the 2003 NPM Adjustment is arbitrable. Many of those decisions are pending appeal. In addition, decisions are pending in approximately twenty-seven state courts concerning the 2003 NPM Adjustment issue.

In October 2006, The OPMs filed a Motion to Enforce the Arbitration Provision of the MSA and the SPMs filed for joinder in the OPMs' action. Rhode Island is vigorously opposing the Motion but agreed to the SPMs' joinder because of judicial economy and consistency of decision-making.

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The Independent Auditor calculated that the PMs payment should be \$6,568,524,931 but the PMs paid the Settling States \$5,754,873,469 for the MSA payment due April 15, 2006. The Corporation received \$41,545,702 for the MSA payment due April 15, 2006. The value of the April 15, 2006 MSA payment in dispute to Rhode Island is approximately \$5,858,291 which includes the ten (10) PMs that either withheld or deposited into a Disputed Escrow Accounts \$39,579,991 related to the 2005 NPM Adjustment.

Future NPM Adjustment remains possible for all future years. Philip Morris, Reynolds American and Lorillard have disputed the Independent Auditors' failure to include an NPM Adjustment for 2004. The resolution of the substance of such disputes could take years. A decision by the PMs to pay the amount of a claimed NPM Adjustment into the Disputed Payments Account or to withhold payment of such an amount pending the resolution of the dispute would have a material adverse effect on the amounts of TSRs available to the Corporation to make Turbo Redemptions and other payments on the bonds during such period. If a PM is determined, with finality, to be entitled to an NPM Adjustment in a future year, the operation of the NPM Adjustment would also have a material adverse effect on the amounts of TSRs available to the Corporation to make Turbo Redemptions and other payments on the bonds.

Rhode Island is working, independently and with other Settling States, to enforce the MSA and related statutes and encourage other tobacco companies to join the MSA and make MSA payments to Rhode Island and the other Settling States. Litigation continues to threaten the ability of the tobacco companies to pay the amounts owed under the MSA including but not limited to, bankruptcy, antitrust allegations, and constitutional challenges which potentially could affect the legality of the MSA and the MSA payments for Rhode Island. Rhode Island continues to work with the other Settling States to defend these challenges.

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.

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. Any disallowances as a result of these audits become a liability of the State. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

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Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Moneys in the capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bond holder(s). These bonds are considered “moral obligations” of the State when the General Laws require the executive director to submit to the Governor the amount needed to restore each capital reserve fund to its minimum funding requirement and the Governor is required to include the amount in the annual budget. At June 30, 2006 the R.I. Housing and Mortgage Finance Corporation and the R.I. Economic Development Corporation (RIEDC) had \$246,139,574 and \$44,384,250 respectively, in “moral obligation” bonds outstanding. Certain of the RIEDC bonds are economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State anticipates paying approximately \$1,800,000 of the debt on the related economic development revenue bonds in fiscal year 2007.

Component Units

R.I. Student Loan Authority

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

R.I. Higher Education Assistance Authority

Under an agreement with Alliance Bernstein L.P., the Administrative Fund receives account maintenance, direct commission and other fees from the Program Fund. All the Administrative Fund’s operating revenues, totaling \$5,917,614, are derived from the Program Fund. In addition, Rhode Island Higher Education Assistance Authority (RIHEAA) receives \$250,000 annually (in quarterly installments) directly from Alliance. During 2002, RIHEAA established two scholarship and grant programs, to be funded with Rhode Island Higher Education Savings Trust (RIHEST) administrative fees, as follows:

Academic Promise Scholarship Program: up to \$1,000,000 is invested annually through RIHEAA in the CollegeBoundfund for the benefit of 100 academic and income-qualified

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students to provide up to \$10,000 to each student over a four-year scholarship period. During 2006, \$1,000,000 was transferred to RIHEAA and RIHEAA in turn invested that amount in the CollegeBoundfund on behalf of unnamed beneficiaries. 5 and 10 Matching Grant Program: up to \$500,000 may be made available annually by the Authority to invest through RIHEAA into the CollegeBoundfund as matching contribution accounts for individual accounts established for the benefit of income-qualifying individuals.

During 2006, the Board of Directors authorized the transfer of \$5,660,746 to supplement amounts available for need-based scholarships under the State's grant program.

R.I. Public Transit Authority

The R.I. Public Transit Authority has a \$2,000,000 line of credit with a financial institution. The line of credit is due on demand with interest payable at a floating rate at the financial institution's base rate or fixed rate options at the financial institution's cost of funds plus 2.00%. No amount was due under this line of credit at June 30, 2006.

R.I. Children's Crusade for Higher Education

The R.I. Children's Crusade for Higher Education has a \$850,000 line of credit agreement. Interest is payable monthly at the prime rate less one quarter, which was 8.00 % at June 30, 2006. There was an outstanding balance of \$800,000 as of June 30, 2006. Total interest expense for the fiscal year ended June 30, 2006 was \$12,149.

Note 14. Employer Pension Plans

Plan Descriptions

The State, through the Employees' Retirement System (System), administers four defined benefit pension plans. Three of these plans; the Employees' Retirement System (ERS), a cost-sharing multiple-employer defined benefit pension plan and the Judicial Retirement Benefits Trust (JRBT) and the State Police Retirement Benefits Trust (SPRBT), single-employer defined benefit pension plans; cover most State employees. The State does not contribute to the Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The level of benefits provided to State employees and teachers, which is subject to amendment by the general assembly, is established by the General Laws as listed below. As a result of an amendment to the General Laws effective July 1, 2005, the System implemented a two-tiered benefit structure for members of the ERS. Members with 10 years of service as of July 1, 2005 follow the Schedule A benefit structure and all other members follow the Schedule B benefit structure. In addition to the State, there are 48 local public school entities that are members of the ERS. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the Schedule A and Schedule B benefit

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structures. The report may be obtained by writing to the Employees' Retirement System, 40 Fountain Street, Providence, RI 02903.

Summary of Significant Accounting Policies

Basis of Accounting

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

Method Used to Value Investments

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. The fair value of fixed income and domestic and international stocks are generally based on published market prices and quotations from national security exchanges and securities pricing services. Real estate is primarily valued on appraisals by independent appraisers or as adjusted by the general partner. Other securities and investments, which are not traded on a national security exchange, are valued based on audited December 31 net asset values adjusted for purchases, sales, and cash flows for the period January 1 through June 30 which principally include additional investments and partnership distributions. Commingled funds consist primarily of institutional equity index funds. The fair value of the commingled funds is based on the reported share value of the respective fund. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded. Short-term investments are stated at cost, which approximates fair value.

Funding Policy and Annual Pension Cost

The State's annual pension cost (expressed in thousands) for the current year and related information for each plan is listed below. The most recent actuarial information may be found in the separately issued audit report referred to above.

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	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust
Contribution rates:			
State	14.84%	31.35%	35.51%
Plan members - state employees	8.75%	8.75%	8.75%
State contribution for teachers	6.31% and 6.75%		
Annual pension cost	\$145,792	\$3,175	\$2,292
Contributions made - state employees	\$91,254	\$3,175	\$2,292
Contributions made - teachers	\$54,538		
Actuarial valuation date	June 30, 2003	June 30, 2003	June 30, 2003
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed
Equivalent Single Remaining Amortization Period	26 years	26 years	26 years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:			
Investment rate of return	8.25%	8.25%	8.25%
Projected salary increases	4.50% to 8.25%	5% to 15.00%	5.25%
Inflation	3.00%	3.00%	3.00%
Cost-of-living adjustments	3% compounded	\$1,500 per annum	3%
Level of benefits established by:			
General Law(s)	36-8 to 10 16-15 to 17	42-28-22.1	8-3-16, 8-8-10.1, 8-8-2-7 and 28-30-18.1

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation
Employees' Retirement System	6/30/04	\$ 100,739	100%	\$ 0
	6/30/05	114,923	100%	0
	6/30/06	145,792	100%	0
State Police Retirement Benefits Trust	6/30/04	2,224	100%	0
	6/30/05	2,615	100%	0
	6/30/06	3,175	100%	0
Judicial Retirement Benefits Trust	6/30/04	1,830	100%	0
	6/30/05	2,057	100%	0
	6/30/06	2,292	100%	0

Other

Certain employees of the University of Rhode Island, Rhode Island College, and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. Total expenditures by the institutions for such annuity contracts amounted to \$13,221,928 during the year ended June 30, 2006.

The Rhode Island Public Transit Authority has a funded pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 10 years of continuous service. Retired employees are entitled to a monthly benefit for life as stipulated in the plan provisions. The plan also provides death and disability benefits. Employees are required to contribute 3% of their base salary to the plan. The remaining contributions to the plan are made by the Authority. Employer contributions paid in fiscal year 2006 totaled \$4,868,363. At January 1, 2006, the most

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recent valuation date, the total actuarial accrued liability was \$60,329,000 and the actuarial value of assets was \$35,405,271. The Authority contributed 47.98% of its annual pension cost for fiscal year 2006 and had a net pension obligation of \$1,833,401 at June 30, 2006.

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

Note 15. Postemployment Benefits

In accordance with the General Laws, postretirement health care benefits are provided to State employees who retire on or after July 1, 1989. The benefits in general cover medical and hospitalization costs for pre-Medicare retirees and a Medicare supplement for Medicare-eligible retirees. The State provides a subsidy for all recipients equal to the difference between the retiree premium and the cost of healthcare coverage for active employees. This subsidy cost approximately \$7.9 million in FY 2006. Additionally the State provides an additional benefit based upon years of service. The State's share varies with years of service and ranges from 50% for retirees with 10-15 years of service to 100% for retirees with 35 years of service. During fiscal year 2006, the State contributed 2.25% of covered payroll for postretirement healthcare benefits. The contribution rates are not actuarially determined. Postretirement health care expenses for the fiscal year ended June 30, 2006 were \$9,865,857 net of retirees' contributions for the 5,101 retirees receiving benefits.

The above plans are financed on a pay-as-you-go basis.

Note 16. Deferred Compensation

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

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

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

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Note 17. Restatement of Net Assets

Certain beginning balances were restated as listed below (expressed in thousands).

	Beginning Net Assets	Changes	Beginning Net Assets as Restated
Entity-wide			
Governmental Activities	\$ 195,511	\$ 746,812	\$ 942,323
	<u>\$ 195,511</u>	<u>\$ 746,812</u>	<u>\$ 942,323</u>
Component Units			
RIWRBC	\$ (1,934)	\$ 62	\$ (1,872)
Other	1,762,906		1,762,906
	<u>\$ 1,760,972</u>	<u>\$ 62</u>	<u>\$ 1,761,034</u>

In accordance with GASB Statement No. 34, the State restated its net assets - invested in capital assets, net of related debt, at June 30, 2006. Infrastructure assets of approximately \$1,572 million, before accumulated depreciation of \$824 million, were recorded for fiscal years 1981 through 2001 using historical cost or estimated historical cost amounts. The State also restated net assets - invested in capital assets, net of related debt, for previously recorded construction in progress that did not meet the State's criteria for capitalization.

In addition, a discretely presented component unit of the State restated its beginning net assets to recognize net earnings relating to a prior fiscal period.

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Note 18. Condensed Financial Statement Information

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

	RIHMFC	RISLA	RITBA	RIEDC	RIUSTFR	NBC
Other assets	\$ 1,792,938	\$ 900,145	\$ 41,341	\$ 327,075	\$ 1,631	\$ 89,972
Capital assets - nondepreciable			9,387	109,053		332,877
Capital assets - depreciable (net)		17	60,483	242,162	38	218,027
Due from primary government						
Long term debt	1,293,021	793,902	29,819	375,260		364,329
Other liabilities	221,124	34,319	3,929	14,006	15	19,919
Due to primary government				15,447		
Net assets:						
Invested in capital assets, net of related debt	9,951	17	37,600	134,408	38	186,576
Restricted						
Debt service	168,915	71,200	8,931			
Other				96,455		85
Other nonexpendable						
Unrestricted	99,927	724	30,932	42,714	1,616	69,967
Operating expenses	80,528	52,197	5,741	65,567	2,997	37,879
Depreciation, depletion, and amortization	4,053	259	1,641	15,979	19	6,386
Program revenue						
Charges for services	66,100	48,640	12,085	56,425	2,566	59,026
Operating grants and contributions		2,667		(74)		21
Capital grants and contributions				10,913		1,166
Net program (expense) revenue	(18,481)	(1,149)	4,703	(14,282)	(450)	15,948
Interest and investment earnings	22,358	7,443	360	6,914	78	2,483
Miscellaneous	13,305		(9)	9,208		(729)
Payments from primary government				15,256		
Change in net assets	17,182	6,294	5,054	17,096	(372)	17,702
Beginning net assets	261,611	65,647	72,409	256,481	2,026	238,926
Ending net assets	278,793	71,941	77,463	273,577	1,654	256,628

	RIHEBC	RIRRC	RIHEAA	RIPTA	RIIFC
Other assets	\$ 9,112	\$ 114,960	\$ 25,856	\$ 14,242	\$ 1,273
Capital assets - nondepreciable		8,078	194	2,834	
Capital assets - depreciable (net)	65	61,333	1,086	90,149	
Due from primary government				3,457	
Long term debt		20,448	399		
Other liabilities	433	83,445	1,695	19,748	794
Due to primary government		3,000			
Net assets:					
Invested in capital assets, net of related debt	65	77,967	1,280	92,983	
Restricted					
Debt service		1,687			
Other			18,533		
Other nonexpendable					
Unrestricted	8,679	(2,176)	5,229	(2,049)	479
Operating expenses	1,767	52,849	22,839	79,646	33
Depreciation, depletion, and amortization	33	14,322	231	10,066	
Program revenue					
Charges for services	2,016	68,119	15,306	30,117	126
Operating grants and contributions				13,793	
Capital grants and contributions				13,174	
Net program (expense) revenue	216	948	(7,764)	(32,628)	93
Interest and investment earnings	276	2,758	765	278	19
Miscellaneous	(3,700)	(7,202)		3,098	
Payments from primary government			7,729	34,841	
Change in net assets	(3,208)	(3,496)	730	5,589	112
Beginning net assets	11,952	80,974	24,312	85,345	367
Ending net assets	8,744	77,478	25,042	90,934	479

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	<u>RICWFA</u>	<u>RIIRBA</u>	<u>RIWRBC</u>	<u>RIPTCA</u>	<u>RICCHE</u>
Other assets	\$ 874,918	\$ 1,560	\$ 10,001	\$ 1,716	\$ 8,214
Capital assets - nondepreciable		181		821	
Capital assets - depreciable (net)	43	382	3	6,453	40
Due from primary government					
Long term debt	549,200		12,698	2,627	
Other liabilities	7,572	68	758	898	3,417
Due to primary government				654	
Net assets:					
Invested in capital assets, net of related debt	43	563		4,369	40
Restricted					
Debt service	303,586				
Other			(3,744)		389
Other nonexpendable					
Unrestricted	14,560	1,492	292	442	4,408
Operating expenses	26,623	167	586	3,762	7,866
Depreciation, depletion, and amortization	320	57	107	676	26
Program revenue					
Charges for services	29,439	398	1,258	2,107	4,944
Operating grants and contributions	23,931		(2,408)		
Capital grants and contributions					
Net program (expense) revenue	26,427	174	(1,843)	(2,331)	(2,948)
Interest and investment earnings		142	263	93	216
Miscellaneous				1,006	76
Payments from primary government				3,222	1,409
Change in net assets	26,427	316	(1,580)	1,990	(1,247)
Beginning net assets	291,762	1,739	(1,872)	2,821	6,084
Ending net assets	318,189	2,055	(3,452)	4,811	4,837

	<u>URI</u>	<u>RIC</u>	<u>CCRI</u>	<u>CFSD</u>	<u>Totals</u>
Other assets	\$ 233,436	\$ 48,743	\$ 14,860	\$ 7,016	\$ 4,519,009
Capital assets - nondepreciable	60,704	4,600	1,491		530,220
Capital assets - depreciable (net)	252,596	52,874	47,555	3,631	1,036,937
Due from primary government					3,457
Long term debt	219,778	20,200	11,078	2,251	3,695,010
Other liabilities	48,681	13,870	5,616	5,695	486,002
Due to primary government		9,447	2,536		31,084
Net assets:					
Invested in capital assets, net of related debt	173,105	42,993	43,783	3,165	808,946
Restricted					
Debt service					554,319
Other	31,300	9,209	5,543	597	158,367
Other nonexpendable	61,356	13,145			74,501
Unrestricted	12,516	(2,647)	(4,650)	(1,061)	281,394
Operating expenses	353,913	109,089	91,516	51,136	1,046,701
Depreciation, depletion, and amortization	16,443	4,026	2,517	269	77,430
Program revenue					
Charges for services	261,854	62,709	45,020	10,809	779,064
Operating grants and contributions		5,763	466		44,159
Capital grants and contributions	21,747	4,067	2,575		53,642
Net program (expense) revenue	(86,755)	(40,576)	(45,972)	(40,596)	(247,266)
Interest and investment earnings	3,251	1,500	420	22	49,639
Miscellaneous	22,886	419		172	38,530
Payments from primary government	82,378	44,069	45,445	41,241	275,590
Change in net assets	21,760	5,412	(107)	839	116,493
Beginning net assets	256,517	57,288	44,783	1,862	1,761,034
Ending net assets	278,277	62,700	44,676	2,701	1,877,527

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Significant transactions between primary government and component units

	Revenue (Expenses)	Description
Governmental activities		
General Fund		
R.I. Higher Education Assistance Authority	\$ 7,729	Operating assistance
R.I. Economic Development Corporation	10,989	Operating and capital assistance
R.I. Resource Recovery Corporation	(7,500)	Surplus
University of Rhode Island	82,492	Educational assistance
Rhode Island College	44,069	Educational assistance
Community College of Rhode Island	45,445	Educational assistance
Central Falls School District	41,241	Educational assistance
ISTEA Fund		
R.I. Public Transit Corporation	35,759	Operating assistance
Capital Projects		
University of Rhode Island	28,221	Construction, improvement or purchase of assets
Rhode Island College	5,684	Construction, improvement or purchase of assets
Total Governmental Activities	<u>\$ 294,129</u>	

Note 19. Risk Management

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

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

The State also has a contract with an insurance company to provide health care benefits to employees. The State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2006 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Fund				
Liability for unpaid claims	\$ 15,767	\$ 210,580	\$ 207,959	\$ 18,388

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

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that services, among other things, workers' compensation claims. Funding is provided through a fringe benefit rate applied to State payrolls on a pay-as-you-go basis.

Note 20. Other Information

A. Reconciliation of government-wide and fund financial statements

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds." The details of this difference are as follows (expressed in thousands).

	\$	3,759,584
Capital assets		
Accumulated depreciation		(1,353,878)
		2,405,706
Net adjustment to reconcile fund balance-total governmental funds to net assets-governmental activities	\$	2,405,706

Another element of that reconciliation explains that "Bond, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds." The details of this difference are as follows (expressed in thousands).

	\$	(71,421)
Compensated absences		
Bonds payable		(2,006,861)
Net premium/discount and deferred amount on refunding		(24,272)
Cost of issuance		9,518
Obligations under capital leases		(226,452)
Premium		(5,650)
Cost of issuance		1,295
Interest payable		(24,256)
Other Liabilities		(49,352)
		(2,397,451)
Net adjustment to reconcile fund balance-total governmental funds to net assets-governmental activities	\$	(2,397,451)

Another element of that reconciliation explains that "Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds." The details of this difference are as follows (expressed in thousands).

	\$	8,399
Receivables		
Due from component units		25,598
Deferred revenue		42,850
		76,847
Net adjustment to reconcile fund balance-total governmental funds to net assets-governmental activities	\$	76,847

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Another element of that reconciliation explains that “Internal service funds are used by management to charge the costs of certain activities to individual funds. The net assets of the internal service funds are reported with governmental activities.” The details of this difference are as follows (expressed in thousands).

	\$	31,767
Internal service fund net assets		
Capital assets		(7,740)
Accumulated depreciation		4,817
Obligations under capital leases		215
		215
Net adjustment to reconcile fund balance-total governmental funds to net assets-governmental activities	\$	29,059

Since internal service funds often share costs of a capital asset acquisition and related debt with their general fund counterpart, the internal service funds were converted to the governmental basis to avoid duplication in the government-wide financial statements.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “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.” The details of this difference are as follows (expressed in thousands).

	\$	308,051
Capital outlay		
Depreciation expense		(106,899)
Loss on disposal of assets		(675)
		(675)
Net adjustment to reconcile net changes in fund balances-total governmental funds to changes in net assets of governmental activities	\$	200,477

Another element of that reconciliation explains that “Bond, notes, and certificates of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Assets. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.” The details of this difference are as follows (expressed in thousands).

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Compensated absences	\$	(6,773)
Debt service		
Principal		120,653
Interest and other charges		624
Bond proceeds		(320,820)
Deferral of premium		(16,200)
Amortization of premium		5,999
Deferral of issuance costs		2,341
Amortization of issuance costs		(646)
Proceeds from issuance of Certificates of Participation		(6,000)
Amortization of premium		303
Deferral of issuance costs		50
Amortization of issuance costs		0
Net adjustment to reconcile net changes in fund balances- total governmental funds to changes in net assets of governmental activities	\$	<u>(220,469)</u>

Another element of that reconciliation explains that “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.” The details of this difference are as follows (expressed in thousands).

Program expenses related to long- term liabilities	\$	(5,174)
Recognition of deferred revenue and refunds payable		
Program revenue		1,756
Operating grant revenue		7,159
General revenue- taxes		584
Recognition of long-term receivable		
General revenue-misc		7,497
Net adjustment to reconcile net changes in fund balances- total governmental funds to changes in net assets of governmental activities	\$	<u>11,822</u>

Another element of that reconciliation explains that “Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net assets of the internal service funds is reported with governmental activities.” The details of this difference are as follows (expressed in thousands).

Internal service funds change in net assets	\$	11,787
Capital outlay		(319)
Depreciation expense		676
Debt service principal		(517)
Net adjustment to reconcile net changes in fund balances- total governmental funds to changes in net assets of governmental activities	\$	<u>11,627</u>

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B. Elimination Entries

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

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	\$ 16,991	\$ 2,343	\$ 19,334	\$ (16,511)	\$ 2,823
Loans to other funds	5,572		5,572	(5,572)	
Total assets	\$ 22,563	\$ 2,343	\$ 24,906	\$ (22,083)	\$ 2,823
Liabilities					
Due to other funds	\$ 15,244	\$ 1,267	\$ 16,511	\$ (16,511)	\$
Loans from other funds	22	5,550	5,572	(5,572)	
Total liabilities	\$ 15,266	\$ 6,817	\$ 22,083	\$ (22,083)	\$
Other financing sources (uses):					
Operating transfers in	\$ 593,902	\$	\$ 593,902	\$ (281,147)	\$ 312,755
Operating transfers out	(280,176)	(971)	(281,147)	281,147	
Total other financing sources (uses):	\$ 313,726	\$ (971)	\$ 312,755	\$	\$ 312,755
Total					
	Business-type Activities		Total	Eliminations	Internal Balances
Nonoperating revenues (expenses):					
Operating transfers in	\$ 17,307	\$	\$ 17,307	\$ (17,307)	\$
Operating transfers out	(330,062)		(330,062)	17,307	(312,755)
Total nonoperating revenues (expenses):	\$ (312,755)	\$	\$ (312,755)	\$	\$ (312,755)

Note 21. Related Party Transactions

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

The State entered into a lease and operating agreement (the agreement) with the R.I. Airport Corporation (RIAC) a subsidiary of the R.I. Economic Development Corporation whereby the State has agreed to lease various assets to RIAC. The agreement requires RIAC to reimburse the State for principal and interest payments for certain airport related General Obligation Bonds. The term of the agreement is 30 years beginning July 1, 1993, with annual rent of \$1.00.

The Rhode Island Student Loan Authority (RISLA) and the Rhode Island Higher Education Assistance Authority (RIHEAA), component units of the State, are related parties. RISLA is a public instrumentality created to provide a statewide student loan program through the acquisition and origination of student loans. RIHEAA is a public instrumentality created for the dual purpose of guaranteeing loans to students in eligible institutions and administering other programs of post-secondary student financial assistance assigned by law.

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Transactions between RISLA and RIHEAA as of and during the year ended June 30, 2006 were as follows:

Guaranteed loans outstanding at June 30, 2006	\$446,953,000
Loans guaranteed during the year	136,517,000
Guarantee claims paid during the year	15,026,000

The Rhode Island Housing and Mortgage Finance Corporation (Corporation) and the State have entered into a contractual relationship whereby the Corporation assumed the responsibility for the State Rental Subsidy Program for the period July 1, 1994 through June 30, 1997. In addition, the Corporation made \$3,800,000 in advances on behalf of the State for this program in the fiscal year ended June 30, 1994. As provided in the contractual arrangement, the State agreed to repay the \$3,800,000, subject to appropriations, in installments of \$950,000 over a four year period beginning in the year ended June 30, 1996, but to date no payments have been made, nor have any payments for advances totaling \$35,935,000 made during the years ended June 30, 1998 through 2006 been made.

Note 22. Subsequent Events

Primary Government

On July 1, 2006, the Division of Lotteries of the Rhode Island Department of Administration became the State Lottery Division of the State of Rhode Island Department of Revenue.

On September 28, 2006, the State of Rhode Island issued \$95,515,000 in General Obligation Bonds with interest ranging from 4.00% to 5.00% with maturity dates of February 2007 through August 2026. This issuance includes a \$74,835,000 Consolidated Capital Development Loan of 2006, Refunding Series A to advance refund \$72,930,000 of the State's General Obligation Bonds. The remaining \$20,680,000 will be utilized by the State to finance capital projects.

On October 24, 2006, the State of Rhode Island issued \$98,105,000 in General Obligation Bonds with interest ranging from 4.25% to 5.00% with maturity dates of November 2007 through November 2025.

On December 21, 2006, the State of Rhode Island issued \$120,000,000 of General Obligation Tax Anticipation Notes due June 29, 2007.

In November 2005, the Employees Retirement System (System) obtained title to commercial real estate located in Providence, Rhode Island as a result of bankruptcy foreclosure proceedings in the U.S. Bankruptcy Court. The System held a first lien on the commercial real estate owned by an obligor of a mortgage loan receivable previously held as a plan specific investment. In August 2006, the System sold the real estate for \$20 million. The mortgage loan receivable was guaranteed by the R. I. Economic Development

State of Rhode Island and Providence Plantations
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Corporation (RIEDC) to the extent of \$3 million. The System has requested payment of the guarantee by RIEDC to the extent of its incurred loss related to the default on the mortgage note receivable and liquidation of the real estate obtained through foreclosure. Payment of the guarantee by RIEDC is dependent upon appropriation by the Rhode Island General Assembly.

Component Units

Subsequent to June 2006, the R.I. Housing and Mortgage Finance Corporation instructed its trustee to redeem the Homeownership Opportunity Bonds in the amount of \$3,740,000.

On September 13, 2006 the R.I. Housing and Mortgage Finance Corporation issued \$70,000,000 of Homeownership Opportunity Bonds.

On November 14, 2006 the R.I. Housing and Mortgage Finance Corporation issued \$68,085,000 of Homeownership Opportunity Bonds.

On or about December 21, 2006, the R.I. Housing and Mortgage Finance Corporation issued \$26,785,000 of 2006 Series A-1 Housing Bonds.

On or about December 21, 2006, the R.I. Housing and Mortgage Finance Corporation issued \$4,660,000 of 2006 Series A-2T Housing Bonds.

On December 21, 2006 the R.I. Clean Water Finance Agency issued \$57,795,000 in Series 2006 A Water Pollution Control Revolving Fund Revenue Bonds.

On December 21, 2006 Narragansett Bay Commission closed on a \$30,000,000 loan with the R.I. Clean Water Finance Agency.

In July 2006, the R.I. Student Loan Authority issued \$30,000,000 2006 Series I, \$30,000,000 2006 Series 2 tax-exempt auction rate and \$40,000,000 2006 Series 3 tax-exempt fixed rate Student Loan Program Revenue Bonds. Proceeds of this issuance will be used to originate and purchase eligible student loans.

Subsequent to June, 30, 2006 the R.I. Health & Educational Building Corporation, the R.I. Economic Development Corporation and the R.I. Industrial Facilities Corporation have issued various conduit debt obligations. These are not obligations of the respective corporations or the State.

On July 27, 2006, the R.I. Children's Crusade for Higher Education (RICCE) entered into an agreement with a financial institution to increase the existing line of credit from \$850,000 to \$1,200,000. The increase in the line of credit was necessary to provide the Crusade with the cash flow for the GEARUP program until reimbursement of program expenses is received. The Crusade has been notified by the U.S. Department of Education that \$2,726,514 will be available to the State of Rhode Island, the fiscal agent of the GEARUP program, on September 1, 2006 and should be received by the Crusade shortly thereafter. It is the Crusade's intent to pay the outstanding balance on the line of credit

State of Rhode Island and Providence Plantations
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upon reimbursement by GEARUP for expenses paid during the fiscal year ended June 30, 2006.

Effective July 1, 2006, the R.I. Underground Storage Tank Financial Responsibility Fund and all its assets were transferred to the R.I. Department of Environmental Management pursuant to the enactment of Chapter 06-246 of the Rhode Island Public Laws. The R.I. Department of Environmental Management has assumed all responsibilities of the Fund and all activity from July 1, 2006.

**State of Rhode Island
and Providence Plantations**

**REQUIRED SUPPLEMENTARY
INFORMATION**

June 30, 2006

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:				
General Revenues:				
Personal Income Tax	\$ 1,033,495	\$ 994,361	\$ 996,792	\$ 2,431
General Business Taxes:				
Business Corporations	109,525	158,000	165,054	7,054
Public Utilities Gross Earnings	90,000	95,000	96,027	1,027
Financial Institutions	100	(300)	3,989	4,289
Insurance Companies	58,078	53,500	52,878	(622)
Bank Deposits	1,640	1,600	1,494	(106)
Health Care Provider Assessment	49,300	48,000	47,002	(998)
Sales and Use Taxes:				
Sales and Use	887,888	875,000	869,163	(5,837)
Motor Vehicle	49,211	48,800	52,626	3,826
Motor Fuel	1,000	1,200	31	(1,169)
Cigarettes	126,300	126,600	126,341	(259)
Controlled Substances	11,400	10,700	10,870	170
Other Taxes:				
Inheritance and Gift	31,700	32,000	39,204	7,204
Racing and Athletics	4,020	3,500	3,490	(10)
Realty Transfer Tax	14,900	15,300	14,592	(708)
Total Taxes	<u>2,468,557</u>	<u>2,463,261</u>	<u>2,479,553</u>	<u>16,292</u>
Departmental Revenue	<u>312,587</u>	<u>286,058</u>	<u>287,315</u>	<u>1,257</u>
Total Taxes and Departmental Revenue	<u>2,781,144</u>	<u>2,749,319</u>	<u>2,766,868</u>	<u>17,549</u>
Other Sources				
Gas Tax Transfer	4,760	4,760	4,322	(438)
Other Miscellaneous	18,950	33,241	31,163	(2,078)
Lottery	350,500	332,500	323,899	(8,601)
Unclaimed Property	10,199	15,400	14,243	(1,157)
Total Other Sources	<u>384,409</u>	<u>385,901</u>	<u>373,627</u>	<u>(12,274)</u>
Total General Revenues	<u>3,165,553</u>	<u>3,135,220</u>	<u>3,140,495</u>	<u>5,275</u>
Federal Revenues	1,756,638	1,799,324	1,713,287	(86,037)
Restricted Revenues	108,785	113,706	105,765	(7,941)
Other Revenues	135,807	120,890	110,253	(10,637)
Total Revenues	<u>5,166,783</u>	<u>5,169,140</u>	<u>5,069,800</u>	<u>(99,340)</u>
Expenditures:				
Department of Administration				
Central Management				
General Revenue Total	1,775	1,886	1,747	139
Federal Funds Total	323	353	290	63
** Restricted Receipts	100	147	168	(21)
Total-Central Management	2,198	2,385	2,205	180
Legal Services				
Legal Support/DOT				
General Fund Total	2,164	2,147	2,804	(657)
Total-Legal Services	2,164	2,147	2,804	(657)

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General Fund
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Accounts & Control				
General Revenue	4,265	4,404	4,522	(118)
Total-Accounts & Control	4,265	4,404	4,522	(118)
Budgeting				
General Revenue Total	3,058	3,029	2,881	148
Total-Budgeting	3,058	3,029	2,881	148
Purchasing				
General Revenue Total	2,140	2,299	2,224	75
Total-Purchasing	2,140	2,299	2,224	75
Auditing				
General Revenue Total	1,802	1,672	1,613	59
Total-Auditing	1,802	1,672	1,613	59
Human Resources				
General Revenue Total	6,619	6,574	6,303	271
Federal Funds Total				
Total-Human Resources	6,619	6,574	6,303	271
Personnel Appeal Board				
General Revenue Total	94	91	80	11
Total-Personnel Appeal Board	94	91	80	11
Taxation				
Motor Fuel Tax Evasion Program	56	34	69	(35)
Temporary Disability Insurance	806	845	746	99
General Revenue Total	18,224	18,210	18,105	105
Federal Funds Total	1,094	1,145	1,048	97
Restricted Receipts Total	838	769	677	92
Total-Taxation	21,018	21,003	20,645	358
Registry of Motor Vehicles				
General Revenue Total	16,381	16,961	17,018	(57)
Federal Funds Total	247	862	481	381
Restricted Receipts Total	17	16	15	1
Total-Registry of Motor Vehicles	16,645	17,839	17,514	325
Central Services				
Restricted Receipts Total			488	(488)
Total-Central Services			488	(488)
Facilities Management				
General Revenue Total	12,134	14,029	12,758	1,271
Federal Fund Total	17,071	18,352	20,045	(1,693)
Restricted Receipts	1,522	1,068	142	926
Total-Facilities Management	30,728	33,449	32,945	504

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General Fund
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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Capital Projects & Property Management				
General Revenue Total	2,737	3,282	3,201	81
Total-Capital Project & Property Management	2,737	3,282	3,201	81
Office of Library & Information Service				
Federal Funds Total			7	(7)
Total-Office of Library & Information Service			7	(7)
Information Technology				
General Revenue Total	3,033	6,334	4,564	1,770
Federal Funds Total		428	197	231
Total-Information Technology	3,033	6,762	4,762	2,000
Library Program				
General Revenue Total	1,007	1,007	1,006	1
Federal Funds Total	1,397	1,397	1,140	257
Restricted Receipts	8	5		5
Total-Library Program	2,412	2,408	2,146	262
Statewide Planning				
General Revenue Total	1,685	5,621	5,087	534
Federal Funds Total	5,045	7,191	5,808	1,383
Federal Highway - PL Systems	1,478	1,833	1,402	431
Air Quality Modeling	21	21	9	12
Total ISTEPA Funds	1,499	1,854	1,411	443
Total-Statewide Planning	8,228	14,666	12,306	2,360
General				
RICAP-State House Terrace/South Stairs		22	(2)	24
RICAP-Pastore Center Sewer Improvements	907	1,077	898	179
RICAP-Chapin Health Laboratory	157	57	47	10
RICAP-Cranston Street Armory	978	3,101	2,769	332
RICAP-Cannon Building	160	60	30	30
RICAP-Veterans' Auditorium	1,150	1,150	537	613
RICAP-Old State House	424	30	11	19
RICAP-State Office Building	439	439	22	417
RICAP-Veterans Office Building	404	404	404	
RICAP-Old Colony House	254	120	1	119
RICAP-Washington County Government Center	265	265	26	239
RICAP-State House Renovations - Phase II	1,053	1,053	640	413
RICAP-William Powers Building	543	993	685	308
RICAP-State House Renovations-Phase III	153	153	148	5
RICAP-Powers Building Tech Infrastructure	488			
RICAP-Environmental Compliance	481	236	244	(8)
RICAP-Fox Point Hurricane Barrier	50	50	50	
RICAP-Bio Tech Training Lab-Planning Funds	200	200	114	86
RICAP-Fire Code Compliance State Building	1,050	50	13	37
Eisenhower House	50	50	33	17
RICAP-Elderly Affairs One Stop	25	25	14	11
McCoy Stadium Repair	1,480			
RICAP-Lead Mitigation-Group Homes	272			

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General Fund
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	Original Budget	Final Budget	Actual	Variance
Information Processing Rotary Account-Overhead	870	870	870	
Property Tax Relief Credit	10,000			
Rhode Island Sports Foundation	300	300	300	
Miscellaneous Grants and Payments	355	355	355	
Torts-Court Awards	400	400	877	(477)
Asset Inventory	99	99	35	64
State Employees/Teachers Retiree Health	7,850	8,549	8,326	223
Governor's Contingency Fund	1,679	679	350	329
Economic Development Corporation Grant	7,342	7,167	7,159	8
Slater Centers of Excellence	3,000	3,000	3,000	
Economic Policy Council	300	300	300	
Housing Resources Commission	3,791			
Neighborhood Opportunities Program	97	97	97	
Motor Vehicle Excise Tax Payment	112,286	117,775	117,649	126
Property Valuation	1,212	1,212	932	280
General Revenue Sharing Program	65,348	64,974	64,974	
Payment in Lieu of Tax Exempt Properties	26,975	26,975	26,975	
Distressed Communities Relief Program	9,967	10,640	10,640	
Resource Sharing and State Library Aid	8,441	8,441	8,391	50
Library Construction Aid	2,652	2,652	2,634	18
Domestic Partners IRS Penalty		475	475	
Federal Funds	256	256	199	57
Restricted Receipts Total	1,117	1,283	704	579
Total-General	275,319	266,034	261,927	4,107
Debt Service Payments				
RICAP-DEM-Narragansett Bay Commission	1,974	1,927	1,927	
RICAP-DEM-Clean Water Finance Agency	2,798	3,010	3,010	
RICAP-DEM-Wastewater Treatment	4,162	4,190	4,190	
RICAP-DEM-Debt Service-Recreation	10,233	10,503	10,503	
RIPTA Debt Service	685	650	650	
RICAP-MHRH Com Services	5,751	5,777	5,777	
RICAP-MHRH Comm. Mental Health	2,247	2,380	2,380	
Transportation Debt Service	31,597	36,807	36,615	192
RIRBA-DLT Temporary Disability Insurance	46	46	62	(16)
COPS-DLT Building-TDI	363	356	363	(7)
COPS-DLT Building-Reed Act	37	26	8	18
Debt-URI Education and General	1,089			
Debt-URI Housing Loan Funds	1,752			
Debt-URI Dining Services	267			
Debt-URI Health Services	126			
Debt-W. Alton Jones Service	113			
Debt-URI Memorial Union	98			
Debt-URI Sponsored Research (Indirect Cost)	101			
Debt-RIC Education and General	297			
Debt-RIC Housing	568			
Debt-RIC Student Center and Dining	178			
Debt-RIC Student Union	217			
Debt-CCRI Bookstore	177			
Investment Receipts-Bond Funds			528	(528)
RICAP-DEM Hazardous Waste	1,116	2,452	2,452	

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General Fund
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
RICAP-Water Resources Board	2,157	2,294	2,294	
RICAP-University of Rhode Island-Debt Service	5,644			
RICAP-Rhode Island College-Debt Service	515			
RICAP-Comm. College Of Rhode Island-Debt Svc.	1,438			
RICAP-Third Rail/Quonset Point debt Service	1,367			
Debt Service Payments	83,190	71,414	72,644	(1,230)
Federal Funds	1,124	1,178	1,157	21
Restricted Receipts Fund	6,649	1,028	360	668
Total-Debt Service Payments	168,073	144,038	144,920	(882)
Sheriffs				
General Revenue Total	17,023	18,439	18,585	(146)
Total Sheriffs	17,023	18,439	18,585	(146)
Retirement Alternative				
Pay Plan Reserve General Revenue	(1,658)			
Other Funds Total	(303)			
Federal Funds Total	(667)			
Restricted Receipts	(105)			
Total-Retirement Alternative	(2,734)			
General Revenue Fund Total-Dept Of Admin	438,635	432,359	429,484	2,875
Federal Grant Fund Total-Dept of Admin	25,888	31,160	30,373	787
Restricted Fund Total-Dept of Admin	10,145	4,315	2,553	1,762
Other Fund Total-Dept of Admin	90,152	82,687	79,668	3,019
Total-Department of Administration	564,821	550,521	542,078	8,443
Department of Business Regulation				
Central Management				
General Revenue Total	1,733	1,830	1,629	201
Total-Central Management	1,733	1,830	1,629	201
Banking Regulation				
General Revenue Total	1,759	1,849	1,699	150
Total-Banking Regulation	1,759	1,849	1,699	150
Security Regulation				
General Revenue Total	817	876	844	32
Total-Securities Regulation	817	876	844	32
Commercial Licensing and Regulation				
General Revenue Total	1,254	1,156	1,133	23
Restricted Revenue Total	100	100	17	83
Total-Commercial Licensing and Regulation	1,354	1,256	1,151	105
Racing and Athletics				
General Revenue Total	417	508	476	32
Total-Racing and Athletics	417	508	476	32

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
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	Original Budget	Final Budget	Actual	Variance
Insurance Regulation				
General Revenue Total	4,416	4,170	3,846	324
Restricted Receipts Total	708	694	652	42
Total-Insurance Regulation	5,124	4,864	4,497	367
Board of Accountancy				
General Revenue Total	139	150	142	8
Total-Board of Accountancy	139	150	142	8
General Revenue Fund Total-DBR	10,535	10,540	9,768	772
Restricted Fund Total-DBR	808	794	669	125
Total-Department of Business Regulation	11,344	11,334	10,437	897
Department of Labor and Training				
Central Management				
General Revenue Total	423	271	232	39
Director of Workers' Compensation	836	896	557	339
Total-Central Management	1,260	1,167	788	379
Workforce Development Services				
Reed Act-Woonsocket Network Office Renovations		557	467	90
Reed Act-Rapid Job Development	1,650	1,014	705	309
Reed Act-Workforce Development	5,534	5,385	4,617	768
General Revenue Total	673	293	293	
Federal Funds Total	14,135	19,563	16,234	3,329
Restricted Receipts	7,963	8,452	1,979	6,473
Total-Workforce Development Services	29,956	35,264	24,296	10,968
Workforce Regulation and Safety				
General Revenue Total	3,076	3,198	3,268	(70)
Total-Workforce Regulation and Safety	3,076	3,198	3,268	(70)
Income Support				
General Revenue Total	2,942	3,127	3,156	(29)
Federal Funds Total	14,434	16,288	17,597	(1,309)
Restricted Receipt Total	1,772	1,593	1,598	(5)
Total-Income Support	19,148	21,009	22,351	(1,342)
Injured Workers Services				
Restricted Receipts Total	10,113	11,647	11,222	425
Total-Injured Workers Services	10,113	11,647	11,222	425

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	Original Budget	Final Budget	Actual	Variance
Labor Relations Board				
General Revenue Total	328	437	376	61
Total-Labor Relations Board	328	437	376	61
General Revenue Fund Total-DLT	7,442	7,326	7,325	1
Federal Grants Fund Total-DLT	28,569	35,851	33,831	2,020
Restricted Fund Total-DLT	20,685	22,588	15,356	7,232
Other Fund Total-DLT	7,185	6,956	5,789	1,167
Total-Department of Labor and Training	63,880	72,721	62,301	10,420
General Assembly				
General Revenue Fund Total-Gen Assembly	31,408	32,612	29,355	3,257
Restricted Fund Total-Gen Assembly	1,272	1,352	1,352	
Total-General Assembly	32,681	33,963	30,707	3,256
Office of the Lieutenant Governor				
General Revenue Total	918	959	900	59
Total-Office of the Lieutenant Governor	918	959	900	59
Department of State Administration				
General Revenue Total	1,614	1,820	1,740	80
Total-Administration	1,614	1,820	1,740	80
Corporations				
General Revenue Total	1,555	1,749	1,815	(66)
Total-Corporation	1,555	1,749	1,815	(66)
State Archives				
General Revenue Total	96	100	101	(1)
Federal Funds Total		23	5	18
Restricted Receipts total	486	475	459	16
Total-State Archives	582	597	565	32
Elections				
General Revenue Total	380	470	474	(4)
Federal Funds Total	982	6,279	6,491	(212)
Total-Elections	1,362	6,749	6,966	(217)
State Library				
General Revenue Total	699	702	706	(4)
Total-State Library	699	702	706	(4)

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General Fund
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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Office of Public Information				
General Revenue Total	456	405	382	23
Total-Office of Public Information	456	405	382	23
General Revenue Fund Total-Sec of State	4,799	5,246	5,218	28
Federal Grant Fund Total-Sec of State	982	6,301	6,496	(195)
Restricted Fund Total-Sec of State	486	475	459	16
Total-Department of State	6,267	12,022	12,173	(151)
Treasury Department				
Treasury				
General Revenue Total	2,588	2,509	2,495	14
Federal Funds Total	269	279	211	68
Restricted Receipts Total	10	10	10	10
Total-Treasury	2,866	2,798	2,706	92
State Retirement System				
Administrative Expenses-State Retirement System	4,522	6,644	4,760	1,884
Retirement-Treasury Investment Operations	703	717	933	(216)
Total-State Retirement System	5,225	7,361	5,693	1,668
Unclaimed Property				
Restricted Receipts Total	18,394	25,175	26,775	(1,600)
Total-Unclaimed Property	18,394	25,175	26,775	(1,600)
RI Refunding Bond Authority				
General Revenue Total	53	55	34	21
Total-RI Refunding Bond Authority	53	55	34	21
Crime Victim Compensation Program				
General Revenue Total	258	239	220	19
Federal Funds Total	1,230	2,059	384	1,675
Restricted Receipts Total	1,744	1,665	1,376	289
Total-Crime Victim Compensation Program	3,232	3,963	1,979	1,984
General Revenue Fund Total-Treasury	2,899	2,803	2,749	54
Federal Grant Fund Total-Treasury	1,499	2,338	594	1,744
Restricted Fund Total-Treasury	20,148	26,850	28,150	(1,300)
Other Fund Total-Treasury	5,224	7,361	5,693	1,668
Total-Treasury Department	29,771	39,351	37,186	2,165
Boards For Professional Design				
General Revenue Total	360	381	381	
General Revenue Fund Total-Board of Professional Design	360	381	381	
Total-Boards For Professional Designs-PL	360	381	381	

State of Rhode Island and Providence Plantations
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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Board of Elections				
General Revenue Total	1,436	1,434	1,440	(6)
Federal Funds Total	1,087	1,029	953	76
Total-Board Of Elections	2,523	2,463	2,393	70
Rhode Island Ethics Commission				
General Revenue Total	1,207	1,191	1,156	35
General Revenue Fund Total-RI Ethics Commision	1,207	1,191	1,156	35
Total-Rhode Island Ethics Commission	1,207	1,191	1,156	35
Office of Governor				
General Revenue Total	4,607	4,771	4,763	8
Restricted Receipts		104	118	(14)
Other Fund Total	76	85	49	36
Total-Office of the Governor	4,683	4,960	4,930	30
Public Utilities Commission				
General Revenue Total	710	694	657	37
Federal Funds Total	75	84	76	8
Restricted Receipts Total	5,635	5,822	4,446	1,376
Total-Public Utilities Commission	6,420	6,599	5,179	1,420
Rhode Island Commission on Women				
General Revenue Total	87	92	89	3
Total-Rhode Island Commission on Women	87	92	89	3
Department of Children, Youth, and Families				
Central Management				
General Revenue Total	8,238	8,500	8,447	53
Federal Funds Total	3,998	3,994	3,484	510
Total-Central Management	12,236	12,494	11,931	563
Children's Behavioral Health Services				
RICAP-Groden Center-Mt. Hope	80	80		80
General Revenue Total	30,777	34,589	33,833	756
Federal Funds Total	28,949	36,466	34,986	1,480
Total-Children's Behavioral Health Services	59,806	71,135	68,819	2,316
Juvenile Correctional Services				
RICAP-RI Training School-Girls Facilities	2,175	700	492	208
RICAP-Community Facilities-Training	725			
RICAP-NAFI Center	50			
General Revenue Total	30,020	32,067	30,773	1,294
Federal Funds Total	2,919	3,429	3,821	(392)
Restricted Receipts Total	5	645	189	456
Total-Juvenile Correctional Services	35,893	36,842	35,276	1,566

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Child Welfare				
General Revenue Total	95,443	92,701	94,712	(2,011)
Federal Funds Total	71,291	73,382	72,703	679
Restricted Receipts Total	1,624	1,639	1,844	(205)
RICAP-Fire Codes Upgrade	500	50	63	(13)
Total-Child Welfare	168,858	167,772	169,323	(1,551)
Higher Education Incentive Grant				
General Revenue Total	200	200	200	
Total-Higher Education Incentive Grants	200	200	200	
Department of Children, Youth, and Families				
General Revenue Fund Total-DCYF	164,678	168,056	167,965	91
Federal Grant Fund Total-DCYF	107,156	117,271	114,995	2,276
Restricted Fund Total-DCYF	1,628	2,285	2,033	252
Other Fund Total-DCYF	3,530	830	555	275
Total-Department of Children, Youth, and Families	276,993	288,442	285,549	2,893
Department of Elderly Affairs				
Intermodel Surface Transportation Fund	4,760	4,760	4,757	3
General Revenues Total	15,436	15,327	15,628	(301)
Safety and Care of the Elderly	1	1	1	
RIPAE	5,657	6,551	6,495	56
Federal Funds Total	13,911	15,458	15,196	262
Restricted Revenue	3,325	2,400	2,362	38
General Revenue Fund Total-Dept of Elderly Affairs	21,094	21,879	22,124	(245)
Federal Grant Fund Total-Dept of Elderly Affairs	13,911	15,458	15,196	262
Other Fund Totals-Dept of Elderly Affairs	4,760	4,760	4,757	3
Restricted Receipts Total-Dept of Elderly Affairs	3,325	2,400	2,362	38
Total-Department of Elderly Affairs	43,089	44,497	44,440	57
Department of Health				
Central Management				
General Revenues Total	7,067	7,837	7,743	94
Federal Funds Total	4,292	7,016	3,696	3,320
Restricted Receipts Total	3,795	4,088	4,033	55
Total-Central Management	15,154	18,941	15,472	3,469
State Medical Examiner				
General Revenue Total	1,830	1,872	1,897	(25)
Federal Funds Total	138	226	144	82
Total-State Medical Examiners	1,968	2,098	2,042	56
Family Health				
General Revenues Total	2,214	2,158	2,205	(47)
Federal Funds Total	30,855	30,504	28,841	1,663
Restricted Receipts Total	5,707	6,272	5,131	1,141
Total-Family Health	38,776	38,934	36,177	2,757

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Health Services Regulation				
General Revenues Total	5,007	5,175	4,994	181
Federal Funds Total	5,730	5,671	5,437	234
Restricted Receipts Total	380	375	343	32
Total-Health Services Regulation	11,117	11,221	10,774	447
Environmental Health				
General Revenue Total	4,696	4,551	4,418	133
Federal Funds Total	4,415	4,715	3,546	1,169
Restricted Receipts Total	1,606	1,909	1,482	427
Total-Environmental Health	10,717	11,175	9,446	1,729
Health Laboratories				
General Revenue Total	6,000	6,128	6,234	(106)
Federal Funds Total	1,986	2,892	3,139	(247)
Total-Health Laboratories	7,987	9,020	9,374	(354)
Disease Prevention and Control				
General Revenue Total	5,060	9,745	9,832	(87)
Federal Funds Total	19,387	19,921	15,065	4,856
Restricted Receipts Total	91		(17)	17
Child Safety Program	87		(2)	2
Walkable Communities Initiative	28	30	24	6
Total-Disease Prevention and Control	24,653	29,697	24,902	4,795
General Revenue Fund Total-Health	31,874	37,467	37,325	142
Federal Grant Fund Total-Health	66,803	70,945	59,869	11,076
Restricted Fund Total-Health	11,580	12,645	10,972	1,673
Other Fund Total-Health	115	30	21	9
Total-Department of Health	110,372	121,086	108,187	12,899
Department of Human Services				
Central Management				
General Revenue Total	8,890	8,732	7,988	744
Federal Funds Total	6,649	6,667	4,463	2,204
Restricted Receipts Total	2,710	1,966	1,999	(33)
Total-Central Management	18,249	17,365	14,451	2,914
Child Support Enforcement				
General Revenue Total	3,464	3,614	3,523	91
Federal Fund Total	6,998	7,323	6,921	402
Total-Child Support Enforcement	10,462	10,937	10,444	493
Individual and Family Support				
RICAP-Blind Vending Facilities	50	50	50	
General Revenue Total	22,792	23,363	22,384	979
Federal Funds Total	54,906	54,795	49,754	5,041
Restricted Receipts Total	89	92	92	
Total-Individual and Family Support	77,836	78,300	72,280	6,020

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	Original Budget	Final Budget	Actual	Variance
Veterans' Affairs				
General Revenue Total	17,892	18,655	18,325	330
Federal Funds Total	6,958	6,662	5,339	1,323
Restricted Receipts Total	2,398	2,625	619	2,006
Total-Veterans' Affairs	27,248	27,942	24,283	3,659
Health Care Quality, Financing and Purchases				
General Revenue Total	29,942	21,174	21,233	(59)
Federal Funds Total	43,428	44,349	35,640	8,709
Restricted Receipts Total	401	540	438	102
Total-Health Care Quality, Financing & Purchase	73,770	66,063	57,311	8,752
Medical Benefits				
General Revenue				
Managed Care	199,614	182,922	176,686	6,236
Hospital	113,646	116,662	121,929	(5,267)
Other	62,855	65,943	74,216	(8,273)
Pharmacy	67,454	65,162	50,793	14,369
Special Education	16,632			
Nursing Facilities	137,118	135,024	135,532	(508)
General Revenue Total	597,319	565,713	559,157	6,556
Federal Funds				
Managed Care	245,194	246,147	240,578	5,569
Hospitals	133,566	135,838	134,544	1,294
Nursing Facilities	165,493	162,976	162,965	11
Other	77,982	79,595	92,886	(13,291)
Pharmacy	80,340	55,438	39,180	16,258
Special Education	20,068	20,068	20,130	(62)
Federal Funds Total	722,643	700,062	690,283	9,779
Restricted Receipts Total	15	15	11	4
Total-Medical Benefits	1,319,977	1,265,790	1,249,450	16,340
Supplemental Security Income Program				
General Revenue Total	28,195	27,610	27,037	573
Total-Supplemental Security Income Program	28,195	27,610	27,037	573
Family Independence Program				
TANF/Families Independence Program	13,317	12,846	16,162	(3,316)
Child Care	48,726	42,194	39,068	3,126
Federal Funds Total	82,864	89,801	89,801	
Total-Family Independence Program	144,907	144,841	145,031	(190)

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	Original Budget	Final Budget	Actual	Variance
State Funded Programs				
General Public Assistance	3,015	3,547	3,605	(58)
Citizen Participation Program	50	50	50	
Federal Funds Total	78,579	80,406	79,265	1,141
Total-State Funded Programs	81,644	84,003	82,920	1,083
General Revenue Fund Total-Human Services	773,600	727,498	718,532	8,966
Federal Grant Fund Total-Human Services	1,003,026	990,064	961,466	28,598
Restricted Fund Total-Human Services	5,613	5,238	3,159	2,079
Other Fund Total-Human Services	50	50	50	
Total-Department of Human Services	1,782,288	1,722,850	1,683,207	39,643
Department of Mental Health, Retardation, and Hospital Central Management				
General Revenue Total	2,449	2,270	2,294	(24)
Total-Central Management	2,449	2,270	2,294	(24)
Hospital & Community System Support				
RICAP-Utilities Upgrade	884	884	668	216
RICAP-Medical Center Rehabilitation	625	375	146	229
RICAP-Utilities Systems Water Tanks and Pipes	331	331	6	325
RICAP-DD Private Community Firecode		50		50
RICAP-Central Power Plant Rehabilitation	236	236	1	235
RICAP-Community Fire Code Compliance	1,545	300	256	44
Pastore Fire Code Compliance	500	100	76	24
General Revenue Total	22,914	28,595	29,459	(864)
Federal Funds Total		61		61
Total-Hospital & Community System Support	27,036	30,932	30,611	321
Service for the Developmentally Disabled				
RICAP-MR/DD Residential Development	1,175	925	925	
RICAP-Dev. Disability Group Homes	1,279	1,048	1,047	1
RICAP-Regional Center Repair/Rehabilitation	281	181	130	51
General Revenue Total	110,527	110,945	109,403	1,542
Federal Funds Total	134,326	134,925	132,094	2,831
Total-Service for the Developmentally Disabled	247,589	248,024	243,600	4,424
Integrated Mental Health Services				
General Revenue Total	41,368	42,762	42,091	671
Federal Funds Total	37,849	38,024	36,566	1,458
Total-Integrated Mental Health Services	79,216	80,786	78,657	2,129
Hospital & Community Rehabilitation Svcs				
RICAP-Zambarano Buildings and Utilities	397	197	46	151
General Revenue Total	47,515	49,799	51,622	(1,823)
Federal Funds Total	55,070	55,178	57,625	(2,447)
Total-Hospital & Community Rehabilitation Svcs	102,982	105,174	109,292	(4,118)

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	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Substance Abuse				
RICAP-Asset Protection	251	125	83	42
General Revenues Total	15,313	15,287	14,999	288
Federal Funds Total	14,942	14,815	14,064	751
Restricted Receipts Total	100	90	7	83
Total-Substance Abuse	30,606	30,317	29,152	1,165
General Revenue Fund Total-MHRH	240,087	249,658	249,868	(210)
Federal Grant Fund Total-MHRH	242,185	243,003	240,349	2,654
Restricted Fund Total-MHRH	100	90	7	83
Other Fund Total-MHRH	7,505	4,752	3,383	1,369
Total-Department of Mental Health, Retardation, and Hospital	489,877	497,502	493,607	3,895
Office of Child Advocate				
General Revenue Total	499	536	446	90
Federal Funds Total	48	10	11	(1)
Total-Office of the Child Advocate	547	547	456	91
Rhode Island Commission of the Deaf and Hard of Hearing				
General Revenue Total	328	337	300	37
Federal Fund Total	45	15		15
Total-Rhode Island Commission of the Deaf and Hard of Hearing	373	352	300	52
State Council on Developmental Disabilities				
Federal Funds Total	512	459	468	(9)
Total-State Council on Developmental Disabilities	512	459	468	(9)
Governor's Commission on Disabilities				
General Revenue Total	531	548	540	8
Federal Funds Total	117	226	72	154
Restricted Receipts Total	64	86	67	19
RICAP-Handicapped Accessibility Facility Renovation	196	200	114	86
Total-Governor's Commission on Disabilities	908	1,061	793	268
Rhode Island Commission for Human Rights				
General Revenue Total	979	1,006	984	22
Federal Funds Total	270	312	198	114
Total-Rhode Island Commission for Human Rights	1,249	1,318	1,182	136
Office of Mental Health Advocate				
General Revenue Total	351	382	377	5
Total-Office of Mental Health Advocate	351	382	377	5

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	Original Budget	Final Budget	Actual	Variance
Department of Elementary and Secondary Education				
Education Aid				
State Support Local School Operations	642,631	643,996	643,995	1
Federal Funds Total	2,241	2,022	1,228	794
Restricted Funds Total	2,060	1,835	1,614	221
Total-Education Aid	646,932	647,852	646,836	1,016
School Construction				
General Revenue Total	47,172	46,624	46,624	
Total-School Construction	47,172	46,624	46,624	
Teachers' Retirement				
General Revenue Total	58,633	56,113	54,538	1,575
Total-Teachers' Retirement	58,633	56,113	54,538	1,575
RI School for the Deaf				
RICAP-School for the Deaf-Physical Education Fac	54			
RICAP-DEAF-Building Planning	200	150	150	
General Revenue Total	5,981	6,206	6,064	142
Federal Funds Total	382	392	239	153
Total-RI School for the Deaf	6,617	6,748	6,453	295
Central Falls School District				
General Revenue Total	41,241	41,242	41,241	1
Total-Central Falls School District	41,241	41,242	41,241	1
Davies Career and Technical School				
RICAP-Davies HVAC	137	137	13	124
General Revenue Total	12,906	13,166	12,985	181
Federal Funds Total	1,359	1,508	1,287	221
Restricted Receipts Total	2	12	10	2
Total-Davies Career and Technical School	14,405	14,824	14,295	529
Metropolitan Career and Technical School				
General Revenue Total	8,815	8,815	8,815	
Total-Metropolitan Career and Technical School	8,815	8,815	8,815	

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Administration of the Comprehensive Education Strategy				
RICAP-Chariho Wells	66	71	25	46
Vision Service	140	140		140
RICAP-Davies Roof Repair	5			
RICAP-State Owned Schools-Fire Alarm Systems	20	20	20	
General Revenue Total	20,205	20,031	19,985	46
Federal Funds Total	174,785	175,752	177,355	(1,603)
Restricted Receipts Total	2,797	2,143	1,871	272
Total-Administration of the Comprehensive Education Strategy	198,018	198,157	199,257	(1,100)
General Revenue Fund Total-Dept of Elem & Sec Education	837,583	836,192	834,246	1,946
Federal Grant Fund Total-Dept of Elem & Sec Education	178,767	179,673	180,108	(435)
Restricted Fund Total-Dept of Elem & Sec Education	4,859	3,989	3,496	493
Other Fund Total-Dept of Elem & Sec Education	623	519	208	311
Total-Department of Elementary and Secondary Education	1,021,832	1,020,373	1,018,059	2,314
Public Higher Education				
Board Of Governors/Office of Higher Education				
General revenues	7,314	7,039	7,035	4
Debt-People Soft Lease		1,211	1,211	
Federal Funds	3,086	3,086	1,348	1,738
Restricted Funds		502	151	351
Total Board of Governors	10,400	11,838	9,745	2,093
University of Rhode Island				
General Revenues	84,303	82,378	82,378	
Total University of Rhode Island	84,304	82,378	82,378	
Rhode Island College				
General Revenues	44,981	44,069	44,069	
RIRBA-Rhode Island College		232	232	
Total Rhode Island College	44,981	44,301	44,301	
Community College of Rhode Island				
General Revenue	45,770	45,445	45,445	
Total Community College of Rhode Island	45,770	45,445	45,445	
General Revenue Total - Public Higher Education	182,369	180,376	180,372	4
Federal Grant Total-Public Higher Education	3,086	3,086	1,348	1,738
Restricted Receipts Total-Public Higher Education		502	151	351
Total-Public Higher Education	185,455	183,964	181,871	2,093

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Rhode Island State Council on the Arts				
Operating Support	1,411	1,429	1,405	24
Grants	1,234	1,212	582	630
Federal Funds Total	758	675	584	91
Art for Public Facilities Fund	600	600	55	545
General Revenue Fund Total-RI State Council on the Arts	2,646	2,642	1,988	654
Federal Grant Fund Total-RI State Council on the Arts	758	675	584	91
Other Fund Total-RI State Council on the Arts	600	600	55	545
Total-Rhode Island State Council on the Arts	4,004	3,916	2,626	1,290
Rhode Island Atomic Energy Commission				
URI Sponsored Research	157	161	160	1
RICAP-Paint Interior Reactor Building Walls	2			
General Revenue Total	766	770	799	(29)
Federal Funds Total	325	375	136	239
General Revenue Fund Total-RI Atomic Energy Council	766	770	799	(29)
Federal Grant Fund Total-RI Atomic Energy Council	325	375	136	239
Other Fund Total-RI Atomic Energy Council	159	161	160	1
Total-Rhode Island Atomic Energy Commission	1,249	1,306	1,095	211
R I Higher Education Assistance Authority				
Needs Based Grants and Work Opportunities	8,923	6,723	6,723	
Authority Operations and Other Grants	978	1,006	1,006	
General Revenue Total-RIHEAA	9,901	7,729	7,729	
Total-R I Higher Education Assistance Authority	9,901	7,729	7,729	
Historical Preservation and Heritage Commission				
General Revenue Total	1,414	1,415	1,395	20
Federal Funds Total	584	606	582	24
Restricted Receipts Total	237	560	307	253
Total-Historical Preservation and Heritage Commission	2,235	2,581	2,284	297
R I Public Telecommunication Authority				
General Revenue Total	1,286	1,316	1,258	58
Total-R I Public Telecommunication Authority	1,286	1,316	1,258	58
Department of Attorney General				
Criminal				
General Revenue Total	11,823	12,624	12,271	353
Federal Funds Total	1,035	1,197	1,161	36
Restricted Receipts Total	360	468	220	248
Total-Criminal	13,218	14,289	13,651	638

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Civil				
General Revenue Total	3,672	4,240	4,505	(265)
Restricted Receipts Total	502	519	499	20
Total-Civil	4,174	4,759	5,004	(245)
Bureau of Criminal Identification				
General Revenue Total	849	944	948	(4)
Federal Funds Total	124	271	230	41
Total-Bureau of Criminal Identification	973	1,215	1,178	37
General				
General Revenue Total	1,977	2,155	2,172	(17)
RICAP-Building Renovations & Repairs	466	466	219	247
Total-General	2,442	2,621	2,392	229
General Revenue Fund Total-Dept of Attorney General	18,321	19,963	19,896	67
Federal Grant Fund Total-Dept of Attorney General	1,159	1,468	1,391	77
Restricted Fund Total-Dept of Attorney General	862	987	719	268
Other Fund Total-Dept of Attorney General	466	466	219	247
Total-Department of Attorney General	20,807	22,884	22,225	659
Department of Corrections				
Central Management				
General Revenue Total	10,702	10,623	10,216	407
Federal Funds Total	400	426	216	210
Total-Central Management	11,101	11,049	10,432	617
Parole Board				
General Revenue Total	1,141	1,213	1,146	67
Federal Fund Total	33	45	32	13
Total-Parole Board	1,174	1,258	1,178	80

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Institutional Corrections				
RICAP-Fire Code Safety Improvements	299	300	300	
RICAP-Security Camera Installation	442			
RICAP-Bernadette Guay Bldg. Roof	207	57	1	56
RICAP-Heating & Temperature Controls	326	326	66	260
RICAP-Medium HVAC Renovations	31			
RICAP-Reintegration Center State Match	540	540		540
RICAP-General Renovations-Maximum	684	234	74	160
RICAP-Roof/Masonry Renovations-Women's	1,455	1,355	1,082	273
RICAP-Perimeter/Security Upgrades	146	146		146
RICAP-Women's Bath Renovation	613	113	113	
RICAP-Correctional Industries Roof	6			
RICAP-Minimum-Infrastructure	100			
High-Infrastructure Improvement	200	200	39	161
RICAP-Price:Window/HVAC Renovations	215			
RICAP-MIS/Admin Units Relocation	50			
General Revenue Total	123,003	134,946	127,822	7,124
Federal Funds Total	7,127	9,510	7,822	1,688
Restricted Receipts Total		3	2	1
Total-Institutional Corrections	135,443	147,729	137,322	10,407
Community Corrections				
General Revenue Total	12,373	12,728	11,933	795
Federal Funds Total	1,914	1,569	994	575
Total-Community Corrections	14,287	14,297	12,927	1,370
General Revenue Fund Total-Corrections	147,219	159,510	151,117	8,393
Federal Grant Fund Total-Corrections	9,474	11,550	9,064	2,486
Restricted Fund Total-Corrections		3	2	1
Other Fund Total-Corrections	5,314	3,270	1,675	1,595
Total-Department of Corrections	162,006	174,333	161,859	12,474
Judicial Department				
Supreme Court				
RICAP-McGrath Judicial Complex Interior	232	32	30	2
RICAP-Blackston Valley Courthouse Study	250	155	154	1
RICAP-Judicial HVAC	480	480	390	90
RICAP-Murray Judicial Complex - Interior Refurbishment	3			
RICAP-Fogarty Judicial Annex	23	23	21	2
RICAP-Licht Judicial Complex Foundation	35	35	32	3
RICAP-Licht Window Restoration Project	550	825	814	11
General Revenue Total	21,786	23,251	23,406	(155)
Defense of Indigents	3,217	2,817	3,185	(368)
Federal Funds Total	185	381	221	160
Restricted Receipts Total	961	1,082	1,031	51
Total-Supreme Court	27,722	29,081	29,284	(203)

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Superior Court				
Federal Funds Total	568	728	335	393
General Revenue Total	18,138	18,845	18,398	447
Total-Superior Court	18,706	19,573	18,733	840
Family Court				
General Revenue Total	13,917	15,362	16,338	(976)
Federal Funds Total	2,376	3,650	1,778	1,872
Restricted Receipts Total	142			
Total-Family Court	16,435	19,012	18,116	896
District Court				
General Revenue Total	8,651	9,327	9,353	(26)
Federal Funds Total		6		6
Total-District Court	8,651	9,334	9,353	(19)
Traffic Tribunal				
General Revenue Total	6,863	7,075	6,741	334
Restricted Receipts				
Total-Traffic Tribunal	6,863	7,075	6,741	334
Worker's Compensation Court				
Restricted Receipts Total	6,287	7,154	6,601	553
Total-Worker's Compensation Court	6,287	7,154	6,601	553
Justice Link - State Match			239	(239)
General Revenue Fund Total-Judicial Dept	72,571	76,677	77,660	(983)
Federal Grant Fund Total-Judicial Dept	3,129	4,766	2,334	2,432
Restricted Fund Total-Judicial Dept	7,390	8,236	7,632	604
Other Fund Total-Judicial Dept	1,574	1,550	1,441	109
Total-Judicial Department	84,664	91,229	89,067	2,162
Militia of the State				

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
National Guard				
RICAP-Logistic/Maintenance Facilities	63			
RICAP-Camp Fogarty Training Site	40			
RICAP-Benefit St. Arsenal Rehabilitation	219	17		17
RICAP-Schofield Armory Rehabilitation	220	200	24	176
RICAP-State Armories Fire Code Comp	119	75		75
RICAP-Warwick Armory Boiler	50			
RICAP-Emergency Operations Center	10	10	9	1
RICAP-Federal Armories Fire Code Comp	72			
RICAP-Command Readiness Center-Roof	30			
RICAP-Combined Support Maintenance Shop	25			
RICAP-North Smithfield Armory			(1)	1
RICAP-Warren Armory			(5)	5
RICAP-AMC Roof Rehabilitation	46	4	2	2
RICAP-Army Aviation Support Facility	25			
RICAP-Command Readiness Center	13			
General Revenue Total	1,760	1,962	1,869	93
Federal Funds Total	6,805	8,018	6,591	1,427
Restricted Receipts Total	145	145	153	(8)
Total-National Guard	9,640	10,431	8,642	1,789
Emergency Management				
General Revenue Total	572	773	1,113	(340)
Federal Funds Total	19,676	31,963	18,322	13,641
Restricted Receipts Total	276	212	112	100
Total-Emergency Management	20,524	32,948	19,547	13,401
Militia of the State				
General Revenue Fund Total-Militia of the State	2,332	2,735	2,982	(247)
Federal Grant Fund Total-Militia of the State	26,481	39,981	24,913	15,068
Restricted Fund Total-Militia of the State	421	357	265	92
Other Fund Total-Militia of the State	931	306	28	278
Total-Militia of the State	30,165	43,379	28,188	15,191
E-911 Uniform Emergency Telephone System				
General Revenue Total	4,170	4,130	4,341	(211)
Federal Funds Total	219	305	171	134
Restricted Receipts Total	1,657	1,828	1,746	82
Total-E-911 Uniform Emergency Telephone System	6,046	6,263	6,259	4
Fire Safety Code Board of Appeal and Review				
Fire Code Commission				
General Revenue Total	272	288	295	(7)
Total-Fire Safety Code Board of Appeal and Review	272	288	295	(7)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Division of Fire Safety				
Fire Safety & Training Academy				
General Revenue Total	2,369	2,306	2,244	62
Federal Funds Total	342	367	130	237
Other Funds	13	13		13
Total-Division of Fire Safety	2,723	2,686	2,373	313
Commission on Judicial Tenure & Discipline				
General Revenue Total	107	113	112	1
Total-Commission on Judicial Tenure & Discipline	107	113	112	1
Rhode Island Governor's Justice Commission				
General Revenue Total	253	254	253	1
Federal Funds Total	5,452	5,307	5,140	167
Restricted Receipts Total	30	30		30
Total-Rhode Island Governor's Justice Commission	5,735	5,591	5,394	197
Municipal Police Training School				
General Revenue Total	374	374	331	43
Federal Funds Total	30	117	5	112
Total-Municipal Police Training School	404	491	336	155
Rhode Island State Police				
RICAP-Barracks & Training Headquarters'	190			
RICAP-Headquarters Repair/Renovation	116	10	8	2
Traffic Enforcement-Municipal Training	88	467	172	295
Lottery Commission Assistance	141	147	129	18
Road Construction Reimbursement	2,367	2,367	2,723	(356)
General Revenue Total	45,422	46,373	45,222	1,151
Federal Funds Total	1,979	2,058	1,331	727
Restricted Receipts Total	301	357	165	192
General Revenue Fund Total-State Police	45,422	46,373	45,222	1,151
Federal Grant Fund Total-State Police	1,979	2,058	1,331	727
Restricted Fund Total-State Police	301	357	165	192
Other Fund Total-State Police	2,901	2,990	3,031	(41)
Total-Rhode Island State Police	50,604	51,778	49,748	2,030
Office of Public Defenders				
General Revenue Total	7,757	8,430	8,270	160
Federal Funds Total	238	266	128	138
Total-Office of Public Defenders	7,995	8,696	8,398	298

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, 2006
(Expressed in Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Department of Environmental Management				
Office of Director				
DOT Recreational Projects			70	(70)
Blackstone Bikepath Design			(75)	75
General Revenue Total	7,309	7,482	6,851	631
Federal Funds Total	1,277	1,277	286	991
Restricted Receipts Total	1,734	1,868	2,084	(216)
Total-Office of Director	10,320	10,626	9,217	1,409
Natural Resources				
RICAP-Jamestown Fishing Pier	318	68	65	3
RICAP-Recreational Facilities Improvement	771	300	148	152
RICAP-Fort Adams Rehabilitation	250	50	50	
RICAP-Wickford Marine facility	748	525	6	519
Blackstone Bikepath Design	1,295	1,295	776	519
RICAP-Galilee Piers	391	100	74	26
RICAP-Dam Repair	234	686	406	280
DOT Recreational Projects	25	25	86	(61)
RICAP-Great Swamp Management Area	100			
RICAP-Newport Piers	122	75		75
General Revenue Total	17,074	18,255	18,650	(395)
Federal Funds Total	16,607	16,663	8,593	8,070
Restricted Receipts Total	3,485	3,529	3,109	420
Total-Natural Resources	41,418	41,571	31,963	9,608
Environmental Protection				
General Revenue Total	11,414	11,804	12,588	(784)
Federal Funds Total	12,307	13,217	9,805	3,412
Restricted Receipts Total	5,175	5,239	4,625	614
Total-Environmental Protection	28,896	30,259	27,018	3,241
General Revenue Fund Total-DEM	35,796	37,540	38,090	(550)
Federal Grant Fund Total-DEM	30,190	31,157	18,684	12,473
Restricted Fund Total-DEM	10,394	10,635	9,818	817
Other Fund Total-DEM	4,253	3,125	1,606	1,519
Total-Department of Environmental Management	80,634	82,457	68,198	14,259
Coastal Resources Management Council				
RICAP-Allins Cove	50	50	45	5
General Revenue Total	1,580	1,677	1,682	(5)
Federal Funds Total	1,753	2,539	2,087	452
Restricted Total	806	816	670	146
Total-Coastal Resources Management Council	4,189	5,082	4,483	599

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, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance
Water Resources Board				
RICAP-Big River Management Area	131	131	84	47
General Revenue Total	1,857	1,627	1,359	268
Federal Total	500	500	204	296
Restricted Receipts Total	339	362	327	35
Total-Water Resources Board	2,827	2,620	1,974	646
Departmental Expenditures	5,116,661	5,134,129	4,992,310	141,819
Transfer of Excess Budget Reserve to Bond Capital Fund			59,095	(59,095)
Total Expenditures	5,116,661	5,134,129	5,051,405	82,724
Change in Fund Balance	\$ 50,122	\$ 35,011	18,395	\$ (16,616)
Fund balance - beginning			184,802	
Fund balance - ending			\$ 203,197	
General Revenue Funds Total	\$ 3,115,431	\$ 3,100,209	\$ 3,073,388	\$ 26,821
Federal Grants Funds Total	1,756,638	1,799,324	1,713,287	86,037
Restricted Funds Total	108,785	113,706	97,002	16,704
Other Funds Total	135,807	120,890	108,633	12,257
Total Expenditures	\$ 5,116,661	\$ 5,134,129	\$ 4,992,310	\$ 141,819

** Certain totals may not add due to rounding.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual
Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2006
(Expressed in Thousands)

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	\$ 142,800	\$ 142,715	\$ 142,410	\$ (305)
Departmental restricted revenue	6	3,061	(584)	(3,645)
Federal grants	207,853	244,187	249,088	4,901
Other revenues	5,490	7,480	5,688	(1,792)
Total revenues	356,149	397,443	396,602	(841)
Other financing sources:				
Operating transfers in			42,150	42,150
Total revenues and other financing sources	356,149	397,443	438,752	41,309
Expenditures:				
Central Management				
Gasoline Tax	3,614	3,650	3,602	48
Federal Funds	9,608	5,408	3,213	2,195
Total - Central Management	13,222	9,058	6,815	2,243
Management and Budget				
Gasoline Tax	2,067	3,046	4,578	(1,532)
Total - Management and Budget	2,067	3,046	4,578	(1,532)
Infrastructure - Engineering				
Gasoline Tax	50,815	46,551	49,692	(3,141)
RICAP - RIPTA Land and Buildings	330	330	21	309
Train Station	100	75		75
State Infrastructure Bank	1,000	1,000		1,000
Land Sale Revenue	4,000	6,000	2,875	3,125
Federal Funds	198,244	238,779	213,862	24,917
FHWA Pledged Revenues			41,801	(41,801)
Restricted Receipts	6	3,061	(12)	3,073
Subtotal - Infrastructure - Engineering	254,495	295,796	308,239	(12,443)
State Match - FHWA			41,603	(41,603)
Total - Infrastructure - Engineering	254,495	295,796	349,842	(54,046)
Infrastructure - Maintenance				
Gasoline Tax	42,259	42,491	41,283	1,208
Outdoor Advertising	61	75	3	72
Nonland Surplus		288		288
Total - Infrastructure - Maintenance	42,320	42,854	41,286	1,568
Total Expenditures	312,104	350,754	402,521	(51,767)
Other financing uses:				
Transfers to other funds				
Gas tax			45,877	
Other			233	
Total expenditures and other financing uses			448,631	
Net change in fund balance			(9,879)	
Fund balance - beginning			33,940	
Fund balance - ending			\$ 24,061	

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
June 30, 2006
(Expressed in thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2005	5,444,369	9,762,675	4,318,306	55.8%	1,504,526	287.0%
06/30/2004	5,543,427	9,328,983	3,785,556	59.4%	1,472,620	257.1%
06/30/2003 **	5,695,358	8,858,979	3,163,621	64.3%	1,440,744	219.6%

State Police Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2005	29,617	37,511	7,894	79.0%	13,225	59.7%
06/30/2004	24,767	32,689	7,922	75.8%	11,422	69.4%
06/30/2003	20,966	28,443	7,477	73.7%	11,286	66.3%

Judicial Retirement Benefits Trust

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2005	19,347	22,251	2,904	86.9%	5,685	51.0%
06/30/2004	16,019	21,846	5,827	73.3%	5,638	103.3%
06/30/2003	13,270	18,435	5,165	72.0%	5,303	97.4%

** Restated June 30, 2003 actuarial accrued liability due to the adoption of Article 7, Substitute A as Amended

State of Rhode Island and Providence Plantations
Notes to Required Supplementary Information
June 30, 2006

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

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

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

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

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

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

Appropriations for Medical Benefits in the Department of Human Services are divided into six categories by the Caseload Estimating Conference. The category Pharmacy was first designated by the Caseload Estimating Conference in FY2005 to subdivide those expenditures for pharmaceuticals formerly recorded in accounts assigned to the category Other. In FY 2006, not all of the appropriate charges were recorded in the account established for Pharmacy. A portion of the pharmacy charges are included in the Other category.

Schedule of Expenditures
of Federal Awards



Schedule of Expenditures of
Federal Awards

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
U.S. Department of Agriculture		
Plant and Animal Disease, Pest Control, and Animal Care	10.025	\$ 67,441
Inspection Grading and Standardization	10.162	204,048
Rural Housing Preservation Grants	10.433	14,750
Food Donation (See Note 2)	10.550	3,698,091
Food Stamp Cluster:		
Food Stamps	10.551	79,217,397
State Administrative Matching Grants for Food Stamp Program	10.561	7,785,804
Child Nutrition Cluster:		
School Breakfast Program	10.553	5,215,306
National School Lunch Program	10.555	20,257,065
Special Milk Program for Children	10.556	89,754
Summer Food Service Program for Children	10.559	1,281,386
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557	19,224,989
Child and Adult Care Food Program	10.558	6,837,248
State Administrative Expenses for Child Nutrition	10.560	891,221
Emergency Food Assistance Cluster:		
Emergency Food Assistance Program (Administrative Costs)	10.568	174,046
WIC Farmers' Market Nutrition Program (FMNP)	10.572	204,617
Cooperative Forestry Assistance	10.664	1,432,348
Watershed Surveys and Planning	10.906	203,685
Total U.S. Department of Agriculture		\$ 146,799,196
U.S. Department of Commerce		
Personal Census Search	11.006	\$ 30,008
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance (See Note 2)	11.307	13,583,803
Economic Development - Support for Planning Organizations	11.302	127,110
Interjurisdictional Fisheries Act of 1986	11.407	79,603
Coastal Zone Management Administration Awards	11.419	2,086,789
Coastal Zone Management Estuarine Research Reserves	11.420	869,018
Marine Fisheries Initiative	11.433	469,369
Unallied Management Projects	11.454	132,100
Unallied Science Program	11.472	121,537
Atlantic Coastal Fisheries Cooperative Management Act	11.474	146,668
Total U.S. Department of Commerce		\$ 17,646,005
U.S. Department of Defense		
Procurement Technical Assistance for Business Firms	12.002	\$ 250,527
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113	229,867
National Guard Military Operations and Maintenance (O&M) Projects	12.401	6,591,062
Total U.S. Department of Defense		\$ 7,071,456
U.S. Department of Housing and Urban Development		
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families	14.103	\$ 1,198,793
Mortgage Insurance - Homes (See Note 2)	14.117	6,319,745

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
Section 8 Project-Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	100,170,026
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	388,041
Home Equity Conversion Mortgages (See Note 2)	14.183	11,378,739
Community Development Block Grants/State's Program	14.228	4,942,787
Emergency Shelter Grants Program	14.231	283,015
Supportive Housing Program	14.235	4,816,592
Shelter Plus Care	14.238	574,061
HOME Investment Partnerships Program	14.239	4,937,179
Housing Opportunities for Persons with AIDS	14.241	608,350
Fair Housing Assistance Program - State and Local	14.401	138,903
Section 8 Housing Choice Vouchers	14.871	7,542,105
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	1,141,628
Healthy Homes Demonstration Grants	14.901	24,064
Lead Outreach Grants	14.904	199,250
Total U.S. Department of Housing and Urban Development		\$ 144,663,278
U.S. Department of Interior		
Fish and Wildlife Cluster:		
Sport Fish Restoration	15.605	\$ 2,792,917
Wildlife Restoration	15.611	969,660
Administrative Grants for Federal Aid in Sport Fish and Wildlife Restoration	15.618	9
Landowner Incentive	15.633	414
Historic Preservation Fund Grants-In-Aid	15.904	581,658
Outdoor Recreation - Acquisition, Development and Planning	15.916	471,288
Total U.S. Department of Interior		\$ 4,815,946
U.S. Department of Justice		
Law Enforcement Assistance - Narcotics and Dangerous Drugs - Laboratory Analysis	16.001	\$ 6,212
State Domestic Preparedness Equipment Support Program	16.007	2,297,928
Protection of Voting Rights	16.104	953,176
Americans With Disabilities Act Technical Assistance Program	16.108	2,525
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	762,724
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203	51,535
Juvenile Accountability Incentive Block Grants	16.523	419,254
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	523,441
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	47,465
Gang-Free Schools and Communities - Community-Based Gang Intervention	16.544	260,530
Victims of Child Abuse	16.547	49,931
Title V - Delinquency Prevention Program	16.548	1,634
State Justice Statistics Program for Statistical Analysis Centers	16.550	63,585
National Criminal History Improvement Program (NCHIP)	16.554	211,479
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	103,033
Crime Laboratory Improvement-Combined Offender DNA		
Index System Backlog Reduction	16.564	131,160
Crime Victim Assistance	16.575	1,693,941
Crime Victim Compensation	16.576	431,624
Edward Byrne Memorial Formula Grant Program	16.579	2,732,182

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
Edward Byrne Memorial State and Local Law Enforcement Assistance		
Discretionary Grants Program	16.580	194,207
Drug Court Discretionary Grant Program	16.585	1,139,495
Violent Offender Incarceration and Truth in Sentencing Incentive Grants	16.586	5,756,238
Violence Against Women Formula Grants	16.588	1,255,879
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	54,486
Local Law Enforcement Block Grant Program	16.592	10,153
Residential Substance Abuse Treatment for State Prisoners	16.593	174,284
State Identification Systems Grant Program	16.598	3,159
State Criminal Alien Assistance Program	16.606	1,301,215
Enforcing Underage Drinking Laws Program	16.727	441,757
Protecting Inmates and Safeguarding Communities Discretionary Grant Program	16.735	190,129
		190,129
Total U.S. Department of Justice		\$ 21,264,361
U.S. Department of Labor		
Labor Force Statistics	17.002	\$ 869,182
Compensation and Working Conditions	17.005	14,482
Employment Services Cluster:		
Employment Service/Wagner-Peyser Funded Activities	17.207	3,339,988
Disabled Veterans' Outreach Program (DVOP)	17.801	276,774
Local Veterans' Employment Representative Program	17.804	273,480
Unemployment Insurance (See Note 5)	17.225	207,741,831
Senior Community Service Employment Program	17.235	286,090
Trade Adjustment Assistance	17.245	7,444,400
Employment Services and Job Training Pilots - Demonstration and Research	17.249	(8)
Workforce Investment Act	17.255	(6,433)
WIA Cluster:		
WIA Adult Program	17.258	2,960,970
WIA Youth Activities	17.259	2,942,275
WIA Dislocated Workers	17.260	3,356,561
WIA Pilots, Demonstrations, and Research Projects	17.261	217
Employment and Training Administration Evaluations	17.262	44,755
Consultation Agreements	17.504	444,448
		444,448
Total U.S. Department of Labor		\$ 229,989,012
U.S. Department of Transportation		
Airport Improvement Program	20.106	\$ 15,229,635
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	244,268,865
Motor Carrier Safety	20.217	893,714
Federal Transit Cluster:		
Federal Transit - Capital Investment Grants	20.500	12,234,249
Federal Transit - Formula Grants	20.507	14,639,313
Federal Transit Managerial Training Grants	20.503	3,182,603
Federal Transit - Metropolitan Planning Grants	20.505	325,004
Formula Grants for Other Than Urbanized Areas	20.509	408,561
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	661,512
State Planning and Research	20.515	45,281

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
Highway Safety Cluster:		
State and Community Highway Safety	20.600	3,288,662
Pipeline Safety	20.700	76,230
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	15,535
Other Department of Transportation Awards	N/A	4,545,592
Total U.S. Department of Transportation		\$ 299,814,756
Equal Opportunity Employment Commission		
Employment Discrimination - State and Local Fair		
Employment Practices Agency Contracts	30.002	\$ 58,768
Total Equal Opportunity Employment Commission		\$ 58,768
General Services Administration		
Donation of Federal Surplus Personal Property (See Note 2)	39.003	\$ 364,371
Total General Services Administration		\$ 364,371
National Foundation on the Arts and the Humanities		
Promotion of the Arts - Grants to Organizations and Individuals	45.024	\$ 97
Promotion of the Arts - Partnership Agreements	45.025	561,597
Promotion of the Arts - Leadership Initiatives	45.026	22,345
Museums for America	45.301	1,139,588
Total National Foundation on the Arts and the Humanities		\$ 1,723,627
National Science Foundation		
Social, Behavioral, and Economic Sciences	47.075	\$ 12,377
Education and Human Resources	47.076	107,952
Total National Science Foundation		\$ 120,329
U.S. Department of Veteran's Affairs		
Veterans Domiciliary Care	64.008	\$ 5,148,421
Veterans Housing - Guaranteed and Insured Loans (See Note 2)	64.114	3,913,909
All-Volunteer Force Educational Assistance	64.124	57,419
State Cemetery Grants	64.203	190,387
Total U.S. Department of Veteran's Affairs		\$ 9,310,136
Environmental Protection Agency		
Air Pollution Control Program Support	66.001	\$ 910,698
State Indoor Radon Grants	66.032	166,231
Surveys, Studies, Investigations, Demonstrations and Special		
Purpose Activities Relating to the Clean Air Act	66.034	218,666
Water Pollution Control State, Interstate and Tribal Program Support	66.419	246,407
State Public Water System Supervision	66.432	577,197
Targeted Watershed Grants	66.439	151,435
Water Quality Management Planning	66.454	78,044

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
National Estuary Program	66.456	144,844
Capitalization Grants for Clean Water State Revolving Funds	66.458	10,014,450
Capitalization Grants for Drinking Water State Revolving Funds	66.468	13,095,108
State Grants to Reimburse Operators of Small Water Systems for Training and Certification Costs	66.471	71,130
Beach Monitoring and Notification Program Implementation Grants	66.472	136,822
Water Protection Grants to the States	66.474	15,876
Performance Partnership Grants	66.605	4,168,471
Surveys, Studies, Investigations and Special Purpose Grants	66.606	1,695,977
Environmental Information Exchange Network Grant Program and Related Assistance	66.608	274,121
Environmental Policy and Innovation Grants	66.611	83,977
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701	204,019
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707	150,798
Pollution Prevention Grants Program	66.708	30,000
Superfund State, Political Subdivision, and Indian Tribe Site-Specific Cooperative Agreements	66.802	2,707,540
Leaking Underground Storage Tank Trust Fund Program	66.805	671,836
Solid Waste Management Assistance Grants	66.808	1,217
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809	171,026
Brownfields Cleanup Revolving Loan Fund	66.811	15,416
State and Tribal Response Program Grants	66.817	1,084,779
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	131,069
Total Environmental Protection Agency		\$ 37,217,154
U.S. Department of Energy		
State Energy Program	81.041	\$ 563,332
Weatherization Assistance for Low-Income Persons	81.042	1,119,127
University Reactor Infrastructure and Education Support	81.114	136,215
Total U.S. Department of Energy		\$ 1,818,674
U.S. Department of Education		
Adult Education - State Grant Program	84.002	\$ 2,389,882
Civil Rights Training and Advisory Services	84.004	213,829
Student Financial Assistance Cluster: (See Note 6)		
Federal Supplemental Educational Opportunity Grants	84.007	2,470,339
Federal Family Education Loans (See Note 2)	84.032	37,323,720
Federal Work-Study Program	84.033	1,785,742
Federal Perkins Loan Program-Federal Capital Contributions (See Note 2)	84.038	14,473,980
Federal Pell Grant Program	84.063	17,428,915
Federal Direct Student Loans (See Note 2)	84.268	49,179,675
Title I Grants to Local Educational Agencies	84.010	49,098,636
Migrant Education - State Grant Program	84.011	967
Title I Program for Neglected and Delinquent Children	84.013	543,720
Special Education Cluster:		
Special Education - Grants to States	84.027	41,982,986
Special Education - Preschool Grants	84.173	1,723,705
Higher Education - Institutional Aid	84.031	13,458
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032	3,219,767

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
TRIO Cluster:		
TRIO-Student Support Services	84.042	702,385
TRIO-Talent Search	84.044	546,895
TRIO-Upward Bound	84.047	608,669
TRIO-Educational Opportunity Centers	84.066	777,834
Vocational Education - Basic Grants to States	84.048	5,255,208
Leveraging Educational Assistance Partnership	84.069	422,028
Fund for the Improvement of Postsecondary Education	84.116	163,275
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	9,806,845
National Institute on Disability and Rehabilitation Research	84.133	38,927
Independent Living - State Grants	84.169	290,137
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	248,604
Special Education - Grants for Infants and Families With Disabilities	84.181	1,456,954
Safe and Drug-Free Schools and Communities - National Programs	84.184	28,348
Byrd Honors Scholarships	84.185	132,000
Safe and Drug-Free Schools and Communities - State Grants	84.186	2,153,079
Supported Employment Services for Individuals with Severe Disabilities	84.187	359,971
Education for Homeless Children and Youth	84.196	216,136
Even Start - State Educational Agencies	84.213	1,231,123
Fund for the Improvement of Education	84.215	16,791
Assistive Technology	84.224	628,702
Tech-Prep Education	84.243	919,436
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	16,412
Goals 2000 - State and Local Education Systemic Improvement Grants	84.276	(610)
School to Work Opportunities	84.278	173,337
Eisenhower Professional Development State Grants	84.281	204
Charter Schools	84.282	25
Twenty-First Century Community Learning Centers	84.287	5,208,445
State Grants for Innovative Programs	84.298	872,721
Education Technology State Grants	84.318	3,647,567
Eisenhower Regional Math and Science Consortia	84.319	(107)
Special Education - State Personnel Development	84.323	699,513
Research in Special Education	84.324	37,121
Special Education - Personnel Development to Improve Services and Results for Children with Disabilities	84.325	58,701
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	91,079
Grants to States for Incarcerated Youth Offenders	84.331	41,818
Comprehensive School Reform Demonstration	84.332	1,302,689
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	1,017,506
Teacher Quality Enhancement Grants	84.336	50,916
Vocational Education-Occupational and Employment Information State Grants	84.346	128,245
Arts in Education	84.351	309,352
Reading First State Grants	84.357	3,284,704
English Language Acquisition Grants	84.365	2,621,298
Mathematics and Science Partnerships	84.366	616,815
Improving Teacher Quality State Grants	84.367	15,138,280
Grants for Enhanced Assessment Instruments	84.368	497,038
Grants for State Assessments and Related Activities	84.369	4,929,468

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
National Writing Project	84.928	41,121
Hurricane Education Recovery	84.938	204,340
Other Department of Education Awards	N/A	228,637
Total U.S. Department of Education		\$ 289,069,303
National Archives and Records Administration		
National Historical Publications and Records Grants	89.003	\$ 4,879
Total National Archives and Records Administration		\$ 4,879
Elections Assistance Commission		
Help America Vote College Pollworker Program	90.400	\$ 2,525
Help America Vote Act Requirements Payments	90.401	6,491,426
Total Elections Assistance Commission		\$ 6,493,951
U.S. Department of Health and Human Services		
Public Health and Social Services Emergency Fund	93.003	\$ 20,436
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	99,243
Special Programs for the Aging - Title VII, Chapter 3 - Programs for the Prevention of Elder Abuse, Neglect, and Exploitation	93.041	24,208
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	70,066
Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	93.043	117,110
Aging Cluster:		
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	1,991,535
Special Programs for the Aging-Title III, Part C - Nutrition Services Nutrition Services Incentive Program	93.045	3,062,254
	93.053	687,937
Special Programs for the Aging-Title IV and Title II - Discretionary Projects	93.048	210,607
Alzheimer's Disease Demonstration Grants to States	93.051	163,495
National Family Caregiver Support	93.052	873,603
Food and Drug Administration - Research	93.103	6,044
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	369,520
Maternal and Child Health Federal Consolidated Programs	93.110	457,079
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	470,125
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	(190)
Small Business Innovation Research	93.126	98,777
Emergency Medical Services for Children	93.127	105,148
Primary Care Services Resource Coordination and Development	93.130	231,031
Injury Prevention and Control Research and State and Community Based Programs	93.136	369,418
Projects for Assistance in Transition from Homelessness (PATH)	93.150	298,506
Grants to States for Loan Repayment Program	93.165	43,538
Disabilities Prevention	93.184	258,583
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	1,040,237

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
Family Planning - Services	93.217	1,012,718
Consolidated Knowledge Development and Application (KD&A) Program	93.230	2,843,270
Traumatic Brain Injury State Demonstration Grant Program	93.234	157,994
Abstinence Education Program	93.235	167,406
Cooperative Agreements for State Treatment Outcomes and Performance Pilot Studies Enhancement	93.238	11,435
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	1,165,152
Universal Newborn Hearing Screening	93.251	121,594
State Planning Grants Health Care Access for the Uninsured	93.256	371,381
Immunization Grants	93.268	2,501,285
Drug Abuse National Research Service Awards for Research Training	93.278	29,857
Drug Abuse and Addiction Research Programs	93.279	52,895
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	12,983,860
Student Financial Assistance Cluster: (See Note 6) Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students (See Note 2)	93.342	1,482,019
Nursing Student Loans (See Note 2)	93.364	1,129,804
Cancer Detection and Diagnosis Research	93.394	62,539
Promoting Safe and Stable Families	93.556	2,156,408
Temporary Assistance for Needy Families	93.558	74,454,077
Family Support Payments to States - Assistance Payments	93.560	6
Child Support Enforcement	93.563	7,368,500
Refugee and Entrant Assistance - State Administered Programs	93.566	375,074
Low-Income Home Energy Assistance	93.568	18,416,989
Community Services Block Grant	93.569	3,687,837
Community Services Block Grant - Discretionary Awards	93.570	102,713
CCDF Cluster: Child Care and Development Block Grant	93.575	25,765,294
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	11,977,227
State Court Improvement Program	93.586	156,321
Grants to States for Access and Visitation Programs	93.597	74,490
Chafee Education and Training Vouchers Program (ETV)	93.599	193,175
Head Start	93.600	158,586
Child Support Enforcement Demonstrations and Special Projects	93.601	100,403
Adoption Incentive Payments	93.603	20,000
Developmental Disabilities Basic Support and Advocacy Grants	93.630	468,398
Voting Access for Individuals with Disabilities - Grants to States	93.617	32,981
Developmental Disabilities Projects of National Significance	93.631	258,078
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	438,819
Children's Justice Grants to States	93.643	111,899
Child Welfare Services - State Grants	93.645	932,723
Social Services Research and Demonstration	93.647	158,195
Foster Care - Title IV-E	93.658	12,524,263
Adoption Assistance	93.659	9,302,074
Social Services Block Grant	93.667	11,049,011
Child Abuse and Neglect State Grants	93.669	230,269
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	717,786

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
Chafee Foster Care Independence Program	93.674	640,082
State Children's Insurance Program	93.767	81,136,025
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	729,534
State Survey and Certification of Health Care Providers and Suppliers	93.777	2,670,632
Medical Assistance Program (See Note 4)	93.778	954,561,889
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	909,313
State Pharmaceutical Assistance Programs	93.786	2,827,245
Child Health and Human Development Extramural Research	93.865	79,262
Grants to States for Operation of Offices of Rural Health	93.913	145,663
HIV Care Formula Grants	93.917	2,936,471
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs	93.919	(224)
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	1,030,174
HIV Prevention Activities - Health Department Based	93.940	1,683,109
Human Immunodeficiency Virus (HIV)/ Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	239,289
Assistance Programs for Chronic Disease Prevention and Control	93.945	331
Trauma Care Systems Planning and Development	93.952	40,416
Trauma Care Systems Planning and Development	93.953	2,363,103
Occupational Health and Safety Surveillance	93.957	122,198
Block Grants for Community Mental Health Services	93.958	1,389,685
Block Grants for Prevention and Treatment of Substance Abuse	93.959	7,003,444
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	468,867
Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	93.988	659,447
Preventive Health and Health Services Block Grant	93.991	607,817
Maternal and Child Health Services Block Grant to the States	93.994	1,609,116
Total U.S. Department of Health and Human Services		\$ 1,280,246,003
Corporation for National and Community Service		
Learn and Serve America - School and Community Based Programs	94.004	\$ 111,890
AmeriCorps	94.006	445,102
Foster Grandparent/Senior Companion Cluster: Senior Companion Program	94.016	389,850
Total Corporation for National and Community Service		\$ 946,842
Social Security Administration		
Disability Insurance/SSI Cluster: Social Security - Disability Insurance	96.001	\$ 6,834,584
Social Security - Research and Demonstration	96.007	13,686
Total Social Security Administration		\$ 6,848,270
U.S. Department of Homeland Security		
State Homeland Security Cluster: (See Note 7)		

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
State Domestic Preparedness Equipment Support Program	97.004	\$ 9,516,069
Homeland Security Grant Program	97.067	680,545
State and Local Homeland Security Training Program	97.005	171,962
Boating Safety Financial Assistance	97.012	358,492
Community Assistance Program State Support Services Element (CAP-SSSE)	97.023	57,925
Flood Mitigation Assistance	97.029	18,065
Crisis Counseling	97.032	33,585
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1,780,599
First Responder Counter-Terrorism Training Assistance	97.038	1,521
National Dam Safety Program	97.041	400
Emergency Management Performance Grants	97.042	1,104,496
Pre-Disaster Mitigation	97.047	4,065
State and Local All Hazards Emergency Operations Planning	97.051	(2,199)
Emergency Operations Centers	97.052	(196)
Citizen Corps	97.053	(2,688)
Community Emergency Response Teams	97.054	120,995
Port Security Grant Program	97.056	4
Homeland Security Information Technology and Evaluation Program	97.066	601,202
Aviation Research Grants	97.069	592,246
Map Modernization Management Support	97.070	45,396
Metropolitan Medical Response System	97.071	36,964
National Explosives Detection Canine Team Program	97.072	150,000
State Homeland Security Program (SHSP)	97.073	2,384,528
Law Enforcement Terrorism Prevention Program (LETTP)	97.074	706,843
Total U.S. Department of Homeland Security		\$ 18,360,819
Agency for International Development		
USAID Foreign Assistance for Programs Overseas	98.001	\$ 8,544
Other Agency for International Development Awards	N/A	194,234
Total Agency for International Development		\$ 202,778
Research and Development Cluster:		
U.S. Department of Agriculture		
Agricultural Research - Basic and Applied Research	10.001	\$ 41,034
Grants for Agricultural Research, Special Research Grants	10.200	653,161
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	2,290,634
Grants for Agricultural Research - Competitive Research Grants	10.206	761,682
Higher Education Challenge Grant	10.217	43,120
Higher Education Multicultural Scholars Program	10.220	26,745
Agricultural and Rural Economic Research	10.250	115,845
Initiative for Future Agriculture and Food Systems	10.302	38,404
Integrated Programs	10.303	899,789
Homeland Security - Agricultural	10.304	186
Crop Insurance	10.450	45,480
Cooperative Extension Service	10.500	231,673
Soil Survey	10.903	2,000
Environmental Quality Incentives Program	10.912	40,685

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
Wildlife Habitat Incentive Program	10.914	48,476
Cochran Fellowship Program - International Training - Foreign Participant	10.962	14,930
Other Research and Development	N/A	511,002
U.S. Department of Commerce		
ITA Special Projects	11.113	29,045
Sea Grant Support	11.417	2,796,551
Coastal Zone Management Administration Awards	11.419	294,183
Coastal Zone Management Estuarine Research Reserves	11.420	28,066
Fisheries Development and Utilization Research and Development Grants		
Cooperative Agreements Program	11.427	4,814
Undersea Research	11.430	25,386
Climate and Atmospheric Research	11.431	56,788
Office of Oceanic and Atmospheric Research (OAR) Joint and Cooperative Institutes	11.432	22,806
Pacific Fisheries Data Program	11.437	24,847
Environmental Sciences, Applications, Data, and Education	11.440	554
Cooperative Science and Education Program	11.455	442,235
Special Oceanic and Atmospheric Projects	11.460	347,185
Habitat Conservation	11.463	88,624
Office of Administration Special Program	11.470	(8)
Unallied Science Program	11.472	135,870
Coastal Services Center	11.473	5,367
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478	190,520
Educational Partnership Program	11.481	47,073
Other Research and Development	N/A	42,835
U.S. Department of Defense		
Basic and Applied Scientific Research	12.300	4,240,551
Military Medical Research and Development	12.420	81,766
Basic Scientific Research	12.431	274,606
Air Force Defense Research Sciences Program	12.800	18,478
Other Research and Development	N/A	373,907
U.S. Department of Housing and Urban Development		
Community Development Work-Study Program	14.512	41,546
Other Research and Development	N/A	3,726
U.S. Department of Interior		
Fish, Wildlife, and Parks Programs on Indian Lands	15.039	110,887
Water Reclamation and Reuse Program	15.504	7,921
Fish and Wildlife Management Assistance	15.608	26,471
Coastal Wetlands Planning, Protection and Restoration Act	15.614	1,916
Assistance to State Water Resources Research Institutes	15.805	113,503
U.S. Geological Survey - Research and Data Collection	15.808	509,163
National Spatial Data Infrastructure Cooperative Agreements Program	15.809	53,496
National Cooperative Geologic Mapping Program	15.810	8,853
National Center for Preservation Technology and Training	15.923	9,376
Other Research and Development	N/A	184,002
U.S. Department of Justice		
Grants to Reduce Violent Crime Against Women on Campus	16.525	61,011
National Institute of Justice Domestic Anti-Terrorism Technology Development Program	16.565	179,649
U.S. Department of State		

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
Cooperative Agreements	19.420	56,660
Other Research and Development	N/A	2,129,320
U.S. Department of Transportation		
Highway Planning and Construction	20.205	6,674
Highway Training and Education	20.215	31,847
University Transportation Centers Program	20.701	1,133,324
Other Research and Development	N/A	18,066
National Aeronautics and Space Administration		
Aerospace Education Services Program	43.001	23,696
Technology Transfer	43.002	1,933,648
Other Research and Development	N/A	19,841
National Foundation on the Arts and the Humanities		
Other Research and Development	N/A	59,803
National Science Foundation		
Engineering Grants	47.041	320,504
Mathematical and Physical Sciences	47.049	166,240
Geosciences	47.050	4,841,587
Computer and Information Science and Engineering	47.070	577,618
Biological Sciences	47.074	1,801,036
Social, Behavioral, and Economic Sciences	47.075	1,050,091
Education and Human Resources	47.076	2,271,551
Polar Programs	47.078	181,257
International Science and Engineering (OISE)	47.079	87,794
Other Research and Development	N/A	84,539
Environmental Protection Agency		
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436	11,047
Long Island Sound Program	66.437	56,687
National Estuary Program	66.456	361,758
Water Quality Cooperative Agreements	66.463	280
Environmental Protection - Consolidated Research	66.500	198,160
Science to Achieve Results (STAR) Research Program	66.509	34,216
Office of Research and Development Consolidated Research/Training	66.511	12,797
Surveys, Studies, Investigations and Special Purpose Grants	66.606	327,564
Training and Fellowships for the Environmental Protection Agency	66.607	64,239
Pollution Prevention Grants Program	66.708	66,029
U.S. Department of Energy		
Office of Scientific and Technical Information	81.064	7,448
Other Research and Development	N/A	78,070
U.S. Department of Education		
Fund for the Improvement of Education	84.215	8,957
State Grants for Innovative Programs	84.298	7,024
Even Start-Statewide Family Literacy Program	84.314	1,741
Demonstration Project to Ensure Students with Disabilities Receive a Higher Education	84.333	180,444
Teacher Quality Enhancement Grants	84.336	1,267,604
U.S. Department of Health and Human Services		
Innovations in Applied Public Health Research	93.061	90,924

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

Federal Grantor Program Title	CFDA Number	Total Expenditures
Biological Response to Environmental Health Hazards	93.113	585,420
Grants to Increase Organ Donations	93.134	225,178
Research Related to Deafness and Communications Disorders	93.173	46,204
Research and Training in Complementary and Alternative Medicine	93.213	33,359
Mental Health Research Grants	93.242	67,046
Advanced Education Nursing Grant Program	93.247	170,635
Alcohol National Research Service Awards for Research Training	93.272	320,546
Alcohol Research Programs	93.273	1,606,991
Drug Abuse and Addiction Research Programs	93.279	34,257
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	(558)
Discovery and Applied Research for Technological Innovations to Improve Human Health	93.286	34,519
Advanced Education Nursing Traineeships	93.358	61,205
Nursing Research	93.361	392,374
National Center for Research Resources	93.389	3,072,056
Cancer Cause and Prevention Research	93.393	463,483
Cancer Detection and Diagnosis Research	93.394	232,531
Cancer Treatment Research	93.395	(6)
Cancer Biology Research	93.396	238,753
Cancer Control	93.399	30,826
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768	433,700
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	22,318
Microbiology and Infectious Disease Research	93.856	467,136
Biomedical Research and Research Training	93.859	84,908
Aging Research	93.866	393,653
Advanced Hypothermia System	93.873	78,037
Medical Library Assistance	93.879	13,339
Health Care and Other Facilities	93.887	348,430
Geriatric Education Centers	93.969	617,551
International Research and Research Training	93.989	(1,977)
Other Research and Development	N/A	355,972
Total Research and Development Cluster		\$ 46,646,386
Other Expenditures of Federal Awards		1,503,540
Total Expenditures of Federal Awards (See Note 2)		\$ 2,572,999,840

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

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 no CFDA number has been assigned by the federal government, “None” is indicated in the schedule. When the CFDA number is not available from the State or component unit’s accounting records then N/A for not available is indicated in the schedule. The Research and Development (R&D) Cluster is presented at the end of the schedule because there are multiple federal funding agencies. As a result, total expenditures of federal awards presented for some federal funding agencies do not include expenditures for R&D programs.

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

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

- Food Donation (CFDA 10.550) – reported at the fair market value of food distributed.
- Economic Adjustment Assistance (CFDA 11.307) – includes the outstanding principal balance of loans originated under, and the balance of cash and cash equivalents of, the Revolving Loan Fund, and the administrative expenses paid from income earned.
- The following guaranteed/insured mortgage loan programs are reported at the value of loans disbursed during the fiscal year: Mortgage Insurance-Homes (CFDA 14.117); Home Equity Conversion Mortgages (CFDA 14.183); and Veterans Housing - Guaranteed and Insured Loans (CFDA 64.114).
- Donation of Federal Surplus Personal Property (CFDA 39.003) – reported at the fair market value of the donated property at the time of receipt.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2006

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation (continued)

- Federal Family Education Loans (CFDA 84.032) and Federal Direct Student Loans (CFDA 84.268) - reported at the value of loans made during the fiscal year.
- Federal Perkins Loan Program – Federal Capital Contribution (CFDA 84.038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) - reported at the balance of loans outstanding at June 30, 2006.

NOTE 2. NON-CASH ASSISTANCE

CFDA Number	<u>Loan, Loan Guarantee and Insurance Programs</u>	Expenditures of Federal Awards - Year Ended <u>June 30, 2006</u>	Insurance, Loans and Loan Guarantees Outstanding - <u>June 30, 2006</u>
11.307	Economic Adjustment Assistance	\$ 13,583,803	\$ 8,007,131
14.117	Mortgage Insurance – Homes	6,319,745	116,837,138
14.183	Home Equity Conversion Mortgages	11,378,739	N/A
64.114	Veterans Housing – Guaranteed and Insured Loans	3,913,909	24,641,753
84.032	Federal Family Education Loans	37,323,720	N/A
84.032	Federal Family Education Loans (Guaranty Agency)	(a)	1,125,000,000
84.038	Federal Perkins Loan Program – Federal Capital Contribution	14,473,980	14,473,980
84.268	Federal Direct Student Loans	49,179,675	N/A
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,482,019	1,482,019
93.364	Nursing Student Loans	1,129,804	1,129,804
	<u>Other Non-Cash Assistance</u>		
10.550	Food Donation	3,698,091	
39.003	Donation of Federal Surplus Personal Property	<u>364,371</u>	
	Total Non-Cash Assistance	<u>\$ 142,847,856</u>	

- (a) Administrative cost allowances (cash assistance) totaling \$ 3,219,767 are reported in the schedule, however, for the purpose of determining federal awards expended in accordance with OMB Circular A-133 loan guarantees outstanding are added to the cash assistance amount for the Federal Family Education Loans (Guaranty Agency) Program – CFDA 84.032. The original principal amount of loans outstanding totaled \$1,454,936,629 at June 30, 2006. Since the actual principal amount outstanding at June 30, 2006, which is considered the award amount for single audit purposes, is not readily available, management has estimated the balance to be approximately \$1,125,000,000 (unaudited).

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Fiscal Year Ended June 30, 2006

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 \$6.4 million. Of this amount, \$5.5 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. Of the remaining amount (\$893,000), approximately \$284,000 is unidentified as to either the CFDA number and/or the pass-through entity.

NOTE 4. REBATES OF PROGRAM EXPENDITURES

The State received the following program expenditure rebates during fiscal 2006:

<u>Program</u>	<u>CFDA Number</u>	<u>Rebate Amount</u>
Medical Assistance Program	93.778	\$ 38,920,861
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	\$ 4,404,308

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance) made the rebates. The Medical Assistance Program rebates reduced previously incurred program expenditures, therefore Medical Assistance Program expenditures are reported net of the applicable federal share of rebates (\$20.4 million) earned during fiscal year 2006. WIC program expenditures include amounts funded by rebates earned as well as direct federal assistance.

NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES

Expenditures of federal awards for Unemployment Insurance (CFDA Number 17.225) represent \$193.3 million funded from the State's account in the federal Unemployment Trust Fund and \$14.4 million funded by federal grants.

NOTE 6. STUDENT FINANCIAL ASSISTANCE CLUSTER

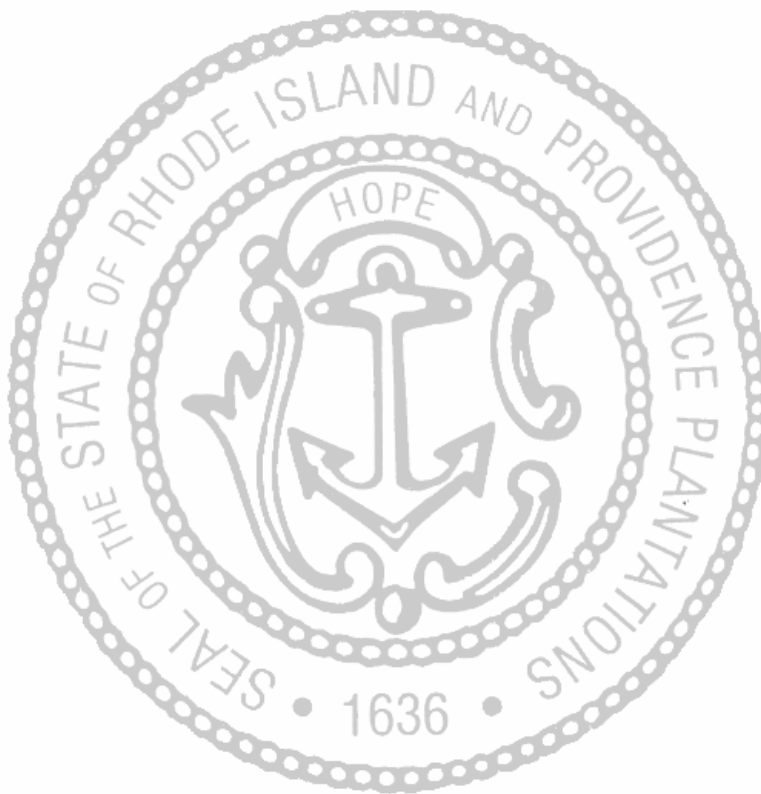
Expenditures for the Student Financial Assistance Cluster are listed under two separate departments, Department of Education and Department of Health and Human Services. The total expenditures for the cluster are \$125.3 million.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

NOTE 7. HOMELAND SECURITY CLUSTER

The OMB A-133 Compliance Supplement (March 2006) included guidance on reporting expenditures of federal awards made by the Department of Homeland Security. Consistent with that guidance, expenditures are reported in the Schedule of Expenditures of Federal Awards using the CFDA number(s) shown on the notice of award for the period in which the funds were awarded. Certain expenditures reported under other than the *Homeland Security Cluster* programs (CFDA numbers 97.004 and 97.067) have been considered part of the cluster for Type A program determination and audit testing purposes.

Auditor's Reports



Auditor's Reports

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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE OF THE AUDITOR GENERAL

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- ◆ Integrity
- ◆ Reliability
- ◆ Independence
- ◆ Accountability

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State), as of and for the year ended June 30, 2006, which collectively comprise the State's basic financial statements, and have issued our report thereon dated December 29, 2006. The scope of our audit was limited because (1) we were unable to obtain sufficient evidence regarding the completeness of accounts payable and amounts due from other governments and agencies, deferred revenue and related expenditures and federal revenue reported for the Intermodal Surface Transportation Fund, a major fund, and (2) we were unable to obtain sufficient evidence regarding the completeness and valuation of encumbrances outstanding at June 30, 2006 disclosed in the notes to the basic financial statements for the Intermodal Surface Transportation and Grant Anticipation Revenue Vehicle major funds.

Our report was also modified to include reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of:

- certain component units which represent 2% of the assets and 1% of the revenues of the governmental activities and 1% of the assets and 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 1% of the revenues of the business-type activities; and
- component units which represent 100% of the assets and 100% of the revenues of the aggregate discretely presented component units.

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we and the other auditors noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 2006-1, 2006-2, 2006-3, 2006-4, 2006-5, 2006-6, 2006-7, 2006-8, 2006-9, 2006-10, 2006-11, 2006-12, 2006-13, 2006-14, 2006-15, 2006-16, 2006-17, 2006-18, 2006-19, 2006-20, and 2006-21.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting and the reports of the other auditors would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Findings 2006-1, 2006-2, 2006-4, 2006-5, 2006-6, 2006-8, 2006-14, 2006-15, 2006-16, 2006-18, 2006-19, and 2006-20 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Finance Committee
Joint Committee on Legislative Services

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

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



Ernest A. Almonte, CPA, CFE
Auditor General

December 29, 2006



STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE OF THE AUDITOR GENERAL

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- ◆ Integrity
- ◆ Reliability
- ◆ Independence
- ◆ Accountability

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

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

Compliance

We have audited, except as described in the next three sentences, the compliance of the State of Rhode Island and Providence Plantations (the State) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. 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 16% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2006. Those audits were performed by other auditors whose reports on compliance with requirements applicable to the major federal programs were furnished to us, and this report, insofar as it relates to those programs that were audited by other auditors, is based solely on the reports of the other auditors. The State's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the State's management. Our responsibility is to express an opinion on the State's compliance based on our audit.

Except as discussed in the following three paragraphs, we conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

Finance Committee
Joint Committee on Legislative Services

Our audit does not provide a legal determination of the State's compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the State with the Food Stamp Cluster (CFDA 10.551 and 10.561), Special Supplemental Nutrition Program for Women, Infants, and Children (CFDA 10.557), Unemployment Insurance (CFDA 17.225), Rehabilitation Services – Vocational Rehabilitation Grants to States (CFDA 84.126), Centers for Disease Control and Prevention – Investigations and Technical Assistance (CFDA 93.283), Foster Care – Title IV-E (CFDA 93.658), Adoption Assistance (CFDA 93.659), and Homeland Security Cluster (CFDA 97.004, 97.067 and 97.073) programs regarding the equipment and real property management requirement, nor were we able to satisfy ourselves as to the State's compliance with this requirement by other auditing procedures.

We were unable to obtain sufficient documentation supporting the compliance of the State with the Low-Income Home Energy Assistance (CFDA 93.568) program regarding the period of availability requirement, nor were we able to satisfy ourselves as to the State's compliance with this requirement by other auditing procedures.

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

As described in Finding 2006-54 in the accompanying schedule of findings and questioned costs, the State did not comply with the subrecipient monitoring requirement that is applicable to the Social Services Block Grant (CFDA 93.667) program. Compliance with this requirement is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

As described in Findings 2006-68 and 2006-69 in the accompanying schedule of findings and questioned costs, the State did not comply with the subrecipient monitoring requirement and the special tests and provisions–subgrant awards requirement that are applicable to the Homeland Security Cluster (CFDA 97.004, 97.067 and 97.073). Compliance with these requirements is necessary, in our opinion, for the State to comply with the requirements applicable to that program.

As described in Finding 2006-72 in the accompanying schedule of findings and questioned costs, the State did not comply with the allowable costs/cost principles requirement that is applicable to its Research and Development Cluster. Compliance with this requirement is necessary, in the opinion of the auditor of that program, for the State to comply with the requirements applicable to that program.

In our opinion, based on the results of our audit and the reports of the other auditors, and except for (1) the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State's compliance with the requirements of the Food Stamp Cluster, Special Supplemental Nutrition Program for Women, Infants, and Children, Unemployment Insurance, Rehabilitation Services – Vocational Rehabilitation Grants

to States, Centers for Disease Control and Prevention – Investigations and Technical Assistance, Foster Care – Title IV-E, Adoption Assistance, and Homeland Security Cluster programs regarding the equipment and real property management requirement, and (2) the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State’s compliance with the requirements of the Low-Income Home Energy Assistance program regarding period of availability, and (3) the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State’s compliance with the requirements of the Adoption Assistance program regarding eligibility, and (4) the noncompliance described in the three preceding paragraphs, the State complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. The results of our auditing procedures and the reports of the other auditors also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 2006-51 and 2006-65.

Internal Control Over Compliance

The management of the State is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the State’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133. Other auditors have audited certain major federal programs administered by the State and its component units which had combined expenditures of federal awards representing 16% of the reporting entity’s total major federal program expenditures of federal awards in fiscal year 2006. The other auditors have furnished us their reports on their consideration and testing of the internal control over compliance with requirements that could have a direct and material effect on a major federal program.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. The other auditors also noted certain matters involving the internal control over compliance and its operation that they consider to be reportable conditions. Reportable conditions involve matters coming to the auditors’ attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment or the judgment of the other auditors, could adversely affect the State’s ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 2006-22, 2006-23, 2006-24, 2006-25, 2006-26, 2006-27, 2006-28, 2006-29, 2006-30, 2006-31, 2006-32, 2006-33, 2006-34, 2006-35, 2006-36, 2006-37, 2006-38, 2006-39, 2006-40, 2006-41, 2006-42, 2006-43, 2006-44, 2006-45, 2006-46, 2006-47, 2006-48, 2006-49, 2006-50, 2006-52, 2006-53, 2006-54, 2006-55, 2006-56, 2006-57, 2006-58, 2006-59, 2006-60, 2006-61, 2006-62, 2006-63, 2006-64, 2006-66, 2006-67, 2006-68, 2006-69, 2006-70, 2006-71, 2006-72.

Finance Committee
Joint Committee on Legislative Services

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration, and the other auditors' consideration of the internal control over compliance, would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider, based on our auditing procedures and the reports of other auditors, Findings 2006-30, 2006-38, 2006-46, 2006-47, 2006-52, 2006-54, 2006-56, 2006-63, 2006-67, 2006-68 and 2006-69 to be material weaknesses.

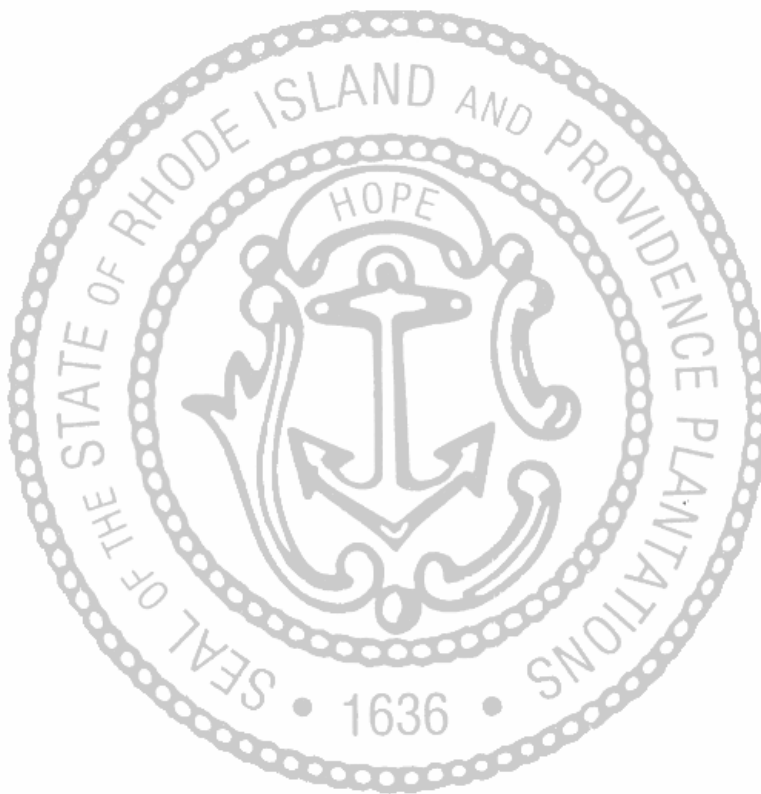
This report is intended solely for the information and use of the Finance Committee of the House of Representatives, the Joint Committee on Legislative Services, the Governor and management of the State, and federal awarding agencies and pass-through entities and is not intended to be and should not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



Ernest A. Almonte, CPA, CFE
Auditor General

February 23, 2007

**Schedule of Findings
and Questioned Costs**



**Schedule of Findings and
Questioned Costs**

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section I – Summary of Auditor’s Results

Basic Financial Statements

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

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

- 2) The audit of the basic financial statements disclosed reportable conditions and material weaknesses in internal control over financial reporting.
- 3) The audit disclosed no instances of noncompliance which are material to the basic financial statements.

Federal Awards

- 4) The audit disclosed reportable conditions in internal control over major programs, some of which were classified as material weaknesses.
- 5) The independent auditor’s report on compliance for major programs expressed an unqualified opinion for all major programs except for the following programs in which it expressed a qualified opinion:

<u>Program</u>	<u>CFDA #</u>
Food Stamps Cluster:	
Foods Stamps	10.551
State Administrative Matching Grants for Food Stamp Program	10.561
Unemployment Insurance	17.225
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283
Low-Income Home Energy Assistance	93.568
Foster Care – Title IV-E	93.658
Adoption Assistance	93.659

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section I – Summary of Auditor’s Results

<u>Program</u>	<u>CFDA #</u>
Social Services Block Grant	93.667
Homeland Security Cluster:	
State Domestic Preparedness Equipment Support Program	97.004
Homeland Security Grant Program	97.067
State Homeland Security Program (SHSP)	97.073
Research and Development Cluster	Various

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

7) Major programs are listed in the table below.

Major Programs

<u>Program Title</u>	<u>CFDA Number</u>
Food Stamp Cluster:	
Food Stamps	10.551
State Administrative Matching Grants for Food Stamp Program	10.561
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Public Works and Economic Development Cluster:	
Economic Adjustment Assistance	11.307
Section 8 Project Based Cluster:	
Section 8 New Construction and Substantial Rehabilitation	14.182
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
Home Equity Conversion Mortgages	14.183
Section 8 Housing Choice Vouchers	14.871
Unemployment Insurance	17.225
WIA Cluster:	
WIA Adult Program	17.258
WIA Youth Activities	17.259
WIA Dislocated Workers	17.260
Airport Improvement Program	20.106
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
Capitalization Grants for Clean Water State Revolving Funds	66.458
Capitalization Grants for Drinking Water State Revolving Funds	66.468

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section I – Summary of Auditor’s Results

<u>Program Title</u>	<u>CFDA Number</u>
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Family Education Loans	84.032
Federal Work-Study Program	84.033
Federal Perkins Loan Program – Federal Capital Contributions	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342
Nursing Student Loans	93.364
Title I Grants to Local Educational Agencies	84.010
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
Federal Family Education Loans (Guaranty Agency)	84.032
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126
Improving Teacher Quality State Grants	84.367
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283
Temporary Assistance for Needy Families	93.558
Low-Income Home Energy Assistance	93.568
CCDF Cluster:	
Child Care and Development Block Grant	93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596
Foster Care – Title IV-E	93.658
Adoption Assistance	93.659
Social Services Block Grant	93.667
State Children’s Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers	93.777
Medical Assistance Program	93.778
Homeland Security Cluster:	
State Domestic Preparedness Equipment Support Program	97.004
Homeland Security Grant Program	97.067
State Homeland Security Program (SHSP) - see note (a)	97.073
Research and Development Cluster	Various

(a) included as part of the Homeland Security Cluster for Type 'A' major program determination purposes.

- 8) The dollar threshold used to distinguish between Type A and Type B programs was \$7,719,000.
- 9) The State did not qualify as a low-risk auditee as defined by OMB Circular A-133.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statements Findings

Finding 2006-1

CONTROLS OVER ACCOUNTING AND FINANCIAL REPORTING - STATEWIDE
ACCOUNTING SYSTEM

The State's RISAIL accounting system (which was in operation during fiscal 2006) did not meet the State's need for a complete, integrated accounting system that fully supports an adequate internal control structure over financial reporting. The inadequacies of the accounting system limit (1) the State's capability to generate complete financial statements without extensive manual accumulation of data from various sources external to the accounting system, and (2) use the accounting system to guide its financial decision-making during the year. Improvements in the overall timeliness of the State's financial reporting have been achieved, in most instances, through increased attention and additional manual effort rather than through systemic improvement in the accumulation of information needed for financial reporting.

Recognizing the limitations of the RISAIL accounting system, the State implemented the first phase of a new accounting system (RIFANS) on July 1, 2006.

Accounting System Design

RISAIL did not contain a significant amount of the interrelated data needed to prepare financial statements for the State in accordance with generally accepted accounting principles. The accounting system is not integrated - transaction level data does not automatically post to the general ledger and various accounting system modules, necessary to achieve this integration, have not been implemented to account for certain transaction types. Significant manual intervention is still required by accounting personnel to record material balances for receivables, capital assets, and long-term liabilities within the State's accounting system. This data is contained in other independent accounting systems. Because there is no interconnectivity to the system, this data must be manually recorded in summary form by journal entry at fiscal year-end.

The State's overall financial reporting capabilities could be significantly enhanced by recording accounting transactions directly in an accounting system that automatically reflects all activity in the general ledger. Such integration would also greatly enhance the State's ability to reconcile critical accounts in a timely manner, enhancing overall control over its financial reporting process.

RISAIL had two principal components, the BuySpeed accounts payable module which was used to process receipt and disbursement transactions, and the Oracle general ledger. Because access to the RISAIL general ledger was very limited, departments and agencies derived data regarding receipts and expenditures from the BuySpeed accounts payable component of RISAIL or from various web-based information sources that have been designed to bridge information gaps in the system. Each of the information sources (general ledger, BuySpeed, and web-based) has different combinations of data. Differences can exist between these data sources

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

because of the manual processes employed. In addition, individual agencies have no access and little knowledge or understanding of the State's general ledger within RISAIL.

During fiscal 2006, various subsidiary accounting systems (e.g., payroll, investment accounting, budget, and departmental cost allocation systems) still utilized the legacy account structure that was in place prior to the implementation of RISAIL in July 2001. This required continual maintenance of account conversion tables and increased the risk that data may be misposted in the accounting system. By the end of fiscal 2006, conversion of many of the subsidiary accounting systems from the legacy to new account structure had been achieved or was in process.

Accounting Controls and Procedures

Any accounting system is dependent upon compliance with established policies and procedures for authorizing and recording transactions properly and consistently. We continued to observe significant noncompliance with RISAIL accounting policies and procedures. For example, controls over the classification of expenditures at the fund level for capital outlay, debt service, intergovernmental expenditures and operating transfers were not reliable during fiscal 2006. This noncompliance continued to impact the accuracy of financial statements generated by the State's RISAIL system.

During fiscal year 2006, the State devoted significant resources to begin addressing many of the long-standing control weaknesses impacting the State's financial reporting process including planning for the implementation of an enhanced statewide accounting system (RIFANS). As designed, the new RIFANS accounting system should have the capability to allow for integration of multiple components thereby allowing the system to comprehensively address the State's financial management and reporting needs. Complete implementation of the system should (1) significantly enhance the State's control structure over financial reporting and all categories of accounting transactions, (2) minimize the manual intervention and post analysis of transactions currently required, and (3) reduce the excessive time needed to prepare accurate and timely financial statements in conformance with generally accepted accounting principles. Continued progress in moving towards a fully integrated accounting system is necessary to address the long-standing weaknesses in the State's controls over financial reporting.

RECOMMENDATIONS

- | | |
|---------|--|
| 2006-1a | Complete implementation of an integrated accounting system that fully meets the State's financial reporting and management needs. |
| 2006-1b | Complete conversion of subsidiary accounting systems using the legacy account structure to the new RIFANS account structure. |
| 2006-1c | Improve controls over the use of natural accounts to classify transactions so that the accounting system will yield reliable amounts for financial reporting purposes. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statements Findings

Finding 2006-2

CONTROLS OVER ACCOUNTING TRANSACTIONS – RISAIL ACCOUNTING SYSTEM

We observed weaknesses in controls over the authorization, recording, and propriety of certain accounting transactions during fiscal 2006. The volume of transactions processed through the RISAIL accounting system is significant -- the State disbursed over \$4 billion directly through the RISAIL accounting system during fiscal year 2006. We noted the following control weaknesses during our audit:

- The Office of Accounts and Control did not consistently perform certain control procedures relating to the review and approval of various transactions within the RISAIL accounting system as follows:
 - verification of authorized signatures to authorized agent logs - most exceptions noted related to failures to maintain updated signatory forms on file with the Office of Accounts and Control or instances where transactions impacted accounts in multiple funds and the authorized agent was only authorized in one of the funds;
 - review and maintenance of supporting documentation for certain transactions - most exceptions related to transactions that were approved without sufficient documentation being submitted that would allow for the Office of Accounts and Control to perform sufficient review procedures (e.g., sufficient documentation to ensure that goods purchased or services provided were in accordance with related procurement documents);
 - verification that appropriate document types are utilized for all transactions, (e.g., purchases of goods or services not processed via invoice documents are not subject to the procurement controls required for these types of transactions); and
 - verification of natural account codes to ensure that transactions are being charged to the correct expenditure category, (e.g., significant numbers of transactions recording intergovernmental expenditures and capital outlays were miscoded during the fiscal year).
- Payments to the State's health insurance provider were being initiated and approved by the same individual within the Office of Accounts and Control (Preaudit Section), a control weakness caused by a lack of segregation of duties over these transactions.
- The State has negotiated price agreements with certain vendors to provide specific goods and services (e.g., office supplies). A centralized billing process is utilized so that the vendor can electronically submit one invoice (with detailed billing

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

- information) to the Office of Accounts and Control (preaudit section) for all goods and services purchased for the billing period. The preaudit section processes the payment to the vendor and subsequently charges each agency for their purchases. However, the State does not compare the prices charged to the vendor agreements, which could result in overcharges that would not be detected.
- ❑ RISAIL requires a significant amount of financial reporting adjustments to be posted to the general ledger due to its lack of integration. These adjustments relate mainly to receivables, year-end accruals, reclassifications of expenditures between functional categories, reclassifications of transactions between funds, etc. Many of these transactions adjust significant amounts between accounts and not all adjustments posted to the general ledger are subject to supervisory review and approval.
 - ❑ Certain large dollar accounting transactions which are adjusting balances or recording revenue or expenditure activity (BSBF documents) receive only cursory review prior to posting in the accounting system – the effect of these transactions can be significant on the State’s financial statements. These transactions can originate at the department or agency level or within the accounting section at the Office of Accounts and Control. Typically, no, or very limited supporting detail accompanies documents forwarded to the Office of Accounts and Control for approval. Several control exceptions relating to the review of these transactions for authorized signature were also noted during our audit.
 - ❑ Certain transactions are recorded in RISAIL via batch import. These transactions are sent to the Office of Accounts and Control in text format, usually via diskette and uploaded into RISAIL. These files can be easily manipulated because they lack data integrity controls such as encryption. Modification of these files could result in improper payments and/or inaccurate posting to the accounting system.
 - ❑ The Office of Accounts and Control is limited in its ability to adequately review purchase order documents in sufficient detail to effectively evaluate disbursement transactions. In addition, the State’s procurement/payables system (Buyspeed) does not:
 - automatically prevent agencies from exceeding purchase order authorizations;
 - adequately restrict the creation or liquidation of purchase orders to only authorized agents; and
 - prevent purchases from being made via direct payment documents when purchase orders are required by regulations.
 - ❑ System access control limitations allow certain employees reviewing documents within the Controller’s office to change the “invoice payee field” within RISAIL

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

- before approving invoice payments. RISAIL does not currently have adequate controls to ensure that invoice payees are not being inappropriately altered.
- ❑ RISAIL does not restrict a user's access to only intended authorized accounts - users can intentionally or erroneously charge accounts of other agencies.
 - ❑ ACH (Automated Clearinghouse payments) functionality has only been established within the General Fund bank account. Consequently, when disbursements originating in other funds are to be accomplished via ACH, the disbursement is made from the General Fund with a corresponding movement of cash to reimburse the General Fund. These reimbursements to the General Fund are not tracked nor recorded within the accounting system.
 - ❑ The Office of Accounts and Control transmits an electronic file representing approved payments to Treasury (RISAIL "check run" file). This file is transmitted in text format and lacks controls to ensure that it is not subsequently altered. Treasury is then responsible for the actual check production. Treasury has the capability to change data included in the file (for example, payee and amount) prior to generating checks. Upon completion of check printing, Treasury transmits a file to the banks representing checks issued that day ("positive pay" file). This file allows the bank to track outstanding checks and also serves as a control mechanism by allowing the bank to match a check presented for payment to an authorized issue list. Treasury can also modify this file prior to its transmission to the bank representing a further control weakness. The State needs to implement controls to safeguard the integrity of both the "check run" and "positive pay" files to prevent inappropriate manipulation. The ACH payment file also lacks data integrity controls.
 - ❑ Certain staff at the Office of the General Treasurer have system access and the capability to initiate and approve journal entry transactions (BSJE) primarily to approve receipt transactions after verification of bank deposits. This access also allows them to initiate and approve accounting adjustments resulting from bank reconciliations. Initiation and approval of these accounting transactions compromises segregation of duty controls.

The State needs to improve its overall controls over accounting transactions by addressing the system limitations inherent within RISAIL. In addition, procedures need to be implemented to address the above weaknesses to ensure the propriety of transactions recorded in the State accounting system.

As previously mentioned, the State has dedicated significant resources to begin addressing many of the long-standing control weaknesses impacting the State's financial reporting process, including those related specifically to accounting transactions. During fiscal 2006, the State began the planning and installation for a new accounting system, RIFANS, (which consisted of the implementation of new purchasing and accounts payable modules integrated with the State's existing Oracle general ledger module) which became operational on

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statements Findings

July 1, 2006. In addition, the State completed the development of more formalized policies relating to the processing and approval of disbursement and accounting transactions within the State accounting system. Further, the State should ensure that its newly implemented accounting system and related policies and procedures will address many of the data integrity issues inherent in RISAIL and provide more input controls over accounting transactions to ensure their proper authorization and recording.

RECOMMENDATION

- 2006-2 Ensure that the State’s newly implemented accounting system and related policies and procedures will address many of the data integrity issues and provide more input controls over accounting transactions to ensure their proper authorization and recording.

Finding 2006-3

MONITORING DEPARTMENTAL RESTRICTED AND OPERATING TRANSFER ACCOUNTS WITHIN THE GENERAL FUND

The State utilizes various departmental restricted and operating transfer accounts within the General Fund for specific projects and purposes. Departmental restricted accounts are utilized to account for funding designated by RI General Law for specific purposes and programs. Operating transfer accounts are established in most instances to account for General Fund expenditures reimbursed through other funds. These reimbursements are normally governed by statute or cooperative agreements between State agencies and departments. Various capital projects, where funding is transferred from the Bond Capital Fund, constitute a large number of these types of accounts.

During fiscal 2006, there were approximately 300 restricted and operating transfer accounts within the State’s General Fund. We noted the following:

- 43 departmental restricted accounts had deficit balances totaling \$4.5 million (indicating expenditures exceeded restricted revenues);
- 40 operating transfer accounts had deficit balances totaling \$3.0 million, potentially indicating that amounts were owed from other sources. We noted the following specific examples:
 - Two RICAP accounts with deficit balances totaling \$795,000 were negative because revenues were transferred into the wrong accounts.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

- A Federal Highway Administration program systems planning account is funded through the Intermodal Surface Transportation (IST) fund had a deficit balance of \$549,000 - additional transfers from the IST fund should have been recorded to fully fund the expenditures recorded in this account.

The State does not conduct any centralized analysis of these accounts, instead relying on individual departments to monitor them. The individual departments only have access to transaction level detail and, in most instances, do not have access to ending balances reported in the State's general ledger, making cumulative deficit balances less apparent to the departments. The overall lack of monitoring of these accounts could result in further misstatements or misclassifications.

For financial statement purposes, departmental restricted accounts and operating transfer accounts with deficit balances are offset against accounts with positive balances (within the respective category – restricted or operating transfers). Because each restricted account is established statutorily and for a specific purpose, deficit spending in one account cannot legally be offset against surplus funds existing within another account. In some instances, multiple restricted accounts have been established that are funded with the same restricted revenue source, however, any interrelationship between these accounts is not determinable from the accounting system. Netting deficit balances against positive balances distorts the accurate presentation of accounts that were established for specific legal and other purposes.

The State should implement procedures to periodically analyze these accounts to prevent the accumulation of deficit balances and ensure that amounts are reimbursed timely. The State should improve the monitoring of these accounts to ensure that departments comply with all relevant General Laws and/or interagency agreements. Financial statement presentation of these amounts should be revised to accurately reflect fiscal year ending balances.

RECOMMENDATION

2006-3 Improve monitoring of departmental restricted and operating transfer accounts to ensure that balances are fairly stated.

Finding 2006-4

ACCOUNTING CONTROL OVER INVESTMENT TRANSACTIONS

Short-term investment of available cash balances within the various funds of the State are made by the Office of the General Treasurer (Treasury). Treasury records these transactions within an independent investment accounting system (SI50) which tracks purchases, sales, maturities, and investment income. Treasury's SI50 investment system cannot communicate directly with the State's accounting system. During fiscal 2006, investment activity was recorded on a monthly basis within the State's accounting system based on data exported from

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

SI50. Investment purchases, sales, and income are not initially recorded in RISAIL. Daily cash balances reported by RISAIL are inaccurate because they do not reflect daily investment activity.

Investment purchases and sales represent a significant dollar volume of cash receipt and disbursement transactions. Monthly investment activity during fiscal year 2006 routinely exceeded \$1 billion for all funds. Failure to record this activity within the State's accounting system on a timely basis significantly weakens controls over cash receipts and disbursements.

Investment activity should be recorded on a daily basis in the accounting system by modifying the existing SI50 investment system so that it can communicate directly to the state RISAIL accounting system or through acquiring a module to the accounting system that allows direct and timely recording of investment activity.

RECOMMENDATION

2006-4 Improve control over investment transactions by integrating the investment function within the State's accounting system. Record investment activity on a daily basis in the accounting system.

Finding 2006-5

ACCOUNTING AND PHYSICAL CONTROL OVER CAPITAL ASSETS

Accounting controls were not adequate during fiscal 2006 to ensure that the acquisition and disposal of capital assets was accurately recorded within the accounting system. Our testing indicated that many items were charged to capital asset natural accounts erroneously, and conversely, many items that should have been reflected as capital items were charged to operating accounts. Adequate control procedures were not in place to ensure that the acquisition of capital items was identified consistently within the RISAIL accounting system and then recorded at historical cost within the electronic files used by the State to accumulate capital asset data. Additionally, sales, disposals, and transfers of capital assets are not recorded within the accounting system and instead are tracked by an ineffective manual process that originates at the department or agency level. Consequently, sales and disposals are likely understated. These control weaknesses in accounting are largely attributable to (1) over reliance on manual accounting procedures to accumulate the data, (2) ineffective monitoring procedures, and (3) a general lack of awareness by accounting personnel in the departments and agencies regarding the importance of account classifications and the distinction between capital and operating items.

In fiscal 2006, the State had not adopted a permanent accounting system to account for capital assets and related depreciation. Instead, multiple data files (originally created to accumulate capital asset data for the first time in fiscal 2002) were still being used. These databases do not adequately meet the State's capital asset accounting needs and should be replaced by a system that more fully meets these needs and allows for implementation of

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

controls over access and data integrity, etc. Further, there is no integration functionality between the accounting system and the data files used to record capital asset data. All capital asset data must be separately recorded in the capital asset databases. Controls are inadequate to ensure all data is accurately captured and maintained in these databases.

Controls over capital assets were deficient in the following respects:

- Several departments and agencies did not consistently adhere to required procedures for the preparation and submission of documentation for the acquisition and disposal of capital assets – for example:
 - capital assets totaling in excess of \$13 million were not recorded in the capital asset accounting records - mostly land and building improvement projects in the implementation or construction phase as of June 30, 2006;
 - contributed capital totaling \$8.4 million received by the State as part of the acquisition of land and intangibles (land easements) was also not recorded;
- Controls relating to the identification and accumulation of costs for capital projects were not reliable;
- GASB codification section 1400.102 defines capital assets to include land, improvements to land, easements, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. The capital asset accounting and reporting policies applied during fiscal 2006, in our opinion, did not consistently comply with this definition. The State did not record \$6.0 million in capital assets that we believed met both the above GASB definition and the capital asset capitalization thresholds outlined in the State’s capital asset policies and procedures.
- Controls are inadequate to ensure all disposals and sales of capital assets are recorded in the capital assets records – disposals totaling only \$676,602 (out of total reported depreciable assets, not including infrastructure, of nearly \$1 billion) were recorded during fiscal 2006 which mostly represented the disposal or trade-in of 38 vehicles. The State failed to identify disposals of 89 vehicles during fiscal year 2006, approximating \$4.7 million. Additionally, the State conducted physical inventories of reported capital assets during the year which resulted in \$2.3 million of capital assets that could not be located and were subsequently removed from the accounting records.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

- ❑ Inadequate controls to identify disposals prevents the State from identifying and reporting gains and losses on disposals of capital assets. During fiscal 2006, the State sold land (previously acquired in relation to transportation projects) for approximately \$900,000 but failed to record the disposal and the resulting gain associated with the disposed parcels.

Audit adjustments were proposed to correct many of the above misstatements relating to the recording of capital assets in the financial statements. During fiscal 2006, the State did perform reconciliations of certain capital asset natural accounts in an effort to identify capital assets that had not been properly reported in accordance with the State's policies and procedures. While this effort has improved its recording of capital assets, this process has still not been proven to be an effective method or process for reporting capital assets. Until the State can improve its overall control over the recording of capital assets through the implementation of a capital asset reporting module that operates in conjunction with both the State's budgeting and financial reporting systems, further manual processes will need to be continued in the form of account reconciliations and physical inventories of capital assets. Further, improved coordination between the Office of Accounts and Control and the various agencies within the State that are responsible for the acquisition, maintenance, and financing of capital assets will be essential to improve the overall accuracy of capital asset data reported in the State's financial statements.

Office of Management and Budget (OMB) Circular A-102 requires States to use, manage, and dispose of equipment acquired with federal funds in accordance with state laws and procedures. The State's weaknesses in accounting and physical controls over capital assets impacted its ability to identify equipment purchased with federal funds and to ensure compliance with its own procedures regarding the use, management and disposition of all equipment.

RECOMMENDATION

2006-5 Enhance systems and procedures necessary to provide adequate accounting and physical control over capital assets.

Finding 2006-6

FUNDS ON DEPOSIT WITH FISCAL AGENT

Funds on Deposit with Fiscal Agent on the Statement of Net Assets – Governmental Activities totaled more than \$400 million at June 30, 2006. These assets result from the issuance of certain debt (Grant Anticipation Revenue Vehicle (GARVEE), and Motor Fuel Revenue Bonds and Certificates of Participation) by the State. Unlike the issuance of general obligation bonds of the State where the proceeds are received by the General Treasurer and disbursed through the State accounting system for authorized purposes, these debt proceeds are retained by a trustee. A trust agreement entered into at the time of issuance governs (a) the establishment of

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various trust accounts and restrictions on their use, (b) permitted investments of the bond proceeds, (c) documentation required to release the funds for valid project expenditures and (d) various other legal and operational matters.

Because these debt proceeds are not actually “received” directly by the State, the manner in which they are accounted for, monitored, and invested differs from other funds of the State. Because of the dollar significance of these assets, monitoring controls and controls over financial reporting should be enhanced. We observed the following weaknesses:

- ❑ Once the debt is issued, the State Investment Commission or the Office of the General Treasurer has no role in investing, monitoring or disbursing the funds on deposit with the fiscal agent. Generally, the State Investment Commission and Office of the General Treasurer have statutory authority for the custody and investment of state funds. Consequently, the control procedures in place over the investment and disbursement of state funds (employed by the Office of the General Treasurer and Office of Accounts and Control) do not apply to these amounts.
- ❑ Control over funds on deposit with fiscal agent is not centralized – some trustee activity and reporting is controlled at the department level and other trustee activity is controlled at the Office of Accounts and Control.
- ❑ Trustee activity statements are not all stored in a central area under common control.
- ❑ Balances reported by the trustee are not consistently reconciled each month to balances reported by the State accounting system -- this weakens controls designed to ensure all trustee activity is recorded within the state accounting system. An unreconciled variance of approximately \$28,000 existed between the GARVEE trust accounts and the State accounting system.
- ❑ Duties related to recording and reconciling trustee activity with balances in the State accounting system are not sufficiently segregated.
- ❑ Procedures can be enhanced to ensure all data is appropriately recorded at fiscal year end (investment income accruals) and all information necessary to make disclosures in accordance with generally accepted accounting principles is available.
- ❑ The role of the trustee should be clarified to assess whether they have a responsibility to monitor various compliance features (e.g., permitted investments – credit quality of corporate issuer of investment agreements) or provide various reports and disclosure information.

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RECOMMENDATION

- 2006-6 Enhance controls over funds on deposit with fiscal agent by centralizing oversight responsibilities, segregating certain duties, and clarifying the role and responsibilities of the trustee.

Finding 2006-7

CAPITAL LEASES

The State does not have adequate controls in place to identify capital assets (mostly machinery and equipment) acquired through capital leases. The State's accounting system and their established capital asset policies and procedures do not currently provide an effective means to identify and properly record capital leases (and related capital assets) entered into by the State.

Further, the State has not routinely recorded capital lease transactions in accordance with generally accepted accounting principles (GAAP). GAAP require that capital lease transactions, in which the government is the lessee, be accounted for as though the capital acquisition had, in fact, been financed through a third party lender. That is, GAAP require that a governmental fund report at the inception of the capital lease, both an "other financing source" and an "expenditure" (capital outlay) equal to the net present value of the future minimum lease payments. The State currently does not record such amounts and instead only records lease payments made annually as expenditures in governmental funds.

The State does not have processes in place to accumulate the information necessary to identify capital lease obligations and assets. New processes should be implemented to ensure that all capital lease activity is recorded in the financial statements in accordance with GAAP.

RECOMMENDATION

- 2006-7 Implement procedures to ensure that all capital lease activity is identified and recorded in accordance with GAAP in the State's financial statements.

Finding 2006-8

ACCOUNTING CONTROLS OVER FEDERAL REVENUE AND EXPENDITURES

The State does not have adequate accounting controls in place to ensure that federal program expenditures do not exceed grant awards from the federal government. Federal revenue within the governmental activities approximated \$2 billion for fiscal 2006. As federal program

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expenditures are recorded, federal revenue should be recognized since these expenditures are considered reimbursable by the federal government. Some federal grants are open-ended entitlement programs where the federal government will reimburse the State for all allowable costs incurred under the program. Other federal grants are limited by a specific award amount and grant period. These grant periods are often for the federal fiscal year and are not aligned with the State's fiscal year. Expenditures could be recorded in a specific federal program account yet not be reimbursable from the federal government because grant funds have been exhausted.

The State currently relies on the linkage of federal accounts by CFDA (Catalog of Federal Domestic Assistance) number (assigned as a specific program identification number by the federal government) to report expenditures and revenue by federal program. For fiscal 2006, the State improved the overall CFDA linkage of federal accounts within RISAIL, improving the accuracy of reported federal expenditures in the Schedule of Expenditures of Federal Awards. We did, however, note the following weaknesses relating to the State's controls over federal revenue and expenditures during fiscal 2006:

- ❑ Certain federal accounts referenced incorrect CFDA numbers. Although overall CFDA linkage improved during fiscal 2006, the State should implement procedures to ensure that CFDA linkage within the State accounting system remains accurate.
- ❑ Most agencies that draw federal funds, do so on a cash basis and do not have access to federal receivable and deferred revenue balances reported in the State's general ledger. In certain cases, this may result in agencies not collecting amounts due from the federal government in a timely manner. This disconnect between the general ledger balances reported in RISAIL and agency drawdowns also increases the probability that balances reported in the general ledger are not accurate and reflective of actual amounts due from the federal government.

Departments and agencies administering federal programs are responsible for monitoring expenditure amounts compared to grant awards and preparing federal reports detailing this information. In some instances, agencies are making the necessary adjustments on federal reports but not adjusting the State's accounting system to reflect these expenditure adjustments. Controls over financial reporting are not adequate at an overall statewide level to ensure that federal program expenditures recorded in the accounting system are consistent with amounts reported to the federal government and do not exceed federal grant awards.

The Office of Accounts and Control has a procedure in place where departments and agencies are required to submit an annual Federal Grants Information Schedule (FGIS) which is intended to reconcile federal program expenditures as reported to the federal government with amounts included in the state accounting system. A revised FGIS schedule was implemented for fiscal 2006 and additional emphasis was placed on requiring departments to complete the form. However, the form needs to be enhanced to ensure that it fully meets the intended objective. Additional emphasis should be placed on the review at the Office of Accounts and Control with appropriate follow-up on noted discrepancies.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RECOMMENDATIONS

- 2006-8a Reconsider the design of the Federal Grants Information Schedule (FGIS) to ensure that it fully meets the intended objective of ensuring that reported federal program expenditures, amounts due from the federal government, and available grant awards are consistent with amounts recorded within the State accounting system.
- 2006-8b Ensure that all federal accounts are linked to the appropriate CFDA reference within the general ledger to allow for accurate reporting of federal revenue and expenditures by program.

Finding 2006-9

TAXATION – CONTROLS OVER ELECTRONIC FUNDS TRANSFER (EFT) RECEIPTS

The majority of taxation collections (based on dollars) are received electronically. Funds are deposited automatically in the State's bank account and an electronic file is transmitted to the Division of Taxation (Taxation) by the State's bank that contains abbreviated tax payment data (taxpayer identification number, payment amount, tax type, tax period). This electronic file is in an open text file format that allows, rather than restricts, manipulation of data prior to recording in Taxation's computer systems.

A select group of Taxation personnel are assigned responsibility for downloading the electronic file, reconciling the electronic file information to the amount recorded in the State's bank account, creating manual adjustments, and ensuring that the information is uploaded properly to the taxation mainframe computer systems. Taxation has taken steps to segregate duties regarding the processing of EFT receipts; however, certain individuals still have access that allows them to perform multiple functions.

The existing EFT process should be revised to the extent that the tasks of downloading, processing, and uploading payment detail files is placed under the control of an automated system that monitors and records the movement and processing of these payment files. The transmission of this data from the bank to Taxation must take place within a secure environment. Once received by Taxation, any changes to these data files should be recorded within a system that logs these changes and maintains a version control over these files. A logging function of this type offers a complete record of all changes made to these data files. This type of automated system is required to ensure that all changes made were required, authorized, and available for management review or audit.

Near the close of fiscal 2006 and subsequently, Taxation, in coordination with the Division of Information Technology (DoIT), has taken steps to ensure that the transmission of EFT files from the bank to Taxation takes place within a secure environment. Additionally,

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modifications to EFT data files are now controlled through an automated system that logs all changes made to these files and maintains a version control over each individual data file.

Due to the State's implementation of recommended control enhancements at or subsequent to fiscal year end, no further corrective action is required.

Finding 2006-10

RISAIL ACCESS CONTROLS

Access to the RISAIL accounting system was not sufficiently restricted during fiscal 2006. RISAIL system access is controlled through unique passwords and assigned system access roles. These roles, which are assigned based on job function and responsibility level, permit or limit access to various system capabilities. Access is further controlled by permitting only the viewing of data or the actual entry or changing of system information.

We found that various individuals had either (1) system access that was in excess of what was required for their respective duties, or (2) access provided through multiple roles that create rather than restrict the opportunity for perpetrating or concealing errors or irregularities. Unique access roles are assigned to both the BuySpeed and Oracle components of the RISAIL accounting system. In general, roles that allow users to initiate, process, and approve disbursement transactions, modify vendor information, or adjust accounting records must be adequately controlled and duties should be segregated.

Subsequent to June 30, 2006, the State implemented a new purchasing/accounts payable module and reconfigured its statewide accounting system now known as RIFANS. New access control procedures are in place within RIFANS and accordingly, no recommendation is made to enhance RISAIL access controls.

Finding 2006-11

CONTROLS OVER TAXATION SYSTEMS

Controls over access and use of the State's taxation systems should be enhanced by the implementation of adequate identification, authentication and authorization mechanisms, linking users and resources with access rules. Such mechanisms should prevent unauthorized personnel from accessing computer resources. Procedures should also be in place to keep authentication and access mechanisms effective.

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

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- ❑ A written password policy does not exist dictating:
 - an initial password change on first use,
 - the minimum length and makeup of passwords (e.g., 8 alphanumeric/special characters), and
 - encryption of stored passwords on the mainframe.
- ❑ Automatic logon denial and deactivation of accounts for users who attempted to logon past a maximum number of unsuccessful attempts (e.g., 3 attempts) does not exist.
- ❑ Automatic logoff of users who have been inactive for a period of time (e.g., 30 minutes) does not exist.
- ❑ The systems do not record audit trails of changes to system data elements.
- ❑ Appropriate segregation of duties does not exist in the area of system security, as the security officers are the system and password administrators, as well as, supervisory programmers.

With the constraints found within both the current operating system and the version of COBOL used within the development of these systems, logical access controls considered to be industry standard “best practices”, cannot be easily applied to these legacy systems.

The programming of the State’s taxation systems often requires modification as objectives and conditions change over time. Program change controls involve controlling and managing changes to information systems to ensure the integrity of both data and programming logic. Controls over program changes within the State’s Taxation systems are not adequate to ensure that only authorized changes are made to the system’s programming logic.

During the latter part of fiscal 2006, the Division of Taxation, in coordination with DoIT, implemented enhanced access controls over the State’s taxation systems and also implemented appropriate program change control procedures.

Due to the State’s implementation of recommended control enhancements at or subsequent to fiscal year end, no further corrective action is deemed necessary.

Finding 2006-12

CONTROLS OVER EMPLOYEE PAYROLL SYSTEM

Payroll data for the majority of State employees is entered via on-line access to the payroll system at the department or agency level. We reviewed the controls over data entry for the employee payroll system and found that established procedures now mandate the assignment of

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unique passwords for each user to control and restrict access to the system. However, the existing password control system does not record user identification information within the data files to identify individuals making specific file changes, thereby providing a clear audit trail. System access controls need to be improved by utilizing the user identification to track all transactions initiated by an individual user. Management may decide to identify key data fields to track transactions by specific user identification.

Controls over access and use of the State's payroll system should be enhanced by the implementation of adequate identification, authentication and authorization mechanisms, linking users and resources with access rules. Such mechanisms should prevent unauthorized personnel from accessing computer resources. Procedures should also be in place to keep authentication and access mechanisms effective.

Programming of the employee payroll system often requires modification as objectives and conditions change over time. Program change controls involve controlling and managing changes to information systems to ensure the integrity of both the data and programming logic. Controls over program changes within the employee payroll system are not adequate to ensure that only authorized changes are made to the system's programming logic.

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

During the latter part of fiscal 2006, DoIT implemented enhanced access controls over the State's payroll system.

At June 30, 2006, program change control procedures had not been implemented over the payroll system.

RECOMMENDATIONS

- | | |
|----------|---|
| 2006-12a | Capture and maintain the employee's unique user identification for transactions resulting in changes to critical payroll master file data elements. |
| 2006-12b | Implement program change control procedures for the employee payroll system. |

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Finding 2006-13

COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES

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

The oversight and management of the State's information security program relies upon the development and implementation of a standardized, formal, comprehensive information systems security plan. The information systems security plan should consist of detailed policies, procedures, standards, and guidelines that are designed to safeguard all of the information contained within the agency specific systems. The plan must be comprehensive in its coverage of all security issues and reflect the security needs of the specific agency and its applications.

During fiscal year 2006, system security policies were published and the State hired an information systems security officer.

Efforts need to continue to develop an initial assessment (with continual monitoring thereafter) to ensure that mission critical information systems meet the State's newly promulgated system security standards. For example, the Department of Transportation implemented a new financial management system in January 2006. Our initial assessment of systems security control procedures over that system indicated that access controls do not meet the State's systems security standards. We found instances where individuals had system access that was in excess of what was required for their respective duties. Further, password access controls need to be enhanced to conform to current standards (e.g., minimum length, character composition, required change interval, automatic lock-out). Additionally, no security administrator had been designated to control access rights to the system. The State should ensure that new information systems comply with its current systems security standards prior to becoming operational.

For systems that do not meet the State's current systems security standards, a risk-based priority timeline should be adopted to modify systems as required.

RECOMMENDATIONS

2006-13a Complete an initial assessment of compliance with newly promulgated systems security standards for the State's mission critical systems.

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2006-13b Adopt a risk-based priority timeline to modify systems as required to meet the new system security standards.

Finding 2006-14

UTILIZATION OF THE RIDOT FINANCIAL MANAGEMENT SYSTEM

The Rhode Island Department of Transportation (RIDOT), in conjunction with the Department of Administration (DOA), should re-evaluate the current design, intended use and resources necessary to support its newly implemented financial management system (FMS). Although RIDOT's FMS is a comprehensive multi-function computer system, by design certain functions are performed by the State's accounting system and all financial transactions are intended to be replicated within the State's accounting system. While the two systems utilize some of the same Oracle components, the systems were not designed to be compatible, and consequently, maintenance of the systems with appropriate internal controls requires extensive resources.

Approximately eight years ago RIDOT began planning for a new financial management system. The FMS was initially intended to replace RIDOT's highway finance system, thereby improving the department's internal controls over federal reimbursement requests as well as enhance fiscal monitoring and financial reporting. The FMS includes an integrated construction management component to manage transportation construction projects. The total cost for the FMS (including the construction management component) was approximately \$15.7 million. The cost was funded with State and Federal Highway Administration funds.

The FMS is a complex multi-module system intended to meet all of RIDOT's project accounting and financial reporting needs, including the purchasing, billing, construction management and general ledger functions. While the majority of RIDOT financial transactions originate in the FMS, the FMS is dependent on the State's accounting system to process cash disbursements to vendors, and for payroll processing. A significant interrelationship exists between the two systems requiring each system to generate transmission files to pass transaction data back and forth to complete various processing cycles.

The use of the two systems to initiate, process and record transactions has resulted in numerous implementation issues and has weakened controls over financial reporting as more fully described in Finding 2006-15. Transaction processing problems were identified in the following areas:

- RIDOT and DOA each utilize a separate and distinct account structure to assign expenditures to the appropriate funding source and classification of expenditure. The use of different account structures necessitates a mapping scheme allowing RIDOT to initiate transactions that are processed and paid by the State's accounting system.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Significant delays in transaction processing have occurred due to incorrect account mappings.

- ❑ Since no direct interface exists between the two systems, transmission files are utilized to transfer expenditure data between the RIDOT FMS and the State's accounting system. Duplicate vendor payments were made based on transmission files being input twice. These duplicate payments were not identified by RIDOT during the year, however, all duplicate payments have been subsequently discovered.
- ❑ RIDOT establishes and maintains purchase order balances on a detailed line item basis; purchase order balances in the State's accounting system are in summary form. In addition, RIDOT balances reflect multi-year obligations whereas DOA balances are reflected on a "funds released" basis. Efficiencies could be achieved, and certain processing difficulties eliminated, through use of a single purchase order and more effective coordination between the systems.

Transactions processed by both the RIDOT and DOA post to two separate and unrelated general ledgers under significantly different account structures and control environments, yet are intended to be synchronized. Periodic reconciliation between the two general ledgers is necessary to ensure transactions are in fact synchronized and to allow timely and accurate financial reporting. RIDOT did not perform monthly reconciliations between the two general ledgers during fiscal year 2006 for several reasons. Primarily, once FMS was operational in January 2006, RIDOT's main priority was paying vendor invoices and seeking federal reimbursement for eligible expenditures. Due to a variety of implementation issues related to the processing of disbursements through two systems, a significant backlog of vendor payments existed throughout this period. RIDOT did not have sufficient accounting personnel to process vendor payments and perform monthly general ledger reconciliations.

RIDOT, due to a lack of accounting and data processing personnel, engaged the services of a public accounting firm to perform a reconciliation between the FMS trial balance and the State's general ledger. The reconciliation between the two independently operating general ledgers was a time-consuming, resource intensive effort ultimately resulting in unexplained variances between the two systems.

We were informed that the following issues contributed to the complexity and cumbersome nature of the reconciliation process:

- ❑ The mapping required to accommodate the two different account structures was modified several times throughout the period, resulting in certain assumptions being made and revenues and expenses being compared in total only. The absence of either standardized or customized system reports during this process also contributed to the difficulty in obtaining accurate data for reconciliation purposes.

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Section II – Financial Statements Findings

- ❑ Various types of transactions are recorded only in one general ledger, while other types of transactions are reflected differently in each system. For example, contract retainage and depreciation expense are recorded in RIDOT FMS and not the State's system; conversely, amounts due to and from other funds are recorded in the State's general ledger and not the RIDOT FMS. In addition, transactions posted to the State's general ledger can originate outside RIDOT without the department's knowledge.
- ❑ Since transmission files are required to be uploaded and downloaded to transfer information between the two systems, timing differences will always exist and have to be identified as part of the reconciliation process.

In our opinion, utilization of the FMS, as currently implemented, will require additional resources or the continued use of outside consultants to perform routine internal control procedures to ensure transactions are properly recorded in both systems and accurate financial reporting.

We believe that an analysis should be performed, considering available resources, to determine whether current processes and procedures could be modified to improve utilization of the FMS in future periods. This analysis, at a minimum, should consider whether (1) utilizing two systems to generate vendor payments is efficient, (2) the continued use of two general ledger and purchase order systems is the optimal method for recording and maintaining financial data, and (3) the account structure, and purchase order numbering schemes, should be modified for consistency between both systems.

RECOMMENDATION

- 2006-14a Reevaluate the current design, intended use and resources necessary to support the RIDOT Financial Management System. The analysis should consider how to most effectively utilize the FMS while enhancing controls to fulfill the project accounting and financial reporting needs of both the Departments of Transportation and Administration.

Multiple factors, including system implementation problems, temporary vacancies in the chief financial officer and other positions, and limited accounting and information technology resources have prevented RIDOT from fully utilizing the capabilities of the FMS. Prior to implementation, RIDOT anticipated that the FMS would strengthen internal controls over transaction processing, generate fiscal reports allowing management to monitor its financial position during the year and calculate and maintain fund balances by funding source.

Recognizing that a significant investment has already been made and that further integration of the two systems would require additional investment, RIDOT should establish a short-term plan to enable the department to realize the intended benefits of the FMS. Full utilization of the FMS will help meet the department's critical need for timely and accurate financial information to manage the activity recorded in the IST and GARVEE funds.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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During the fiscal year RIDOT personnel devoted considerable time and effort correcting processing problems so that vendors were paid as timely as possible under the circumstances. Understandably, RIDOT was unable to evaluate its managerial and financial reporting needs, or begin to develop the corresponding reports. Reports required for fiscal closing were requested and produced on an as needed basis without any internal controls in place to ensure the accuracy of these reports for their intended use.

RIDOT would benefit by establishing short-term goals and benchmarks to achieve full implementation of the FMS and its capabilities. Management should work in conjunction with accounting and information technology personnel to identify and develop system generated reports to assist in budgetary compliance, management oversight and facilitate financial statement preparation.

RECOMMENDATION

2006-14b Establish short-term goals and related timetables to assist in achieving the full operational capabilities of the FMS.

Finding 2006-15

FINANCIAL REPORTING – INTERMODAL SURFACE TRANSPORTATION FUND

Controls over financial reporting for the Intermodal Surface Transportation (IST) Fund are deficient and need to be improved to ensure consistent and accurate reporting of fund activity. RIDOT implemented its new Financial Management System (FMS) in January 2006 dramatically changing its internal control structure, procedures, and methods of accounting for IST Fund transactions. Internal controls deemed necessary to ensure coordination between the FMS and the State's accounting system (e.g., periodic reconciliations) were not in place due to unanticipated implementation issues and the lack of accounting and information technology resources during the period.

The IST Fund has been established as a special revenue fund to account for transportation related activities of the State including the highway construction program. Federal revenues, bond proceeds for highway projects and amounts collected from the state gasoline tax are used to support these activities.

Financial statements for the IST Fund are prepared with information from the State's accounting system and, beginning in fiscal year 2006, information extracted from RIDOT's FMS. While the majority of transaction data flows between the two systems, both sources of information are not complete on their own, and extensive effort was required to assemble and reconcile the various components of information needed to prepare the financial statements. Several account balances, as well as the sources of funding for expenditures, reflected in the June

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

30, 2006 draft financial statements required significant audit adjustment due to a variety of control weaknesses over financial reporting.

Internal controls necessary to ensure the proper accounting and reporting of IST Fund accounts payable and federal receivable (amounts due from other governments and agencies) and the related impact on the Fund's expenditures and revenue were not in place and operating effectively during fiscal year 2006. As a result, our opinion on the IST Fund's financial statements was qualified with respect to the uncertainty over completeness of these balances in both the current and prior fiscal years.

Since RIDOT had not achieved the full capabilities of the FMS during fiscal year 2006, the department could not utilize the system to produce year end financial statements or track fund balance by funding source. In addition, insufficient information existed to allow the effective and timely monitoring of financial operations during the fiscal year, or to provide a basis for an expectation of operating results for the fiscal year. This lack of relevant information compromises the preparation of financial statements in conformance with generally accepted accounting principles.

Accounts Payable / Liabilities

We noted the following lack of adequate internal controls which resulted in uncertainties regarding completeness with respect to RIDOT's accounts payable and related balances.

- ❑ RIDOT did not reconcile its FMS general ledger balances to the State's general ledger balances, from which the financial statements are prepared, on a monthly basis. Significant variances were identified between the two general ledgers for certain accounts (e.g., accounts payable \$11.5 million). RIDOT personnel indicated that due to timing differences the FMS initially began with incorrect general ledger balances.
- ❑ RIDOT did not reconcile, close and post FMS subsidiary module data to its FMS general ledger on a monthly basis as required by its procedures manual. This impacted the integrity of the general ledger reporting process.
- ❑ Since a significant number, and various types, of transactions were incorrectly entered into the FMS, several "data fixes" were required to delete inappropriate postings and adjust certain subsidiary and general ledger balances. One data fix, generated by the FMS consultant, resulted in a \$7.6 million reduction of RIDOT's FMS accounts payable balance.
- ❑ Since two different populations of accounts payable data existed in each accounting system at fiscal year end, RIDOT was forced to devise a convoluted and imprecise methodology to identify vendor payables. This methodology for identifying year end accounts payable was adversely impacted by the implementation of the State's new accounting system in fiscal 2007. RIDOT was unable to process various vendor

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payments in a timely manner due to transaction processing issues related to the new RIFANS system (e.g., account mapping, establishment of purchase orders, etc.). Certain transactions were not evaluated for accrual purposes that would have been evaluated under the previous processing environment.

- ❑ Transactions relating to contractor retainage balances were incorrectly entered in the FMS resulting in both the duplication of certain transactions as well as the under recording of other retainage balances. A \$2.5 million overstatement of the retainage balance was identified.
- ❑ RIDOT did not have procedures in place to reimburse the federal government its share of project expenditure credits processed during the fiscal year, or to record this liability in its financial statements. RIDOT identified approximately \$659,000 of federal expenditure credits processed between January and June 2006 the majority of which resulted from duplicate payments. This liability was not reflected in the preliminary IST Fund financial statements.

Due from the Federal Government

Amounts due from the federal government represent the federal share of program expenditures incurred pending federal reimbursement. We noted the following weaknesses in RIDOT's internal controls over financial reporting that impacted its federal receivable and related balances.

- ❑ RIDOT did not have procedures in place to accurately identify all federal accounts receivable related to transactions billed through the FMS. Accordingly, an inappropriate relationship between federal expenditures and federal revenues existed in the IST Fund financial statements (initial financial statements reflected a variance of federal expenditures exceeding federal revenues by \$11.4 million).
- ❑ RIDOT did not reconcile federal expenditures as reflected in State accounting records to its federal billings as generated by the FMS. FMS reports detailing the composition of RIDOT's federal billing requests were not available until after the close of the fiscal year. Certain other state departments have the capability to charge federal expenditures to RIDOT accounts without RIDOT's approval or knowledge.
- ❑ RIDOT did not have procedures in place to accurately distribute payroll costs to the appropriate funding sources. Payroll allocations during the fiscal year inadvertently assigned paid leave time to gas tax funded accounts. Indirect cost allocations relating to financial management and management information systems were based on incorrect direct labor allocations which included paid leave. These incorrect allocations, both payroll and indirect costs, were not identified until five months after fiscal year end. A previously unrecorded federal receivable totaling \$3.7 million was identified in conjunction with the correction of payroll and indirect cost allocations.

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- ❑ RIDOT has utilized, since the implementation of the FMS, an unsupported labor additive (burden) rate (.518) significantly below the rate it had previously estimated (.627). The rate is used to assign the cost of fringe benefits and paid leave to direct labor costs. RIDOT's use of the insufficient rate adversely impacts payroll allocations, and results in a federal accounts receivable which remains unquantified and unrecorded until a subsequent analysis can be performed.

Transfer of Bond Proceeds for Transportation Projects

General obligation bond proceeds are used to meet the state matching requirement for federally funded highway projects. Amounts are transferred from the Bond Capital Fund in lump sum and do not represent the actual share of project expenditures to be funded from bond proceeds. During fiscal year 2006, transfers from the Bond Capital Fund to the IST Fund were approximately \$41.9 million (compared to \$31.3 million in fiscal 2005). While Federal project expenditures intended to be matched with bond funds were incurred throughout the fiscal year, bond funds were transferred four times during the year on an estimated basis. Bond proceeds have specific restrictions regarding their use -- accordingly any unspent bond proceeds held in the IST fund should be readily identifiable to allow compliance with those restrictions.

The share of project costs to be funded through bond funds should be tracked similarly to the federal share of project costs -- as valid project expenditures are incurred and based upon applicable funding sources for a specific project. Transfers from the Bond Capital Fund should be made at designated time intervals (e.g., monthly) and should be equal to the actual share of project costs (based on valid project expenditures incurred) to be funded with bond proceeds.

Fund balance within the IST Fund cannot be readily distinguished as to the source of funds. Since no correlation exists between project costs funded with bond proceeds and transfers from the Bond Capital Fund, an accurate financial position of the IST Fund, during the fiscal year by funding source, is not determinable. Bond proceeds transferred in excess of the actual share of project expenditures are reflected as fund balance. If the above change was implemented and bond proceeds were transferred on an "earned basis", any fund balance remaining in the IST fund would be attributable to unspent gas tax revenue. Analysis of the IST fund's financial position would be simplified and plans for use of the IST fund balance could be made consistent with applicable restrictions.

We were informed by RIDOT personnel that new procedures requiring periodic transfers based on the actual expenditures in the bond accounts are being implemented in fiscal year 2007.

Disclosure of Encumbrances Outstanding at Fiscal Year End

RIDOT utilized an FMS generated report to quantify the balance of encumbrances outstanding for both the IST and GARVEE funds at June 30, 2006. The balance of outstanding encumbrances at fiscal year end is disclosed in the notes to the State's financial statements. We identified issues which indicated that the report was incomplete due to the omission of certain balances where change orders were in process and also included change orders initiated after

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statements Findings

June 30, 2006. We were unable to obtain sufficient evidence regarding the completeness and valuation of encumbrances reported for these funds and accordingly modified our opinion on the State's financial statements for this issue.

RIDOT personnel should reassess the parameters programmed to generate the "encumbrances outstanding report" and make the necessary modifications to ensure the report meets the State's financial reporting objectives.

RECOMMENDATIONS

- | | |
|----------|---|
| 2006-15a | Reconcile FMS general ledger balances to the State's general ledger on a monthly basis. Subsidiary ledgers should be closed, reconciled and posted to the general ledger as part of the monthly reconciliation process. |
| 2006-15b | Establish internal control procedures to accurately identify and record accounts payable and receivable. |
| 2006-15c | Establish internal control procedures to allocate payroll charges on a monthly basis. Documentation supporting the allocations should be retained and available for audit purposes. |
| 2006-15d | Modify the labor additive rate utilized within the FMS for federal billing purposes to the estimated rate approved by the Federal Highway Administration. |
| 2006-15e | Transfer amounts from the Bond Capital Fund equal to the actual share of project costs to be funded from bond proceeds. |
| 2006-15f | Segregate fund balance within the IST Fund based upon source of funds. |
| 2006-15g | Reassess the parameters programmed to generate the "encumbrances outstanding report" and make necessary modifications to ensure the report meets the State's financial reporting objectives. |

Finding 2006-16

CONTROLS OVER FEDERAL REVENUE RECORDED WITHIN THE IST FUND

Controls over federal revenue recorded within the IST Fund need to be improved to ensure that (1) the federal share of IST fund expenditures is accurately reflected in the State's accounting system which is the basis for the preparation of financial statements (2) all federally reimbursable expenditures are billed timely, (3) expenditures ineligible for federal

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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reimbursement are not recorded in federal accounts, and (4) expenditure credits related to previously reimbursed federal costs are properly recorded in the billing system.

Federal Billing Reconciliations

RIDOT's internal control procedures did not include reconciliation between the transactions posted in federal RISAIL accounts and transactions processed through the Federal Highway Administration (FHWA) billing system during the first six months of the fiscal year. Transactions processed through federal Highway Planning and Construction program accounts within RISAIL should parallel the federal share of project costs claimed for reimbursement through the FHWA billing system (i.e., only federal costs eligible for reimbursement should be charged to federal RISAIL accounts and all transactions within these accounts should be billed through the federal system). Federal revenues should equal federal expenditures for financial reporting purposes after considering the impact of changes in earned but unbilled and any unique transactions (e.g., retroactive reimbursements) involving federal funding.

We reported in prior audits that, subsequent to the implementation of RISAIL, control procedures were not in place to match federal transactions in the State accounting system to transactions processed through the federal billing system. RIDOT, due to a lack of accounting and data processing personnel, engaged the services of a public accounting firm to perform a reconciliation of federal transactions recorded in RISAIL and the federal billing system prior to the implementation of FMS. Expenditures totaling approximately \$820,000 were identified as being processed external to RIDOT and never billed for federal reimbursement, as well as, federal expenditure credits that had been recorded in the accounting system but never reimbursed to the FHWA. Since the implementation of FMS, RIDOT no longer utilizes this methodology to request federal reimbursement of eligible expenditures.

This internal control weakness was further complicated by the implementation of the FMS, which now electronically generates federal billing files based on certain parameters established within the system. RIDOT has not reconciled expenditures charged to federal RISAIL accounts and federal billings as generated by the FMS since the implementation of the system.

Federal Receivable Balances

Federal receivable balances include not only current projects but also substantial amounts relating to prior projects. This means that a valid receivable exists but funds have not been drawn either because project modifications are pending federal approval or because RIDOT has chosen to use its allocation of federal funds for new projects instead. RIDOT believes these federal receivable amounts are a necessary consequence of making the most effective use of federal highway authorizations for the State's highway construction program.

Federal receivable balances (the noncurrent portion of which totaled \$23.6 million at June 30, 2006) are not controlled within RISAIL but instead are reported at fiscal year end by RIDOT to the Office of Accounts and Control. Based on previous history, not all of such

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

amounts will be fully collected within the next fiscal year. Therefore, an allowance must be established for financial reporting purposes to estimate the amount that is unavailable (the amount that will not be collected within one fiscal year after the balance sheet date). Of the non-current portion totaling \$23.6 million, \$7.2 million is estimated as likely to be collected within the next year, and \$16.4 million is considered unavailable. The balance that remains uncollected rolls forward from one fiscal year to another.

The current process to account for these amounts weakens overall control over financial reporting for the IST Fund. Federal funds should be drawn for all amounts due from the federal government as soon as all federal requirements have been met (e.g., federal project approval). Since RIDOT has financed these Federal expenditures with State bond proceeds, failure to collect these amounts due from the federal government for extended periods of time puts the State at a substantial disadvantage. The balance of the non-current portion of the federal receivable balance increased \$10.6 million during State fiscal year 2006.

RECOMMENDATIONS

- | | |
|----------|---|
| 2006-16a | Reconcile the transactions reflected in federal billings to the detail of federal accounts recorded in the State's accounting system. |
| 2006-16b | Collect all amounts due from the federal government in reimbursement of highway project expenditures as soon as all federal requirements have been met. |
| 2006-16c | Establish procedures requiring RIDOT notification of charges originating external to the department. |

Finding 2006-17

INFORMATION SYSTEMS SECURITY - LOTTERY GAMING SYSTEMS

The Lottery has implemented a formal comprehensive security plan for the computer systems used to operate the Lottery's games; however, material compliance by the Lottery's gaming system provider has not yet been achieved. Material compliance with the Lottery's comprehensive security plan is vital to ensuring that access to the computer systems used to operate the Lottery's games is appropriately restricted to authorized individuals and any unauthorized access is detected by the Lottery on a timely basis with appropriate follow-up.

RECOMMENDATION

- | | |
|---------|--|
| 2006-17 | Ensure material compliance with established comprehensive security policies and procedures to effectively manage and control access to the computer systems used to operate the Lottery's games. |
|---------|--|

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statements Findings

Finding 2006-18

IMPROVE CONTROLS OVER FINANCIAL REPORTING – EMPLOYEES’ RETIREMENT SYSTEM

ERSRI’s process for preparing financial statements can be improved by ensuring that its accounting systems generate required financial reporting information on a timely basis and sufficient accounting personnel are in place to allow timely posting, monitoring and analysis of accounting information during the year.

Improve the Reliability of Contributions Receivable Reported by the ANCHOR System

ERSRI implemented a new accounting system, known as ANCHOR, during fiscal 2002, which was designed to meet both its operational and financial reporting needs. Balances reported by ANCHOR for contributions and contributions receivable, require significant analysis and adjustment to yield amounts that are appropriate for financial statements prepared in accordance with generally accepted accounting principles.

Certain of these issues involve how the system was programmed to meet various operational objectives. For example, contributions received will remain as deferred revenue until the detail contribution data passes edit checks allowing the data to post to the contribution database. From a financial reporting perspective, the contributions have been “earned” and should be reflected as revenue. Similarly, the State’s matching contribution for teachers is not recorded until all contribution data has passed 100% of the system edits.

When employers report their detail contribution data before remitting payment to the System, ANCHOR appropriately recognizes contributions receivable. Without actual detail contribution data, the ANCHOR system has not generated reliable estimates of contributions due the System. For financial reporting purposes, contributions should be recognized based upon employer payroll activity.

In order to improve the reliability of contributions receivable reported by ANCHOR, the System should require all participating employers to report their detail contribution data on a timely basis particularly at fiscal year end. This would allow the ANCHOR system to accurately report contributions due the system and facilitate the preparation of financial statements.

Balances reported for an employer may also be inaccurate because of posting errors that occurred in prior periods. While a modification was made to the system which allows correction of posting errors on a prospective basis, previously known errors have been tracked off-line and therefore the ANCHOR system may not report accurate current balances of contributions owed to the system. Additionally, the ANCHOR system is intended to be self-monitoring by employers, allowing them access to the system via the internet to assess the status of contributions and payments. Inaccurate employer contribution data limits the effectiveness of

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

this system function. ERSRI is in the process of completing its analysis and reconciliation of these posting errors affecting contributions and contributions receivable.

RECOMMENDATIONS

- 2006-18a Require all participating employers to report detail contribution data on a timely basis, particularly at fiscal year end.
- 2006-18b Complete analysis and reconciliation of prior period posting errors affecting contributions and contributions receivable by employer unit.

Adopt a Standard Closing Process and Schedule

ERSRI has not adopted a formalized closing process which should detail required closing journal entries to be prepared at the end of the fiscal year. The standard closing process should be included in an accounting manual detailing the following information and processes:

- ❑ Data accumulation and analysis required to prepare the journal entries;
- ❑ Expected transaction flows, balances and relationships for specific accounts;
- ❑ Required journal entries including sample entries detailing specific accounts;
- ❑ Sources of data for each standard journal entry (e.g., external sources, ANCHOR reports, database queries, etc.);
- ❑ Frequency of posting the journal entries (e.g., annually, monthly);
- ❑ Accounting personnel responsible for preparing and approving the journal entries;
- ❑ Schedule for completion of the journal entries and closing process; and
- ❑ Required reconciliations to subsidiary detail or external data sources for certain account balances.

At June 30, 2006, ERSRI was in the process of developing an accounting manual.

RECOMMENDATION

- 2006-18c Complete development of an accounting manual detailing a formalized closing process including sample journal entries, data sources for the journal entries, and responsibility for initiating and approving closing entries.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section II – Financial Statements Findings

Ensure Resources are Adequate to Allow Accounting Functions to be Performed Timely and Implement Effective Oversight of the Accounting and Financial Reporting Functions

ERSRI continues to have insufficient personnel devoted to accounting functions. Vacancies in key accounting positions have existed over a period of years when ERSRI was completing implementation of its accounting system and significantly changing its operations and financial reporting processes. Currently, the Assistant Director – Finance position is vacant. Consequently, the Executive Director continues to be directly responsible for posting journal entries and preparing draft financial statements. The lack of adequate accounting resources weakened controls over financial reporting.

ERSRI has three principal activity cycles – collection of contributions, payment of benefits, and investment of assets. Accounting responsibility for the investment of assets is fragmented since a unit separate from the Retirement Division is responsible for the investment activity cycle. Investment transactions are recorded by ERSRI’s custodian and reported and summarized for the System. Recording of this activity (in summary form) within the System’s accounting records is only performed once at the close of the fiscal year. The growth and complexity of the System’s investment portfolio warrant additional attention to the accounting and financial reporting aspects of the investment cycle. Additionally, complex investment valuation issues, disclosure of investment-related risks, the System’s exposure to derivative type investments and the overall requirements of preparing financial statements in accordance with generally accepted accounting principles have increased the need for accounting resources.

Either the redistribution of accounting responsibilities or an additional accounting position should be considered to perform various accounting functions related to ERSRI system investments. These functions should include monthly recording of investment activity as reported by the custodian, reconciliation of contributions/transfers to and from the custodian, reconciliation and monitoring of custodian-generated accounting reports, monitoring and accumulation of fair value information for financial reporting purposes, recording and monitoring of investment-related expenses, and preparation of all investment-related note disclosures for financial reporting purposes.

RECOMMENDATIONS

- | | |
|----------|--|
| 2006-18d | Ensure adequate accounting resources exist to monitor control procedures and provide oversight of key accounting and financial reporting functions. Fill the vacant Assistant Director – Finance position. |
| 2006-18e | Consider redistributing or supplementing existing accounting resources to improve the coordination and performance of various investment-related accounting responsibilities. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statements Findings

Finding 2006-19

IMPLEMENT RECONCILIATION CONTROLS OVER THE ANCHOR AND GENERAL LEDGER ACCOUNTING SYSTEMS – EMPLOYEES’ RETIREMENT SYSTEM

The ANCHOR system was designed to include a daily reconciliation function between data contained within the ANCHOR system and data contained within the PeopleSoft general ledger which is used for financial reporting purposes. The purpose of the reconciliation function is to ensure that the data contained within each system is fully synchronized. If variances do occur, the daily reconciliation process allows prompt investigation and correction. Although part of the system design, this function has never been fully operational.

Daily reconciliation between the ANCHOR and PeopleSoft components of the ERSRI accounting system is a critical control feature. Failure to perform this reconciliation is a weakness in control over financial reporting. Recently, ERSRI, working with its systems consultant, started to revisit this area of concern. During fiscal 2006, ERSRI began performing first level reconciliations between the ANCHOR system and its general ledger.

RECOMMENDATION

2006-19 Implement procedures to perform a daily automated reconciliation function between the ANCHOR and PeopleSoft components of the ERSRI accounting system.

Finding 2006-20

FISCAL AGENT OVERSIGHT – MEDICAL ASSISTANCE PROGRAM

As described in Finding 2006-63 (Section III – Federal Award Findings and Questioned Costs), the Department of Human Services’ oversight of its fiscal agent designated to pay Medical Assistance program claims was not adequate to assure the reliability of data reported by the Medicaid Management Information System (MMIS). Financial monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State’s financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section II – Financial Statements Findings

Finding 2006-21

AUTOMATED DATA PROCESSING (ADP) RISK ANALYSIS AND SYSTEM SECURITY
REVIEW

As described in Finding 2006-44 (Section III – Federal Award Findings and Questioned Costs), federal regulations mandate that States are responsible for the security of all ADP operational systems involved in the administration of HHS programs. State agencies are required to determine appropriate ADP security requirements based on recognized industry standards governing security of ADP systems and information processing. DHS utilizes two primary systems, INRHODES and Medicaid Management Information System (MMIS), to administer HHS federal programs. Benefit payments disbursed from these two systems during fiscal 2006 totaled over \$2 billion. DHS should develop a comprehensive ADP risk analysis and system security review process to ensure a coordinated approach to identifying and addressing security risks related to information systems used to administer federal programs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Table of Findings by Federal Program

<u>Program Title</u>	<u>CFDA Number</u>	<u>Applicable Findings</u>
Food Stamp Cluster:		
Food Stamps	10.551	06-24
State Administrative Matching Grants for Food Stamp Program	10.561	06-22, 06-23, 06-26
Child Nutrition Cluster:		
School Breakfast Program	10.553	06-22, 06-25
National School Lunch Program	10.555	06-22, 06-25
Special Milk Program for Children	10.556	06-22
Summer Food Service Program for Children	10.559	06-22
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	06-22, 06-23, 06-27, 06-28, 06-29
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance	11.307	None
Section 8 Project-Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	None
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	None
Home Equity Conversion Mortgages	14.183	None
Section 8 Housing Choice Vouchers	14.871	None
Unemployment Insurance	17.225	06-22, 06-23
WIA Cluster:		
WIA Adult Program	17.258	06-22
WIA Youth Activities	17.259	06-22
WIA Dislocated Workers	17.260	06-22
Airport Improvement Program	20.106	None
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	06-22, 06-30, 06-31, 06-32, 06-33, 06-34
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	06-22
Federal Transit – Formula Grants	20.507	None
Capitalization Grants for Clean Water State Revolving Funds	66.458	None
Capitalization Grants for Drinking Water State Revolving Funds	66.468	None
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	None
Federal Family Education Loans	84.032	None
Federal Work-Study Program	84.033	None
Federal Perkins Loan Program – Federal Capital Contributions	84.038	None
Federal Pell Grant Program	84.063	None
Federal Direct Student Loans	84.268	None
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	None
Nursing Student Loans	93.364	None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

<u>Program Title</u>	<u>CFDA Number</u>	<u>Applicable Findings</u>
Title I Grants to Local Educational Agencies	84.010	06-22
Special Education Cluster:		
Special Education – Grants to States	84.027	06-22
Special Education – Preschool Grants	84.173	06-22
Federal Family Education Loans (Guaranty Agency)	84.032	None
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	06-22, 06-23
Improving Teacher Quality State Grants	84.367	06-22
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	06-22, 06-23, 06-35, 06-36, 06-37, 06-38, 06-39
Temporary Assistance for Needy Families	93.558	06-22, 06-24, 06-26, 06-40, 06-41, 06-42, 06-43, 06-44
Low-Income Home Energy Assistance	93.568	06-22, 06-45, 06-46, 06-47, 06-48, 06-49, 06-50
CCDF Cluster:		
Child Care and Development Block Grant	93.575	06-22, 06-24, 06-26, 06-43, 06-44
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	06-22, 06-24, 06-26, 06-43, 06-44
Foster Care – Title IV-E	93.658	06-22, 06-23, 06-51
Adoption Assistance	93.659	06-22, 06-23, 06-52
Social Services Block Grant	93.667	06-22, 06-24, 06-26, 06-53, 06-54, 06-55
State Children's Insurance Program	93.767	06-22, 06-24, 06-44, 06-56, 06-57
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	06-22
State Survey and Certification of Health Care Providers and Suppliers	93.777	06-22
Medical Assistance Program	93.778	06-22, 06-24, 06-40, 06-44, 06-55, 06-58, 06-59, 06-60, 06-61, 06-62, 06-63, 06-64
Homeland Security Cluster:		
State Domestic Preparedness Equipment Support Program	97.004	06-22, 06-23, 06-65, 06-66, 06-67, 06-68, 06-69, 06-70, 06-71
Homeland Security Grant Program	97.067	06-22, 06-23, 06-65, 06-66, 06-67, 06-68, 06-69, 06-70, 06-71
State Homeland Security Program (SHSP)	97.073	06-22, 06-23, 06-65, 06-66, 06-67, 06-68, 06-69, 06-70, 06-71
Research and Development Cluster	Various	06-72

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2006-22

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

CASH MANAGEMENT

The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.

The State is required to draw cash for federal programs in accordance with the federal Cash Management Improvement Act (Act) and related regulations at 31 CFR Part 205. For most large federal programs, the State is required to follow the specific provisions of an agreement (Treasury/State agreement) entered into by the State and the US Treasury pursuant to the Act and related regulations. In the event the State does not comply with the provisions of the Treasury/State agreement in drawing cash for federal programs, it must pay interest for the period the funds were on hand prior to disbursement. For federal programs not included in the agreement, the State is required to minimize the time elapsing between the transfer of funds from the US Treasury and their disbursement, generally considered to be no more than a three-day supply of cash on hand.

Each department is responsible for drawing federal funds for the programs it manages. While the Office of Accounts and Control provides web-based cash management information to departments and agencies for the purpose of drawing federal funds in compliance with the Treasury/State agreement, most State agencies do not utilize this data for requesting Federal funds. Instead, most departments utilize their own queries of state accounting system data to determine amounts to be drawn. Consequently, a comprehensive control process to ensure that draws of federal funds were being determined in accordance with the specific requirements of the Treasury/State agreement was not in place.

The following table summarizes major programs administered by the primary government.

Major programs administered by the primary government	21
# of programs included in the Treasury/State agreement	17
Total number of components/funding techniques utilized for programs included	41
# of components/techniques being executed in compliance with the agreement	7

In most instances where the techniques specified in the agreement were not consistently followed, funds were generally drawn later than permitted. In some instances, draws were timed such that no excess federal cash was on hand, but the method for determining the drawdown amount was not in compliance with the Treasury/State agreement. We noted efforts to modify the draw techniques specified in the Treasury/State agreement to more accurately reflect program disbursement patterns and actual practice. These efforts need to continue to streamline

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

administration of federal cash management and also to improve overall compliance with the Treasury/State agreement.

In addition, since each department draws federal cash for its programs, centralized monitoring procedures are needed to ensure compliance with federal cash management requirements. The centralized monitoring procedures should include:

- ❑ assessing department adherence to the funding techniques specified in the Treasury/State agreement;
- ❑ ensuring accounts used for federal program expenditures are linked to the appropriate CFDA number;
- ❑ monitoring the status of federal cash balances; and
- ❑ accumulating data to modify the Treasury/State agreement when necessary and to calculate interest liabilities on an annual basis.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2006-22a | Implement a centralized monitoring process to ensure compliance with cash management requirements for federal programs. |
| 2006-22b | Continue to review the basis for requesting Federal funds (i.e., funding techniques) for applicable Federal assistance programs, and modify the Treasury/State agreement to more closely match funding techniques to current practices. |

An interest liability exists when Federal funds reside in a State account prior to being spent for Federal program purposes. Federal regulations require that the State calculate the Federal and State interest liabilities for each Federal assistance program included in the Treasury/State agreement, and maintain records supporting these interest calculations for audit purposes. The state's interest liability is reported to the federal government on the CMIA Annual Report. Our audit disclosed various inconsistencies in the report data used to compute interest liabilities for major assistance programs. We found the following:

- ❑ The Treasury-State Agreement stipulates that no interest liability will be incurred (interest-neutral) for transfers of funds made in accordance with the agreed upon procedures specified in the agreement. All but one of the funding techniques included in the Treasury/State agreement were interest-neutral. In calculating the interest liability, compliance with the funding techniques was not considered. For those programs that adhered to the funding techniques no interest liability would accrue.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

- ❑ The WIC program utilizes a separate bank account for the payment of program benefits. The interest liability for the benefit portion of the WIC program is based on the average daily balance of federal funds on hand. Instead of using the average daily balance reported on the monthly bank statements a separate calculation was used which resulted in an incorrect average daily balance. In addition, program benefit payments were erroneously included in the interest calculation related to WIC administrative expenditures. The result of these errors was a net overpayment of \$2,404 for WIC program state interest liability.

- ❑ CMIA regulations require an interest liability to be paid on all refund transactions in excess of \$50,000. The program used to calculate the liability totaled all refund transactions by federal program, and calculated a liability when the total amount exceeded \$50,000. The agreement specifies that the \$50,000 limit be applied to individual refund transactions. We also noted that the state liability related to refund transactions was determined by considering all refunds on hand for two days rather than determining the number of days between the refund and the date of the next draw of federal funds as required by the agreement.

The calculation of the state interest liability reflected in the 2006 CMIA Annual Report should be corrected to be consistent with the terms and conditions of the Treasury/State agreement.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2006-22c | Modify procedures to ensure that all programs or program components complying with the funding techniques specified in the Treasury/State agreement are excluded from the interest liability calculation. |
| 2006-22d | Calculate refund liabilities in accordance with the terms outlined in the Treasury-State Agreement. Submit a corrected CMIA Annual Report as necessary. |

Finding 2006-23

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

MANAGEMENT OF EQUIPMENT ACQUIRED WITH FEDERAL FUNDS

As described in Finding 2006-5 (Section II – Financial Statement Findings), accounting controls were not adequate during fiscal 2006 to ensure that the acquisition and disposal of capital assets was accurately recorded within the accounting system. Additionally, insufficient

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

inventories were performed to ensure the completeness of furniture and equipment, computer systems and building improvements in the initial recording of capital assets acquired in previous fiscal years.

Because of the weaknesses in controls over capital assets, we were unable to test the State's compliance with the equipment management requirement. In most instances, individual departments or agencies vested with responsibility for administering federal programs also lacked controls to ensure compliance with these requirements.

Questioned Costs: None

Finding 2006-24

FOOD STAMPS – CFDA 10.551

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

CCDF CLUSTER:

Child Care and Development Block Grant – CFDA 93.575

Child Care Mandatory and Matching Funds of the Child Care and Development Fund –
CFDA 93.596

SOCIAL SERVICES BLOCK GRANT – 93.667

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778

Administered by: Department of Human Services (DHS)

INRHODES SYSTEM– LOGICAL ACCESS CONTROLS / SEGREGATION OF DUTIES

The INRHODES computer system is used to administer multiple federally financed benefit programs. The INRHODES system also interfaces with other systems that are integral to the administration of those programs (e.g., MMIS for Medicaid claims processing and E-Funds systems for delivery of electronic benefit payments). Controls over access to the INRHODES system data is provided by a combination of physical, system, and application specific logical access controls. Logical access controls are the layer of security controls that have been designed to prevent unauthorized individuals from gaining access to the application data. The process of assigning access rights to a specific individual is normally based upon two generally accepted standards of practice – segregation of duties and least privilege. The concept behind least privilege is that staff is granted access to only those resources at or below a specific level of “need to know” sensitivity. Segregation of duties is a critical element of any given security policy. In its proper design, it segregates critical systems, application and operational IT components into separate and distinct job functions that prevent any single individual from doing harm to the application, whether by an accidental or intentional act. Within the INRHODES system, access controls are integral to overall program controls and are essential to prevent opportunities for fraud.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

DHS has assigned users predefined “User Roles”, in accordance with their specific position classification / job function. These user roles have been created in an effort to match the appropriate level of system access to his/her specific job function in accordance with the least privilege theory detailed above. As of fiscal 2006, there were over 1,000 active INRHODES users within 50 different assigned user roles.

We found the following regarding INRHODES system access and system access controls:

- ❑ One user role (known as the ‘SSS’ user group) allows the greatest amount of application specific system access. We found that as of June 2006 there were 12 DHS employees and 42 contractor employees that had been assigned this user role. Individuals in this role have access to the production version of the INRHODES system, and can perform any allowable application specific function upon the INRHODES data, regardless of their specific job function. Ordinarily, assignment of this user role with its wide system access and functionality would be severely limited. Further, information systems security ‘best practices’ along with the required segregation of duties, would mandate that contractor employees not be granted any type of access into the production version of the INRHODES system.
- ❑ Control over the establishment and maintenance of user accounts and privileges for contractor employees, including the ‘SSS’ user role had been delegated to a contractor employee. Control and assignment of user access rights should be assigned to a DHS security administrator. The system security administrator should have no other application specific responsibilities other than security over the system.
- ❑ Neither the DHS nor the contractor security administrator received any type of scheduled, monitoring and tracking security reports, offering details pertaining to the activities of INRHODES users. We were informed that DHS has begun reviewing the propriety of existing user’s access to INRHODES.

These issues weaken control over user access to the INRHODES system and consequently weaken program controls over eligibility, benefit amounts and other program compliance requirements.

Questioned Costs: None

RECOMMENDATIONS

- 2006-24a Assign INRHODES system access for contractor employees such that access to the production version of the system is not permitted or severely limited and adequately controlled.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

- 2006-24b Review INRHODES system access for all users to assure that it is appropriate and consistent with assigned job functions. Specifically review all users assigned the ‘SSS’ user role and limit assignment of this role to just those individuals requiring that wide level of access.
- 2006-24c Assign all INRHODES systems security administrative functions to DHS personnel. Contract vendors needing access to any INRHODES resources should formally request the access through this DHS administrator. DHS should develop procedures that mandate all contracted vendors having access to INRHODES be required to re-certify their access needs with the DHS systems security administrator on a scheduled basis.
- 2006-24d Develop and implement standard monitoring and tracking security reports that will supply the DHS systems security administrator with required details pertaining to the activities of all INRHODES users. Follow-up on all activity considered questionable or potentially inappropriate.

EBT Card PIN Machine Operation

Program benefits (TANF, Food Stamps) are delivered through electronic benefit transfer (EBT) cards provided to program recipients. Machines installed within DHS offices are used to emboss new or reissued EBT cards with information pertinent to the authorized user of this card including a “PIN “ number chosen by the program participant.

The EBT card creation process includes procedures to establish a unique “PIN” for each card issued by the system. The pinning terminal is located within close proximity to the EBT card embossing machine and is electronically connected to the E-Funds computerized network. By design, there are a limited number of DHS employees within each remote location that have been granted the authority to utilize these terminals. Each one of these employees has been issued a unique sign-on ‘User ID’ that allows them to activate the pinning terminal. In theory, the establishment of a small number of authorized users along with each user having a unique User ID’s, would ensure a strong security control exists over this process.

Through observation, we determined that upon initial activation of the pinning terminal, the units remained active for an extended period. This could allow the card pinning process to be performed by unauthorized DHS staff. This weakness is exacerbated by the fact that certain user access roles permit creation of an EBT card. Controls should be enhanced by implementing an automated sign-off, or deactivation of these devices upon completion of the pinning process.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RECOMMENDATION

- 2006-24e Establish an automated sign-off, deactivation process over the pinning terminals, which would take place immediately upon the completion of the pinning process. If this deactivation cannot take place immediately, then the E-Funds security system should be configured to ‘time-out’ these terminals after the shortest allowable ‘time-out’ period.

Finding 2006-25

CHILD NUTRITION CLUSTER:

School Breakfast Program – CFDA 10.553

National School Lunch Program – CFDA 10.555

Administered by: Rhode Island Department of Education (RIDE)

SUBRECIPIENT MONITORING

We reviewed thirteen of the subrecipient monitoring reviews performed by RIDE during federal fiscal 2006 and found nine of the reviews in our sample were incomplete. RIDE could not provide evidence that nutritional information had been reviewed, analyzed, translated into findings, and communicated to the food service sponsors on a timely basis for corrective action and follow up.

Federal regulations (7 CFR 210.18 and 7 CFR 210.19) require state agencies to conduct comprehensive evaluations of school food authorities participating in the Program. State agencies are also required to evaluate compliance with the nutrition standards for lunches and breakfasts, if applicable. Each school food authority should be reviewed at least once during each five-year review cycle; provided that each school food authority is reviewed at least once every six years.

A complete evaluation requires the state to report deficiencies to the school food authority on a timely basis followed by the collaborative development of corrective action plans within a reasonable time frame. The state must continue to monitor the school food authority’s progress on implementing the corrective action plans.

Consistent with federal requirements, RIDE has divided its subrecipient monitoring reviews into two parts:

- The Coordinated Review Effort (CRE) primarily focuses on eligibility determinations; the system for counting, recording, and reporting correct claims; and meal elements. We found the CRE reviews to be substantially complete.

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- RIDE’s School Meals Initiative (SMI) review focuses primarily on a qualitative analysis of the nutritional value of the food served and an inspection of the food service preparation areas. We found the SMI reviews were incomplete for nine sponsors. In these nine instances, some analyses were completed; however, the findings had not been formalized or communicated. In other instances, analyses were only initiated and for the remaining reviews, data was gathered, but the analyses were not completed.

Timely analysis of nutritional information, communication of findings to food service sponsors, and collaborative development of a corrective action plan is necessary to prevent deficiencies from going uncorrected for extended periods of time and to comply with federal regulations.

Questioned Costs: None

RECOMMENDATION

- 2006-25 Ensure that SMI nutritional reviews are completed in a timely manner and include written communication of findings and development of a collaborative, corrective action plan.

Finding 2006-26

FOOD STAMPS – CFDA 10.561

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

CHILD CARE CLUSTER:

 Child Care and Development Block Grant – CFDA 93.575

 Child Care Mandatory and Matching Funds of the Child Care and Development Fund –
 CFDA 93.596

SOCIAL SERVICES BLOCK GRANT – CFDA 93.667

Administered by: Department of Human Services (DHS)

SUSPENSION AND DEBARMENT

Federal regulations prohibit non-federal entities from contracting with or making subawards under covered transactions to parties that are suspended or debarred or whose principles are suspended or debarred. 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 is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

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- The Department (DHS) does not have procedures in place to obtain suspension and debarment certificates for real property rental contracts. Since rental agreements are subject to approval by the State Properties Committee, wording to accomplish federal suspension and debarment objectives should be incorporated into standard agreements.

- DHS did not have a contract extension nor a suspension and debarment certificate on file during the majority of fiscal 2006 for the electronic benefits service vendor paid \$403,815 under the TANF program and \$286,737 under the Food Stamp Program.

- Under the Child Care Cluster program, the Department did not have contracts or suspension and debarment certificates covering the majority of fiscal 2006 for thirteen of the sixteen multi-site center based child care vendors we reviewed. These child care vendors were paid approximately \$10.6 million during fiscal 2006. We were informed that approximately 400 center-based contracts were due for renewal simultaneously in fiscal 2006. Due to this large volume of contracts requiring renewal, the department was unable to process the majority of the multi-site center based contract renewals during fiscal year 2006. A portion of these Child Care vendor contract expenditures were charged to the SSBG Social Services Block Grant program.

The Department should strengthen its control procedures to ensure that all contracts are renewed on a timely basis, and that the required suspension and debarment verifications are documented for all contracts, including rental agreements.

Questioned Costs: None

RECOMMENDATION

2006-26 Strengthen internal controls to ensure that all contracts are renewed on a timely basis and suspension and debarment certifications are documented for all contracts.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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Finding 2006-27

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN – CFDA 10.557

Administered by: Rhode Island Department of Health (DOH)

REPORTING

DOH did not maintain adequate supporting documentation for all the data reported on the *WIC Financial Management and Participation Report - FNS-798* and the *Addendum to WIC Financial Management and Participation Report – NSA Expenditures - FNS-798A*.

Federal regulations (7 CFR 246.25(b)) require State agencies to submit monthly financial and program performance (participation) data on the FNS-798 report. The financial data includes projected and actual Federal food expenditures and billed rebates for infant formula. A final report for the entire federal fiscal year is due at grant close-out.

We selected the December 2005 and February 2006 monthly reports for testing and found that the outlays reported on the February 2006 FNS-798 report were consistent with the supporting spreadsheet, but did not agree to the WIC management information system reports and bank statement. DOH had previously reconciled total expenditures on the system report to the bank statement. We subsequently compared the February supporting spreadsheet to the supporting spreadsheet for the December 2005 and June 2006 reports and noted that, although previously reported monthly expenditures had been reconciled to the bank statements, the reported amounts changed on each subsequent spreadsheet and report. In addition to expenditure data, we also identified differences in the participation data reported on the February report compared to the WIC management information system reports. Changes in data reported for prior periods may be appropriate in certain instances but should be explainable and reconcilable.

RECOMMENDATION

2006-27a Retain documentation that supports all the data reported on the *WIC Financial Management and Participation Report - FNS-798*.

State agencies prepare the FNS-798A annually to report administrative expenditures by four functions for the fiscal year being closed out. The Food and Nutrition Service (FNS), a division of the U.S. Department of Agriculture, uses the amounts reported in nutrition education and breast-feeding promotion and support, two of the four functional categories on the FNS-798A, to determine whether the State agencies met the statutory minimum spending level for those functions (7 CFR 246.14(c)).

On the FNS-798A for federal fiscal year ended September 30, 2005, we found that personnel costs of \$52,585 for nutrition education were based on allocation percentages developed from discussions with personnel rather than time sheets or periodic time studies.

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Other administrative costs, \$126,084, charged to nutrition education and breastfeeding support were also based on predetermined allocation percentages. While all the personnel costs included on the FNS-798A report were for individuals assigned to the WIC program, appropriate supporting documentation (timesheets or equivalent personnel activity reports) was not maintained for the outlays related to nutrition education and breast-feeding promotion and support. The amounts reported for these categories are questioned because of insufficient documentation to support the allocations to these categories, however, we consider these to be appropriate charges to the WIC program

Questioned Costs: \$178,669

RECOMMENDATION

2006-27b Improve documentation to support actual costs reported for nutrition education and breastfeeding support activities on the *Addendum to WIC Financial Management and Participation Report – NSA Expenditures - FNS-798A*.

Finding 2006-28

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN – CFDA 10.557

Administered by: Rhode Island Department of Health (DOH)

SPECIAL TESTS AND PROVISIONS - DISPOSITION OF FOOD INSTRUMENTS

During fiscal 2006, DOH did not have policies and procedures to ensure that the final disposition of all WIC food instruments is determined within 150 days. Federal regulations require that all State agencies account for the disposition of all Food Instruments (FIs) within 150 days of the FI's first valid date for participant use. The State agency must identify all FIs as either issued or voided; and identify issued FIs as either redeemed or unredeemed. Redeemed FIs must be identified as one of the following: (1) validly issued, (2) lost or stolen, (3) expired, (4) duplicate, or (5) not matching valid enrollment and issuance records. In addition, the State agency is required to reconcile its records to issued FIs on a one-to-one basis within the 150-day time frame set by regulation.

During fiscal 2006, DOH issued over one million WIC food instruments through twenty-eight (28) sites operated by eleven (11) local agencies. The local agencies uploaded information on the issued and voided FIs to the State database on a daily basis. Accordingly, DOH was aware of all FIs issued and voided under the WIC program. On a daily basis, DOH also downloaded the information on the paid FIs from the bank. Although a one-to-one match of the redeemed FIs was performed electronically on a daily basis, DOH did not monitor whether the

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final disposition of all food instruments, including those reported voided and unredeemed, had been determined within the 150-day requirement.

Questioned Costs: None

RECOMMENDATION

2006-28 Establish a formal policy and procedures to monitor the final disposition of all food instruments within the 150-day requirement.

Finding 2006-29

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND
CHILDREN – CFDA 10.557

Administered by: Rhode Island Department of Health

SPECIAL TESTS AND PROVISIONS – ENFORCE PRICE LIMITATIONS AND DETECT ERRORS

During fiscal 2006, DOH did not consistently review and follow-up on erroneous or questionable food instruments that had been redeemed. Federal regulations (7 CFR 246.12(k)) require State agencies to have in place a process for reviewing all, or a representative sample of, food instruments (FIs) submitted by vendors for redemption. At a minimum, this process must be able to detect redeemed monetary amounts that exceed the maximum allowed and errors, such as, purchase price missing; participant, parent/caretaker, or proxy signature missing; vendor identification missing; FIs transacted or redeemed after the specified time period; and altered purchase price. The State agency must also follow up on erroneous or questionable FIs within 120 days following detection.

The Department relies on the State's bank to perform certain edit checks when a food instrument is presented for payment. The bank will reject any FI that exceeds the maximum allowable price; has an altered price; is stale dated; or is missing one of the following: purchase price, participant (or proxy) signature, or vendor identification. Once payments are made, the Department will extract certain reports from the WIC database to identify voided checks that were paid by the bank. The Department will follow-up with the local agencies to identify the causes. We found that during fiscal 2006, these voided reports were not run consistently and as a result, questionable FIs were not reviewed.

Questioned Costs: None

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RECOMMENDATION

2006-29 Ensure that reports are consistently generated from the WIC database to identify questionable food instruments and appropriately review the reports for required follow-up.

Finding 2006-30

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

DAVIS-BACON ACT REQUIREMENTS

RIDOT should adhere to its internal procedure which requires that a labor compliance check be performed at least once a month to ensure compliance with Davis-Bacon Act requirements.

Federal regulations (29 CFR 3 and 5) require that construction contracts subject to the Davis-Bacon Act contain certain contract provisions binding the contractor to applicable labor standards. These labor standard provisions include requiring contractors pay laborers and mechanics general prevailing wages and submit copies of payrolls and signed statements of compliance.

RIDOT has established various internal controls to monitor contractor compliance with Davis-Bacon requirements. These monitoring procedures, as documented in the Department's "*Procedures for Uniform Record Keeping*" (PURK) manual, require that each project's resident engineer ensure that a labor compliance check is performed at least once a month. Labor compliance checks should be prepared by two department representatives and include comparing and verifying the employee's classification hourly rate as reported with the hourly rate prescribed and the contractor's or subcontractor's payrolls for that period.

We tested 25 construction contracts for the Highway Planning and Construction (HPC) program and 4 for Grant Anticipation Revenue Vehicles (GARVEE) funded projects that were active during fiscal year 2006 to determine whether the department's Davis-Bacon Act monitoring procedures were in place and operating effectively. We reviewed project files for evidence that the required labor compliance check had been performed for all months with contractor payroll activity. Our audit disclosed the following:

- ❑ 8 of the 29 projects tested had at least one labor compliance checklist missing, and
- ❑ overall, 36 of 157 total checklists were missing (23%).

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Control procedures should be enhanced to ensure labor compliance monitoring is performed at regular intervals and documentation of the monitoring procedures is retained within project files.

Questioned Costs: None

RECOMMENDATION

2006-30 Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements.

Finding 2006-31

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

APPROVAL OF LABOR ADDITIVE CHARGES

RIDOT should improve its procedures to obtain reimbursement of certain personnel related costs allocated to federal Highway Planning and Construction program projects. We found that the labor additive rate used during fiscal 2006 was unsupported, lacked required approval by federal agencies and was significantly less than actual costs. Consequently, during fiscal 2006 the State was not fully reimbursed for allowable personnel related costs – retroactive adjustment for the incorrect labor additive rate was made during fiscal 2007.

Employees assigned to RIDOT’s payroll clearing account charge their hours to state and Federal projects based on timesheets supporting actual hours worked. Additionally, RIDOT captures the costs of benefits (medical, Social Security, retirement contributions, etc.) as well as the costs for non-direct labor hours (e.g., vacation, sick, personal, holiday time). RIDOT refers to this pool of indirect costs, which are in addition to an employee’s direct hourly rate, as a “labor additive”. The labor additive rate is the incremental percentage added to each dollar of direct employee wages charged to a project to obtain reimbursement for all personnel costs.

The labor additive rate is calculated by dividing the total cost of leave and benefits by the total of direct salaries paid. A provisional labor additive rate is calculated annually based on actual prior year expenditure and leave data. The provisional labor additive rate is then applied to direct personnel costs charged to each project (i.e., for every direct personnel cost dollar charged to a project, the labor additive rate would be applied to cover the cost of benefits and leave time).

Office of Management and Budget Circular A-87 Attachment E, *State and Local Indirect Cost Rate Proposals*, requires that all departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and

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related documentation supporting those costs. A governmental unit for which a cognizant agency has been designated must submit its indirect cost rate proposal to its cognizant agency. This requirement is also described in a Federal Highway Administration (FHWA) memorandum dated September 24, 1998, which additionally stipulates that states may include costs on Federal-aid billings after the indirect cost rate has been approved by FHWA. Circular A-87 Attachment E also requires that if overall fringe benefit rates are not approved for the governmental unit as part of the central service cost allocation plan, these rates will be reviewed, negotiated and approved for individual grantee agencies during the indirect cost negotiation process.

Our audit determined that in 2006 RIDOT never submitted a labor additive rate calculation to the FHWA for approval. RIDOT personnel have indicated that the labor additive rate utilized by RIDOT's newly implemented financial management system (FMS) for federal billing purposes (51.8%) is unsupported, unapproved and significantly below actual. RIDOT's use of a rate insufficient to estimate and recapture fringe benefit and leave costs has required RIDOT to perform additional analysis to retroactively bill FHWA for previously unreimbursed personnel costs.

Additionally, as noted in previous audits, formal policies or procedures do not exist for calculating the labor additive rate, and RIDOT has no internal controls to ensure the rate is calculated timely and in accordance with applicable federal requirements or reviewed for accuracy.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2006-31a | Establish policies and procedures to ensure that the labor additive rate is calculated timely, adequately supported and approximates actual leave and fringe benefit costs. |
| 2006-31b | Adjust charges to Federal projects based on an estimated labor additive rate to actual on an annual basis. |

Finding 2006-32

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

CONTRACT PROCUREMENT

RIDOT is not complying with the solicitation rules and regulations in the Rhode Island Vendor Information Program (RIVIP) for construction contracts. RIVIP requirements (Section 2.1B) stipulates that "to assure maximum access opportunities for users, public bid/RFP

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solicitations shall be posted on the RIVIP for a minimum of seven days and no amendments shall be made within the last 5 days before the date an offer is due". Federal regulations require that the State adhere to its own procurement policies and procedures in expending federal program funds.

We noted that in 14 instances, out of the 18 contracts with amendments tested, RIDOT amended the solicitation within 5 days of the bid opening; these 14 contracts totaled \$110,938,527. We noted in one instance that a contractor's bid was not considered by RIDOT since the contractor did not receive the addenda and related documentation was missing.

We brought this issue to the attention of the Department of Administration's Division of Purchases who agreed that RIDOT was in violation of state purchasing regulations and provided a memo dated April 16, 2004 indicating that effective immediately RIDOT was required to comply with RIVIP requirements regarding solicitation amendments.

RIDOT personnel stated that amendments processed subsequent to the five-day restriction did not include significant changes to quantities or materials, and that RIDOT has ceased amending solicitations within the five-day period.

Questioned Costs: None

RECOMMENDATION

2006-32 Enhance procedures to ensure compliance with the rules and regulations for the Rhode Island Vendor Information Program which prohibit modification of the public bid/RFP five days prior to the date an offer is due.

Finding 2006-33

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

SPECIAL REQUIREMENT - MATERIALS TESTING

RIDOT should strengthen internal procedures to ensure that all required material testing is performed and documented in accordance with federal regulations and their own policy manual.

Federal regulations (23 CFR 637.205) requires that state transportation departments must have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications. RIDOT's policies,

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procedures and employee responsibilities relating to material sampling and testing are outlined in its *Procedures for Uniform Recordkeeping* (PURK) manual.

RIDOT utilizes the FHWA approved *Master Schedule for Sampling, Testing and Certification of Materials* to develop a materials test book for each construction project. Material test books are unique to each project based on the construction materials to be used, the types of tests required for each item and the minimum number of tests to be conducted.

We selected a sample of three items from 25 different projects to determine whether RIDOT completed the required materials testing as specified in each project's material test book. Since the number of tests varies by item, we reviewed 120 required tests and noted the following:

- ❑ Contractors are required to provide a Certificate of Compliance to ensure that all materials used on a project meet standard specifications. Items requiring these certificates are detailed in the materials test book. RIDOT's PURK manual requires the resident engineer to obtain the appropriate Certificates of Compliance in duplicate from the contractor. One copy should be retained in the field records and one copy should be submitted immediately to the RIDOT's Materials Section. RIDOT could not produce 12 contractor Certificates of Compliance as required by the materials test books.
- ❑ RIDOT's PURK manual requires specific procedures are to be followed when materials are deemed unacceptable based on the testing performed. These procedures include documenting that corrective action has been taken or that a decision was made to leave the rejected materials in place. No decision to leave rejected materials in place should be made solely by the resident engineer; if a joint decision is made to leave rejected materials in place the pertinent information must be documented and approved by the Administrator of Construction Operations. In one instance, RIDOT testing identified an unacceptable material (bricks); however, RIDOT was unable to provide documentation of corrective action, or the decision and approval to leave the rejected material in place.
- ❑ Test result documentation for four other types of required tests was not on file at either the project field office or RIDOT's materials laboratory.

RIDOT should adhere to the procedures as outline in its *Procedures for Uniform Recordkeeping* manual for performing and documenting materials testing.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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RECOMMENDATIONS

- 2006-33a Ensure all required certificates of compliance have been received and recorded in the materials test book prior to contractor payment for the materials.
- 2006-33b Require that “unacceptable materials” test results are documented in accordance with PURK manual procedures.
- 2006-33c Complete all tests in accordance with the FHWA approved *Master Schedule for Sampling, Testing and Certification of Materials*.

Finding 2006-34

HIGHWAY PLANNING AND CONSTRUCTION – CFDA 20.205
Administered by: Rhode Island Department of Transportation (RIDOT)

FEDERAL REIMBURSEMENT FOR EXPENDITURE CREDITS

As described in Finding 2006-16 (Section II – Financial Statement Findings), controls over the Federal billing process also need to be improved to ensure that 1) the federal share of Intermodal Surface Transportation Fund expenditures is accurately reflected in the State’s accounting system which is the basis for the preparation of financial statements, 2) all federally reimbursable expenditures are billed timely, 3) expenditures ineligible for federal reimbursement are not recorded in federal accounts, and 4) expenditure credits related to previously reimbursed federal costs are properly recorded in the billing system. RIDOT’s current internal control procedures do not include a timely reconciliation between the transactions posted in federal accounts and transactions billed to the Federal Highway Administration (FHWA).

RIDOT, due to a lack of accounting and data processing personnel, engaged the services of a public accounting firm to perform a reconciliation between the State’s accounting system and transactions processed through the FHWA billing system. The reconciliation, conducted near the close of the state fiscal year, revealed numerous differences primarily attributable to transactions initiated by departments other than RIDOT.

In addition, RIDOT did not have procedures in place to reimburse the federal government its share of project expenditure credits processed during the fiscal year. RIDOT identified approximately \$659,000 of federal expenditure credits processed between January and June 2006 the majority of which resulted from duplicate payments. Federal regulations require that requests for federal reimbursement be net of applicable credits and that the federal government be reimbursed for their share of program expenditures credits on a timely basis. RIDOT reimbursed the FHWA for its share of the appropriate credits in October and November 2006.

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Questioned Costs: None

RECOMMENDATION

2006–34 Establish procedures to identify Federal expenditure credits and process reimbursements to the Federal Highway Administration in a timely manner.

Finding 2006-35

CENTERS FOR DISEASE CONTROL AND PREVENTION – INVESTIGATIONS AND
TECHNICAL ASSISTANCE (CDC) – CFDA 93.283
Administered by: Rhode Island Department of Health (DOH)

SUSPENSION AND DEBARMENT

We tested 12 contracts for goods and services that were funded by the CDC grants during fiscal 2006 and found that three contracts did not contain either, (1) certification that the providers were not suspended or debarred, or (2) documentation that the DOH checked the website on *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA).

Non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Procurement 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 specified criteria are considered “covered transactions.” All non-procurement transactions (i.e., sub-awards to sub-recipients) are considered covered transactions.

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 is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity. DOH included a standard suspension and debarment clause in all its new contracts in fiscal 2006; however, DOH did not include this provision in the fiscal 2006 contract extension/renewals.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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RECOMMENDATION

2006-35 Ensure that all contracts for goods and services, including contract modifications, contain the required suspension and debarment certifications or document review of the EPLS website to ensure no parties were suspended or debarred.

Finding 2006-36

CENTERS FOR DISEASE CONTROL AND PREVENTION – INVESTIGATIONS AND
TECHNICAL ASSISTANCE (CDC) – CFDA 93.283
Administered by: Rhode Island Department of Health (DOH)

PAYROLL CERTIFICATION/ACTIVITY REPORTS

During fiscal 2006, DOH did not require employees who worked solely on the Centers for Disease Control and Prevention – Investigations and Technical Assistance (CDC) program, or their supervisors, to sign certifications to that effect for the period covered by the certification. In addition, personnel activity reports were not prepared on a monthly basis for employees working on multiple activities.

Subsequently, in September and October 2006, the Department obtained certifications for employees relating to state fiscal year 2006. As a result of this process, DOH determined that salary and fringe benefits for three employees totaling \$222,980 were charged to the federal CDC program erroneously. In addition, the Department indicated that the salary and fringe benefits of another employee for pay periods 5 through 21, totaling \$41,996, should have been transferred out of the CDC program account, but the adjustment had not yet been prepared.

Federal regulations, OMB Circular A-87, require that charges for salaries and wages for employees who are expected to work solely on a single Federal award or cost objective will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications are to be prepared at least semi-annually and should be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

The federal regulations also require that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. These reports must reflect an after the fact distribution of the actual activity, be prepared at least monthly, and be signed by the employee. The regulations allow for budgeted allocations, but the budgeted amounts must be compared to actual at least quarterly and adjustments must be made if differences of more than ten percent are found. Otherwise, the adjustment may be recorded annually.

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Several adjustments were recorded in the State accounting system to transfer personnel costs in or out of the CDC program accounts. We tested eight adjustments which transferred \$190,411 of personnel costs to the CDC program and six adjustments which transferred \$154,710 out of the CDC programs. DOH could not provide adequate supporting documentation to substantiate \$104,916 of costs transferred to the CDC program accounts. The rationale for the adjustments appeared appropriate; however, the amounts were not substantiated by time sheets or other similar supporting documentation.

Questioned Costs: \$369,892

RECOMMENDATIONS

- 2006-36a Require employees working on a single Federal award or cost objective, or their supervisors, to sign certifications to that effect, on at least a semi-annual basis.

- 2006-36b Require employees working on multiple activities to complete personnel activity reports, on at least a monthly basis, showing actual distribution of activity.

- 2006-36c Perform quarterly comparisons between budgeted salary allocations to actual time and effort and prepare adjustments for variances greater than ten percent. Prepare final adjustments for any variances remaining at year end.

Finding 2006-37

**CENTERS FOR DISEASE CONTROL AND PREVENTION – INVESTIGATIONS AND
TECHNICAL ASSISTANCE (CDC) – CFDA 93.283**

Administered by: Rhode Island Department of Health (DOH)

MATCHING / LEVEL-OF-EFFORT

DOH needs to improve its documentation to demonstrate that it complied with the matching and level-of-effort requirements during state fiscal year 2006 for two federal awards within the Centers for Disease Control and Prevention – Investigations and Technical Assistance program.

The award for the Chronic Disease Prevention and Health Promotion Program required non-federal matching expenditures totaling \$276,878. The award for the National Cancer Prevention and Control Program required non-federal matching funds totaling \$678,098. Of this amount, \$559,759 was to be an in-kind match provided by a contracted third party for the National Breast and Cervical Cancer Early Detection Program and \$118,339 was to be provided

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

by state matching expenditures for the Women’s Cancer Screening Program. In addition, this award also had a level-of-effort requirement totaling \$107,714 for the National Program of Cancer Registries.

The grant period ended on June 29, 2006; however, DOH did not begin compiling documentation regarding the matching requirement until the Financial Status Report (FSR 269) was prepared. Both of these reports were due on September 29, 2006, but DOH requested a 60-day extension. Consequently, compliance with the matching expenditure requirement of the grants was not determined or documented until significantly after the close of the grant period – documentation of the in-kind match by a third party was not received until January 2007 and after submission of the Financial Status Report. Documentation and monitoring of matching and level-of-effort requirements should be performed during the grant period.

Questioned Costs: None

RECOMMENDATIONS

- 2006-37a Prepare supporting documentation of non-federal matching expenditures during the fiscal year to ensure that matching and level of effort requirements are being met.

- 2006-37b Identify and compile state matching expenditures from the state accounting system, quarterly, and obtain documentation of in-kind match actually provided by third parties on a timely basis.

Finding 2006-38

CENTERS FOR DISEASE CONTROL AND PREVENTION – INVESTIGATIONS AND
TECHNICAL ASSISTANCE (CDC) – CFDA 93.283
Administered by: Rhode Island Department of Health (DOH)

SUBRECIPIENT MONITORING

We reviewed ten contracts (representing 7 providers) with expenditures totaling \$2,006,750 during state fiscal 2006. DOH considers these contractors to be vendors, rather than subrecipients. While the contractors exhibited both vendor and subrecipient characteristics, we concluded that they are more appropriately considered subrecipients.

OMB Circular A-133 provides guidance in making subrecipient and vendor determinations. We also reviewed the applicable federal grant award agreements and the purposes of the contracts. The contracts contained the following subrecipient characteristics:

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- ❑ The federal funds were used to carry out a CDC program of DOH as compared to providing goods or services for a program.
- ❑ The contracts were reimbursement based grants for allowable costs rather than contracts based on a specific amount above cost, incurring a profit.
- ❑ The independent audit report for one of the providers reported the funding received from the CDC contract as pass-through money to a subrecipient.
- ❑ The contract with this same provider required the contractor to provide an in-kind matching share which is unusual for a vendor relationship, but typical of a subrecipient relationship.
- ❑ Certain contracts indicated that DOH supported a portion (up to 100 percent) of the salaries and fringe benefits of the contractors' employees, which is typical of a subrecipient relationship.

Because DOH considered these contractors to be vendors, rather than subrecipients, they did not perform certain required subrecipient monitoring activities (obtain and review subrecipient audit reports) to determine whether they used Federal awards for authorized purposes, complied with laws, regulations, and the provisions of contracts and grant agreements.

The Single Audit Act Amendments of 1996 (the Single Audit Act) requires the pass-through entity to monitor subrecipients' use of federal awards through site visits, limited scope audits, or other means. Because the pass-through entity is held accountable for federal awards administered by their subrecipients, the pass-through entity needs to establish an appropriate subrecipient-monitoring process and to decide what, if any, additional monitoring procedures may be necessary to ensure the subrecipients' compliance. Arrangements for subrecipient monitoring should be made by the pass-through entity in its agreements with subrecipients.

DOH included a standard language audit requirement in all their contracts but they did not request that subrecipients submit copies of independent audit reports and related management letters. Accordingly, DOH could not determine: (a) whether such audits were performed, and if so, whether there was any noncompliance identified in such reports, (b) whether there were any instances of continued inability or unwillingness of a sub-recipient to have the required audits, or (c) the effects of sub-recipient noncompliance, if any, on the pass-through entity's (DOH's) records.

Questioned Costs: None

RECOMMENDATIONS

2006-38a Re-evaluate contract service provider agreements to distinguish between subrecipients versus vendor relationships.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

2006-38b Establish appropriate policies and procedures to (1) monitor sub-recipients, utilizing site visits, audits or other means as considered appropriate, and (2) obtain and review subrecipient audit reports.

Finding 2006-39

CENTERS FOR DISEASE CONTROL AND PREVENTION – INVESTIGATIONS AND
TECHNICAL ASSISTANCE (CDC) – CFDA 93.283
Administered by: Rhode Island Department of Health (DOH)

INDIRECT COSTS

Indirect costs of approximately \$1.2 million were charged to the CDC grants during fiscal 2006. Of this amount, approximately \$900,000 represented indirect costs for State fiscal year 2005. DOH did not allocate most of the indirect costs relating to State fiscal 2006 until fiscal 2007.

DOH accumulates indirect costs within a separate restricted account in the state accounting system. Once the federally approved indirect cost rate is applied to the appropriate federal expenditures, the amount is transferred from the restricted indirect cost account to the federal program account.

Failure to allocate indirect costs timely results in a misclassification of expenditures in the State's annual financial statements, i.e., an understatement of federal program expenditures and an overstatement of state expenditures. In addition, draws of federal funds are not performed timely and the amount due from the federal government is understated at fiscal year-end.

Questioned Costs: None

RECOMMENDATION

2006-39a Allocate indirect costs to federal awards during the State fiscal year to which they relate.

We reviewed the supporting documentation to the Indirect Cost Rate Proposal for fiscal 2006 and noted that payroll charges of \$130,172 were recorded as a state match to the federal Medicaid program and were also included in the indirect cost pool. According to the Indirect Cost Agreement, costs that have been treated as indirect cannot also be claimed as direct; therefore these charges should have been classified as direct costs only.

The indirect cost rate is calculated as a percentage of allowable indirect costs to allowable direct costs. If these payroll charges were not included in the indirect cost pool, the indirect cost

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Section III – Federal Award Findings and Questioned Costs

rate would have been reduced from 12.1 percent to 11.8 percent and the recovery of costs from the federal government would have been reduced.

Questioned Costs: Unknown

RECOMMENDATION

2006-39b Exclude costs considered to be state matching expenditures from the indirect cost pool and calculation of the Indirect Cost Rate.

In the preceding sections, we reported findings related to subrecipient and payroll expenditures. The findings could impact both indirect costs charged to the federal CDC program for state fiscal 2006 and the indirect cost rate developed for fiscal 2008. To calculate the amount of indirect cost charges to a specific grant award, DOH applies the federally approved indirect cost rate to a base expenditure amount. The base is calculated as total direct costs excluding capital expenditures, subawards (grants), and flow through funds. Accordingly, the base is principally comprised of personnel and operating costs. The fiscal 2008 indirect cost rate is based on the fiscal 2006 expenditures.

The Department classified certain contracts as operating costs and others as grants on the state accounting system. Classifying the expenditures as grants appears more appropriate. The overstatement of operating costs increases the base that DOH will use to allocate indirect costs, resulting in a higher allocation of indirect costs to federal CDC programs.

We also questioned certain fiscal 2006 payroll costs that were adjusted between accounts without appropriate supporting documentation, such as personnel activity reports. Without properly completed personnel activity reports, transfers made between accounts, representing direct and indirect cost pools, are not substantiated. These charges will be part of the base when billing the indirect cost charges to the fiscal 2006 grant and when calculating the fiscal 2008 indirect cost rate.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number.)

Questioned Costs: Unknown

RECOMMENDATION

2006-39c Ensure that only allowable expenditures are included in the base for billing the indirect costs and that charges are properly classified between the indirect and direct cost pools for calculating the indirect cost rate.

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Finding 2006-40

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

INCOME ELIGIBILITY AND VERIFICATION SYSTEM

The Department of Human Services participates in the Income Eligibility and Verification System (IEVS) as required by Section 1137 of the Social Security Act as amended. Through this system, DHS coordinates data exchanges with other federally assisted benefit programs and utilizes the income and benefit information to determine individuals' eligibility for assistance and the amount of assistance.

The Department of Human Services conducts data interfaces with the Internal Revenue Service, the Social Security Administration and the Department of Labor and Training (the State Wage Information Collection Agency) to verify information about recipients of federally assisted programs, including the Temporary Assistance for Needy Families (TANF) program. Federal regulation (45 CFR 205.56) requires that the State agency review and compare the information obtained from data exchanges against information contained in recipients' case records to determine whether it affects the recipients' eligibility or the amount of assistance. The Department's INRHODES computer system receives the information from the data exchanges and automatically includes the data in the applicable case record. Caseworkers are then electronically prompted about the receipt of new data and are required to investigate and resolve any discrepancies.

The objective of our testing was to assess whether the Department was considering the information resulting from the required IEVS data matches in determining eligibility for TANF and the amount of benefits. Specifically, we understand that case workers are prompted electronically through the Department's INRHODES computer system when new information resulting from the IEVS data matches is posted in the case record. Our testing involved randomly selecting 40 TANF cases from three quarters of state fiscal year 2006 where IEVS data had been electronically posted to a case record. For each case, we assessed whether the IEVS data had been properly considered in the eligibility and benefit determination process.

We obtained a file from the Department's INRHODES system of all interface matches during the first three quarters of state fiscal year 2006. We compared this file to another file containing all TANF benefit payments made during the corresponding quarters in state fiscal years 2005 and 2006. The comparison was done to identify which data matches involved cases that received TANF benefit payments during the quarter to which the discrepancy applied. We randomly selected 40 of these cases for testing.

We identified the following exceptions during our testing:

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Section III – Federal Award Findings and Questioned Costs

- Twenty-five (25) cases with discrepancies resulting from data matches were not investigated or resolved. Based on our evaluation of electronic case file data, nine (9) discrepancies could have been easily resolved by the caseworker and would not appear to have impacted eligibility or the household's benefit level. Sixteen (16) cases with discrepancies may have impacted eligibility or the household's benefit level.
- Five (5) cases where discrepancies were "cleared" by the caseworker by electronically entering an action code (e.g., no discrepancy exists); however, no documentation or comments to the electronic case file were present supporting the propriety of this determination. Based on our evaluation, these discrepancies may have impacted the household's eligibility or benefit level. Since the data match was "cleared", no modifications to the household's case record were initiated.
- We also noted a programming deficiency. In certain circumstances we found that if a worker simply reviews (but not resolves) an interface message in INRHODES, the interface message will be removed and will also be deleted from the caseworker's daily reports. As a result, the caseworker will have no further notification that there is an interface pending review and resolution.

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

Questioned Costs: None

RECOMMENDATIONS

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|----------|--|
| 2006-40a | 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. |
| 2006-40b | Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or amount of benefit levels. |
| 2006-40c | Correct the programming deficiency which removes interface message notices from the caseworker's daily report before resolution. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2006-41

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

Administered by: Department of Human Services (DHS)

REPORTING – ACF-196, TANF FINANCIAL REPORT

We found that expenditures identified on the ACF-196 TANF financial report are not consistently supported by the State’s accounting records. For example, for the period October 1, 2005 to June 2006 expenditures recorded in the state accounting system were approximately \$5.3 million more than reported on the TANF ACF-196 Financial Reports for the same period. This was primarily a timing difference as the majority of the variance reversed itself in the succeeding quarter.

Questioned Costs: None

RECOMMENDATION

2006-41 Reconcile and document timing differences which result in variances between the reported expenditures on the quarterly ACF-196 TANF Financial Report and amounts reflected in the state accounting system.

Finding 2006-42

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

Administered by: Department of Human Services (DHS)

PERFORMANCE REPORTING

The Department should revise its procedures for preparing the ACF-199, TANF Data Report (OMB No. 0970-0199) so that it is properly prepared in accordance with U.S. Department of Health and Human Services (HHS) instructions. This report is submitted on a quarterly basis to the Administration for Children and Families, a component of HHS and contains various information on the TANF cases, including the number of hours each adult recipient spent in activities that count towards meeting federal work requirements.

In testing the March 2006 quarterly TANF Data Report, we found the department is not reporting actual hours of recipient participation in work activities as required by HHS instructions for preparing the ACF-199 TANF Data Report. Instead, the department is reporting scheduled hours for approximately 10 out of the 12 months included in the four quarterly reports for work activities involving employment hours. In accordance with the department’s prospective budgeting methodology, in general, actual hours are only reported when computer

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Section III – Federal Award Findings and Questioned Costs

information is updated upon performing eligibility redeterminations approximately every six months. While the department informed us that training vendors are required to maintain attendance records, only scheduled hours are being reported for recipient cases with other work activities not involving employment; i.e., job search, training and educational work activities, etc.

HHS instructions specify that “states are to collect actual hours of participation and that it is not acceptable to report scheduled hours of participation in a work activity as actual hours of participation”. Further, HHS stipulates that “States should validate actual participation in each work activity”. The department should implement an acceptable method for gathering and reporting the actual work activity data as required.

Questioned Costs: Unknown

RECOMMENDATION

2006-42 Implement a method of gathering and reporting actual work activity hours as required by HHS instructions.

Finding 2006-43

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558

CHILD CARE CLUSTER:

 Child Care Development Block Grant – CFDA 93.575

 Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596

Administered by: Department of Human Services (DHS)

ELIGIBILITY - CASE FILE DOCUMENTATION

The Department provides cash assistance and other services to eligible families in an approved employment plan of the State’s Family Independence Program (FIP). It also provides services to children of low-income families whose gross income is within established eligibility limits. Department personnel from the Family Independence Program (FIP) Office accept applications and approve payments for FIP cash assistance and child care services. Families apply for FIP cash assistance using the DHS Application for Assistance and the Statement of Need forms. Families seeking eligibility for the Child Care Assistance Program (CCAP) must submit a signed FIP request for services or CCAP application form. All FIP and child care service applications are required to be submitted along with the documentation required to verify eligibility and the need for services. The Department’s administrative rules require that the agency representative consider and verify the combined total of earned and unearned income, including child support in determining eligibility, as well as, other program specific eligibility factors such as the amount of resources, age of children, etc. as applicable.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

We tested the case files of 50 families receiving FIP cash assistance and/or child care services to determine whether the proper eligibility determinations were made, and whether payments were calculated in accordance with program requirements, including obtaining any required documentation and performing required verifications. We noted the following issues concerning the Family Independence Program and Child Care Programs eligibility determination process:

- ❑ Three instances where the required hard copy documentation (e.g. application, income documentation, etc.) could not be located.
- ❑ Four instances where the earned income amount (wages) utilized in the eligibility calculation varied from the hard copy income documentation contained in the case file.
- ❑ One instance where the family share and unearned income utilized in determining the child care eligibility and calculating co-payment and benefit amounts were in error. The amounts involved differed from other INRHODES system information and hard copy documentation.
- ❑ Four instances where application questions concerning certain federal prohibitions were not answered by the applicant.
- ❑ Seven instances where there was no electronic information or hard copy documentation indicating that a timely referral for a work activity had been properly made.
- ❑ In addition, we noted that the state plan indicates the individual job search activity is a “supervised individual job search”. However, DHS policies and procedures do not identify the specific procedures workers are to follow in providing supervision for individual job search activities. As a result, in practice there is no demonstrable or documented supervision of individual job search activities.
- ❑ Supervisors perform routine case reviews on a sample basis to ensure that workers are determining eligibility appropriately. However, we found that child care cases are not specifically included in this case sample review process.

Controls should be strengthened to ensure that workers comply with established procedures thereby assuring the accuracy of eligibility determinations and calculations of benefits or provider payments.

Questioned Costs: Unknown

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATIONS

- 2006-43a Strengthen controls to ensure adherence to procedures requiring agency personnel obtain and properly utilize required documentation to update electronic case file records prior to determining eligibility and payment amounts, as well as, determining compliance with work participation requirements.
- 2006-43b Ensure that the proper family share and unearned income are utilized to determine child care eligibility and to calculate co-payment and benefit payment amounts.
- 2006-43c Identify policies and procedures regarding supervision of individual job search activities.
- 2006-43d Include child care cases in the sample case review process.

Finding 2006-44

TEMPORARY ASSISTANCE FOR NEEDY FAMILIES – CFDA 93.558
CCDF CLUSTER:

 Child Care and Development Block Grant – CFDA 93.575

 Child Care Mandatory and Matching Funds of the Child Care and Development Fund –
 CFDA 93.596

STATE CHILDREN’S INSURANCE PROGRAM – CFDA 93.767

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778

Administered by: Department of Human Services (DHS)

AUTOMATED DATA PROCESSING (ADP) RISK ANALYSIS AND SYSTEM SECURITY REVIEW

Federal regulation (45 CFR section 95.621) mandates that States are responsible for the security of all ADP operational systems involved in the administration of U.S. Department of Health and Human Services (DHHS) programs. State agencies are required to determine appropriate ADP security requirements based on recognized industry standards governing security of federal ADP systems and information processing.

45 CFR Section 95.621 requires State agencies to review the ADP system security of installations involved in the administration of DHHS programs on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. Federal regulations also require states to establish and maintain a program for conducting periodic risk analyses to ensure that appropriate safeguards

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

are incorporated into new and existing systems. State agencies also must perform risk analyses whenever significant system changes occur.

DHS utilizes two primary systems, INRHODES and the Medicaid Management Information System (MMIS), to administer DHHS federal programs. Benefit payments disbursed (or determined) through these two systems during fiscal year 2006 totaled over \$2 billion. These systems interface due to the interrelated aspects of the federal programs. For example, Medicaid eligibility is determined within INRHODES and then transmitted to the MMIS where Medicaid claims are paid. In addition to its eligibility determination functions, INRHODES also determines benefit amounts for federal programs such as TANF and Food Stamps. DHS currently employs separate risk assessments and security review processes over these systems.

During fiscal year 2006, DHS contracted with its fiscal agent to provide specific HIPAA security remediation services for the MMIS. These services included detailed analysis and review of the following areas:

- ❑ Security control risk assessment and analysis,
- ❑ Network technical evaluation and vulnerability scanning,
- ❑ Development of a formal systems security plan (specific to the MMIS),
- ❑ Review of facility security for the new operations center,
- ❑ Creation and installation of a new Intrusion Detection System (IDS), and
- ❑ Review, test, and update disaster recovery / contingency plan policies and procedures.

The analysis and review of the information system security policies and procedures for the MMIS were conducted in accordance with guidance from the National Institute of Standards and Technology (NIST). This review and evaluation of the MMIS was a significant improvement over reviews conducted in prior years.

The review of the INRHODES system performed during fiscal 2006, however, was unchanged from the process conducted in past years. This process, as previously reported, does not address all of the security concerns outlined by recognized industry standards governing security of federal ADP systems. Also, past security reviews of the INRHODES system, conducted by DHS personnel, documented certain system controls but did not include verification of their operation or effectiveness. For example, controls relating to system access, application software development and modifications, service continuity, and incident response capability were not tested for operational effectiveness. The department's security reviews of the INRHODES system are not considered adequate to comply with federal regulations relating to ADP risk analysis and system security review.

While DHS's efforts to improve its assessment of information system security controls over the MMIS are notable, the department should still consider implementing an enterprise-wide comprehensive system security review process to assess and manage the risks of both systems as well as other ADP issues impacting the administration of HHS programs. DHS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

should coordinate its efforts with the State’s Division of Information Technology (DoIT), the division responsible for the coordinated security of all mission critical systems of the State. DoIT has recently adopted a comprehensive security plan which includes accepted industry standards in sufficient detail to assist the designated security officer in identifying security deficiencies. DoIT also has significantly more experienced information systems security staff and resources than DHS. By coordinating its efforts with DoIT, DHS will be able to utilize these additional resources while also ensuring that the MMIS and INRHODES (both mission critical to vital State operations) systems meet the mandated information system security policies promulgated by the State.

DHS does not have a process in place to update and reassess risk assessments when significant system changes occur. Further, policies and procedures to identify and address security risks related to system changes have not been implemented by DHS.

Questioned Costs: None

RECOMMENDATIONS

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|----------|--|
| 2006-44a | Develop an enterprise-wide comprehensive ADP risk analysis and system security review process to ensure a coordinated approach to identifying and addressing security risks related to information systems used to administer federal programs. |
| 2006-44b | Implement procedures to ensure that risk assessments are conducted at required intervals and when significant system changes that could affect overall information system security occur. |
| 2006-44c | Coordinate information system security activities for the MMIS and INRHODES systems with the State’s Division of Information Technology to ensure compliance with the State’s newly mandated information systems security policies and procedures. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2006-45

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – State Energy Office (SEO)

SUBRECIPIENT MONITORING

Audit Reports

The State Energy Office (SEO) should improve procedures to ensure subrecipients comply with OMB Circular A-133 subrecipient audit report requirements.

OMB Circular A-133 requires pass-through entities to perform various subrecipient monitoring activities, which includes, but is not limited to responsibility for: (1) ensuring that subrecipients expending \$500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within nine months of the end of the subrecipient's audit period, (2) issuing a management decision on audit findings within six months after receipt of the subrecipient's audit report, (3) ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions and (4) evaluating the impact of subrecipient activities on the pass-through entities ability to comply with applicable Federal regulations.

The SEO is responsible for monitoring subrecipient activities to provide reasonable assurance that subrecipients of the LIHEAP program are administering federal awards in compliance with applicable federal requirements. Final audit reports for the year ended June 30, 2005 have not been received as of the date of this report for the largest subrecipient, which receives approximately 24% of the LIHEAP funds paid to subrecipients. Audit reports for the years ended June 30, 2002, 2003 and 2004 were 25, 14, and 21 months late, respectively. The lateness of the audit reports impacted the SEO ability to evaluate the impact of this subrecipient's activities on the State's overall compliance with applicable federal regulations for either fiscal year.

The SEO should enforce the OMB Circular A-133 subrecipient audit report requirements including use of sanctions when appropriate and necessary.

The SEO received and reviewed a subrecipient's single audit report which included two instances of questioned costs without issuing a management decision within six months of receipt of the audit report as required by OMB Circular A-133.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

Contracts with Subrecipients

OMB Circular A-133 requires pass-through entities to identify to subrecipients certain federal award information at the time the award is made. The required information includes, but is not limited to, the name of the federal agency, CFDA number, CFDA title and applicable compliance requirements.

The standard language for subrecipient contracts used by the State Energy Office does not identify the name of the federal agency, terms of the grant award, CFDA number, CFDA title and all applicable compliance requirements. Subrecipient contracts should be amended to include all necessary federal award information and applicable compliance requirements.

Questioned Costs: None

RECOMMENDATIONS

- 2006-45a Improve procedures to enforce subrecipient's compliance with OMB Circular A-133 subrecipient audit report requirements.
- 2006-45b Issue management decisions for all findings impacting LIHEAP grant funds within six months of receipt of subrecipient audit reports as required by OMB Circular A-133.
- 2006-45c Amend contracts with subrecipients to include all necessary federal award information and applicable compliance requirements.

Finding 2006-46

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – State Energy Office (SEO)

SUBRECIPIENT CASH MANAGEMENT

The State Energy Office (SEO) should continue strengthening procedures to ensure that payments of LIHEAP program funds to subrecipients are limited to their immediate cash needs, as required by federal regulations.

The State Energy Office uses various non-profit agencies to carry out LIHEAP activities designed to assist low-income individuals with home energy costs. These non-profit agencies submit weekly LIHEAP funds reports to the State Energy Office which identify the balance of program funds agencies have on hand each week. The State Energy Office uses these reports to monitor agency cash balances and to determine if agencies require additional program funds.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

We were informed that the amounts paid to subrecipients are based on the weekly LIHEAP funds reports submitted to the SEO, program data from the SEO's computer system, and other factors including state disbursement processing time and weather severity. However, no documentation is maintained as to how this information is used to derive the amount paid to any subrecipient.

We found that the State Energy Office is not always sufficiently restricting subrecipient cash balances when determining the need for program fund distributions. Some subrecipients reported excessive cash balances at various points during the year. For instance, one agency received \$900,000 in December 2005 and did not fully expend the funds until April 2006. Another agency received \$500,000 in December 2005 and did not completely expend the funds until the end of January 2006.

The State Energy Office should continue to strengthen its procedures to ensure that it properly monitors subrecipient cash balances and distributes program funds in amounts designed to cover only the immediate cash needs of LIHEAP program subrecipients.

Questioned Costs: None

RECOMMENDATIONS

- 2006-46a Document the sources of data and process used to determine payments of LIHEAP funds to subrecipients.
- 2006-46b Restrict subrecipient funding to their immediate cash needs.

Finding 2006-47

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – State Energy Office (SEO)

PERIOD OF AVAILABILITY

The period of availability for LIHEAP requires that at least 90 percent of the block grant funds be obligated in the fiscal year in which they are appropriated. Up to 10 percent of the funds payable may be held available (or "carried over") for obligation no later than the end of the following fiscal year. Funds not obligated by the end of the following fiscal year must be returned to Administration for Children and Families (ACF) – Department of Health and Human Services. There are no limits on the time period for expenditure of funds (42 USC 8626).

The SEO's procedures to demonstrate compliance with the period of availability requirements applicable to the LIHEAP grant need to be improved. Accounts have not been established within the State accounting system to segregate expenditures and obligations by

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Section III – Federal Award Findings and Questioned Costs

specific federal grant award. Additionally, subsidiary accounting records are not maintained to achieve this objective.

To monitor compliance with period of availability requirements, SEO uses grant award expenditure data and obligations; however, we found the reliability of both sources of data to be questionable as detailed below:

- ❑ Total program expenditures are adequately reported in the State's accounting system; however, expenditures are not segregated by federal grant award. Instead, grant drawdowns applied to a specific grant award are used as the basis for actual expenditures. Program personnel contend that drawdowns are a good indicator of expenditures because the federal funds are drawn on a reimbursement basis.
- ❑ The SEO creates purchase orders to subrecipients to obligate program funds. The same purchase order for each subrecipient is used across grant years. Change orders processed to increase an obligation to a subrecipient does not identify the grant year being obligated.

Because these data sources are imprecise for the intended purpose, we could not determine SEO's compliance with period of availability provisions for LIHEAP. Program personnel identified the 2005 grant award drawdowns as \$10,499,024. We performed a reconciliation of receipts of LIHEAP drawdowns per the State's accounting system to the federal PMS system by federal grant award and determined that only \$7,476,921 of federal fiscal year 2005 grant funds were drawn down. The SEO reported that 100% of the FFY 2005 LIHEAP grant funds had been either expended or obligated by the end of the federal fiscal year in which they had been appropriated. We could not sufficiently verify SEO's claim that all unexpended FFY2005 LIHEAP funds had been obligated by September 30, 2005.

Questioned Costs: None

RECOMMENDATIONS

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|----------|--|
| 2006-47a | Maintain documentation to support the calculation of funds expended and obligated by grant award. |
| 2006-47b | Track expenditures by federal fiscal year grant award within the State accounting system. |
| 2006-47c | Reconcile program receipts to drawdowns by grant award. |
| 2006-47d | Identify the federal grant award year when obligating program funds by purchase orders with subrecipients. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2006-48

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568

Administered by: Department of Administration – State Energy Office (SEO)

EARMARKING

The LIHEAP block grants have several earmarking requirements which include:

- No 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)).
- No 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)).

These earmarking requirements are based on total program expenditures including expenditures made by subrecipients for administration and weatherization. SEO identifies the specific purpose on purchase orders (e.g., administration, weatherization, etc.) for funds awarded to subrecipients. Program management maintains off-line spreadsheets allocating payments to subrecipients into the appropriate category.

The SEO does not perform any review or analysis to ensure compliance with the earmarking requirement during the federal fiscal year or at year-end to assess the accuracy and allowability of transactions. The SEO relies on the specific category identified when the award (purchase order) is made to the subrecipient. Control procedures should be enhanced to ensure compliance with overall earmarking requirements including amounts expended by subrecipients.

Questioned Costs: None

RECOMMENDATION

2006-48 Improve procedures and documentation to ensure compliance with the LIHEAP earmarking requirements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2006-49

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568

Administered by: Department of Administration – State Energy Office (SEO)

ADMINISTRATIVE COSTS – PAYROLL CHARGES

The SEO can improve the processes used to charge administrative personnel costs to LIHEAP to ensure that allocations are consistent with supporting documentation and that adequate supporting documentation exists.

The majority of administrative functions relative to LIHEAP are performed by the SEO; however, individuals within the State’s Central Business Office and the Department of Elderly Affairs also administer aspects of the program. We noted the following regarding administrative costs charged to the program:

- ❑ *State Energy Office (SEO):* Staff are to complete a weekly time study for three weeks during the fiscal year indicating the hours worked on the various programs and activities within the State Energy Office. Estimated payroll allocations (through the State payroll system) are to be adjusted to reflect the results of the periodic time studies. We found that the payroll allocation percentages were not consistent with the results of the periodic time studies. Further, for all but one employee, only two rather than three time studies were completed during the fiscal year.
- ❑ *Department of Elderly Affairs:* Management indicated that the distributions of salary and fringe benefits were based on staff effort on LIHEAP. We found that the distribution of salary and fringe benefits costs to the program were not supported by personnel activity reports or equivalent documentation. Questioned costs due to lack of documentation - \$113,969.
- ❑ *Central Business Office:* We found that the distribution of salary and fringe benefit costs to the program were not supported by personnel activity reports or equivalent documentation. Questioned costs due to lack of documentation - \$19,992.

We identified other transfers of personnel costs totaling \$55,268 to the program that are questioned because of insufficient documentation. These costs were charged by adjustment and in one instance appeared to duplicate personnel costs already allocated to the program and, in the other instances, represented costs for individuals with no direct LIHEAP responsibilities and which were also undocumented.

Questioned Costs: \$189,229

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATIONS

- 2006-49a Allocate employee salary and fringe benefit costs to LIHEAP based upon personnel activity reports or equivalent documentation. Adjust estimated allocations on a timely basis after the completion of periodic time studies.
- 2006-49b Monitor the allocation of personnel costs to LIHEAP to ensure that only appropriate charges are made to the program.

Finding 2006-50

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Administered by: Department of Administration – State Energy Office (SEO)

REPORTING

Financial Status Report (SF-269A)

The State is required to prepare the Financial Status Report (SF-269A) for the LIHEAP block grant. We noted the following regarding the preparation of the SF-269A report:

- ❑ The SEO reports the funds not obligated on the SF-269A report for purposes of demonstrating compliance with the period of availability requirement. As discussed in Finding 2006-47, because of the lack of sufficient supporting documentation we could not verify the amounts reported as expended or obligated at September 30, 2005 for the FFY 2005 LIHEAP grant award.
- ❑ The SEO did not submit separate SF-269A reports for “regular” block grants and emergency contingency funds as directed by guidance included in *Action Transmittal No. LIHEAP-AT-2001-1*, dated 10/18/00 issued by Administration for Children and Families, Department of Health and Human Services.

Semi-Annual Financial Status Reports for
Residential Energy Assistance Challenge Option (REACH) Funds

Semi-annual financial status reports are required for REACH funds. We found that expenditures were overstated by \$29,303 related to the 2002 REACH grant award and overstated by \$4,000 relating to the REACH administrative grant of \$25,000. These errors were caused by SEO’s failure to segregate expenditures related to various components of the program either through the State accounting system or through subsidiary records.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATIONS

- 2006-50a Comply with LIHEAP Action Transmittal No. LIHEAP-AT-2001-1 and submit separate SF-269A reports for Block Grant funds and Emergency Contingency Grants funds.
- 2006-50b Complete a revised final SF-269A financial report for both "Regular" block grants and Emergency Contingency funds in accordance with the requirements outlined in the LIHEAP Action Transmittal No. LIHEAP-AT-2001-1, Dated 10/18/00.
- 2006-50c Submit corrected REACH SF-269A financial status reports related to the federal fiscal year 2002 and 2004 grant awards that are supported by expenditures as recorded in the State's accounting system.

Carryover and Reallotment Report

Grantees must submit a report no later than August 1 indicating the amount expected to be carried forward for obligation in the following fiscal year and the planned use of those funds. Funds in excess of the maximum carryover limit are subject to reallotment to other LIHEAP grantees in the following fiscal year, and must also be reported (42 USC 8626).

Section 2607(b)(2)(B) of the LIHEAP statute requires that at least 90% of funds available must be obligated in the year in which they are appropriated. Not more than 10 percent of the amount payable for a fiscal year may be held for obligation in the succeeding fiscal year.

Since this report is due August 1, which is two months prior to the end of the grant period, it is allowed to report estimated amounts. Program personnel did not maintain any documentation supporting the estimated amounts reported. As reported in Finding 2006-47, the SEO reported an amount available for reallotment of \$0; however, we could not determine that all FFY 2005 LIHEAP funds had been either expended or obligated.

Line 1 of the report should include "Regular" block grant, Contingency funds and oil overcharge funds, if applicable. We found that the 2005 report included the Leveraging Incentive grant on Line 1 causing an overstatement of that line item by \$121,320.

Questioned Costs: None

RECOMMENDATIONS

- 2006-50d Maintain supporting documentation for amounts reported on the Carryover and Reallotment Report.
- 2006-50e Submit a revised Carryover and Reallotment Report for the 2005 grant awards as required.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2006-51

FOSTER CARE – TITLE IV-E - CFDA 93.658

Administered by: Department of Children, Youth, and Families (DCYF)

ELIGIBILITY

DCYF can obtain federal funding for certain costs of caring for children in foster care such as room and board, day care and clothing allowances (known as maintenance costs). Federal participation is allowable for those cases that meet specific eligibility criteria, such as:

- ❑ The foster family home or child-care institution in which the child resides must be fully licensed {42 USC 671 (a)(10) and 672(c)}.
- ❑ The foster child was removed from his or her home by means of a judicial determination or pursuant to a voluntary placement agreement {42 USC 672 (f), 42 USC 672 (a), 45 CFR 1356.21, and 45 CFR 1356.22}.

We selected a sample of 25 maintenance payments and tested them for applicable eligibility requirements. The federal share of these costs totaled \$4,373,883 in fiscal year 2006, and the universe of payments in our sample was \$4,044.

We found that 3 of the 25 payments in our sample were not eligible for federal funding. Two of these payments were for children who resided in unlicensed homes, and the other payment was on behalf of a child for whom DCYF did not have evidence that she was removed from her home by means of a judicial determination. The federal share of these unallowable costs totaled \$284.

Questioned Costs: \$284

RECOMMENDATION

2006-51 Adjust federal reports to reimburse the federal government for the unallowable maintenance costs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2006-52

ADOPTION ASSISTANCE - CFDA 93.659

Administered by: Department of Children, Youth, and Families (DCYF)

ELIGIBILITY

DCYF can obtain federal funding for an adoption subsidy payment if the case meets certain eligibility requirements. For example:

- ❑ The child must meet the requirements of 1) the former Aid to Families with Dependent Children program (i.e., meet the State-established standard of need as of July 16, 1996); 2) the Title XVI Supplemental Security Income program {42 USC 673 (a); or 3) is a child whose costs in a foster family home or child care institution are covered by the foster care maintenance payments being made with respect to his or her minor parent {42 USC 673(a)};
- ❑ DCYF must determine that the child has special needs as defined by 42 USC 673 (c);
- ❑ A subsidy agreement must be prepared and signed before the final decree of adoption {45 CFR 1356.40 (b) (1)}; and
- ❑ DCYF must conduct a criminal records check on the prospective adoptive parent(s) {45 CFR 1356.30}.

We selected a sample of 36 adoption subsidy payments and tested them for applicable eligibility requirements. The federal share of these costs totaled \$6,589,132 in fiscal year 2006, and the universe of payments in our sample was \$8,903.

We questioned the eligibility for federal funding of 13 of the 36 payments in our sample. This was due to the fact that certain records supporting the payments were not available for our review and, as a result, we were unable to substantiate that these payments met all eligibility requirements. Many of the records supporting the federal funding of subsidy payments were maintained in various locations and, in some cases, the records could not be located. DCYF should develop policies to centralize and retain all such records. This is particularly important because the claims for reimbursement could span up to a 21-year period. DCYF should consider electronic imaging of these critical documents to facilitate storage and retrieval. The federal share of the thirteen unsupported payments totaled \$2,916.

DCYF can improve its policies, procedures, and documentation to ensure that it obtains the full amount of federal funding available for adoption subsidy payments in accordance with applicable laws and regulations. We found various inconsistencies in documentation supporting eligibility for the program. For example, the State must determine that a specific factor or condition exists in order for a child to be considered one with special needs. In some cases, we

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Section III – Federal Award Findings and Questioned Costs

noted DCYF indicated on the adoption subsidy agreements that a specific factor or condition existed, but neither department's computer system nor other records indicated that such a factor or condition was present. In other cases, conversely, the factor or condition was indicated in the department's computer system but not in the subsidy agreements or other records.

Questioned Costs: \$2,916

RECOMMENDATIONS

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| 2006-52a | Adjust federal reports to reimburse the federal government for the unallowable adoption subsidy charges. |
| 2006-52b | Develop written policies and procedures regarding Title IV-E adoption assistance eligibility determinations and record retention practices to ensure consistent application. |
| 2006-52c | Create a central repository for all records that support the Adoption Assistance eligibility determination. Consider electronic imaging of these critical documents to facilitate storage and retrieval. |
| 2006-52d | Conduct random reviews of Adoption Assistance eligibility determinations as part of an appropriate quality control system to ensure that all claims meet federal eligibility requirements. |

Finding 2006-53

SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
Administered by: Department of Human Services (DHS)

REPORTING

The Department has not filed the Financial Status Report (SF-269 A, OMB No. 0348-0038) as required by 45 CFR 92.41 and the grant award terms and conditions.

Questioned Costs: None

RECOMMENDATION

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|---------|---|
| 2006-53 | Prepare the SF-269 Financial Status Report for federal fiscal 2006. |
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2006-54

SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
Administered by: Department of Human Services (DHS)

SUBRECIPIENT MONITORING

Office of Management and Budget Circular A-133 requires pass-through entities to (1) monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, (2) ensure that subrecipients expending \$500,000 or more in federal awards have met applicable audit requirements, (3) ensure that appropriate corrective action is taken on findings, and (4) require that subrecipients permit the pass-through entity and auditors access to records and financial statements to ensure compliance with the Circular.

The Department utilizes multiple subrecipients to administer the Social Services Block Grant (SSBG) and other federally assisted programs. Individual SSBG awards to subrecipients were as high as \$600,000 during fiscal 2006.

The Department's subrecipient monitoring procedures include review of audit reports for those subrecipients expending \$500,000 or more in federal awards (from all sources) and ensuring that appropriate corrective action is taken on applicable audit findings. However, in practice we found that the Department is not adequately following its own audit report review procedures. For instance, of the nine SSBG subrecipients receiving the largest awards, we found that the department did not obtain audit reports for six entities. For two of the other subrecipients tested, the Department did obtain audit reports, but the audit report checklist was not completed as required and there was no other evidence that the reports were reviewed.

We also found that the Department's subrecipient monitoring procedures, particularly for entities expending less than \$500,000 in federal awards, may not be sufficiently comprehensive to ensure federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements. The Department needs to strengthen its subrecipient monitoring procedures for the following reasons:

- ❑ Entities not subject to the audit requirements of OMB Circular A-133 but awarded in excess of \$25,000 must submit (by department directive) an "acceptable audited financial statement prepared by an independent auditor". This audit focuses only on the financial activity of the entity and provides no assurance on compliance with requirements applicable to federal programs. No other procedures are in place to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of the grant agreement.
- ❑ An OMB Circular A-133 single audit report may be submitted for a subrecipient but a particular program may not have been tested as a major program as part of the audit.

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Section III – Federal Award Findings and Questioned Costs

Consequently, the Department may not have any specific assurance that federal funds for a particular program were expended in compliance with federal requirements.

- One of the Department's larger subrecipients continues to be chronically late in submitting the required OMB Circular A-133 audit reports and the reports have highlighted significant control weaknesses. By contract, the audit must be submitted within six months of the entity's fiscal year end. At the time of our audit, the Department had not received this entity's fiscal year end June 30, 2005 audit report (over 9 months late). The Department lacked documentation indicating they attempted to obtain the report.

Review of Single Audit reports should be merely one tool used by the Department as part of its overall subrecipient monitoring process. The Department's current procedures should be consistently followed and could be enhanced by performing subrecipient site visits to review financial records such as, documentation supporting expenditure reports, employee timesheets and the allocation of grant personnel costs. Site visits would also provide the opportunity to observe the overall fiscal operations of the entity.

Questioned Costs: None

RECOMMENDATIONS

- 2006-54a Obtain audit reports and perform timely and substantive follow-up on subrecipient audit findings – particular emphasis is warranted when findings remain uncorrected for multiple reporting years.
- 2006-54b Perform alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient's compliance with program requirements.

Finding 2006-55

SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER HOMEMAKER SERVICE BILLINGS

Payments to homemaker service providers are processed through the State's Medicaid Management Information System (MMIS) for both Medicaid and non-Medicaid sources of funding. Approximately \$600,000 was charged to the Social Services Block Grant program and \$25 million (state and federal share) was charged to the Medicaid program. We found that controls over these expenditures could be improved to ensure that (1) payments are only for

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

authorized individuals, (2) amounts billed do not exceed the level and duration of service authorized, and (3) amounts are correctly allocated to the appropriate funding source based upon eligibility criteria for the respective programs.

Department personnel complete an HS-3 *Authorization of Homemaker / Home Health Aide Services Adult Day Care* for each client. The form indicates general client information, the funding source to be used when billing, as well as the authorization period and hours authorized. DHS forwards a copy of the HS-3 authorization form to the homemaker service providers, however, this form is not provided to the fiscal agent processing billings for payment. Consequently, the fiscal agent cannot match the authorized amount or period of service to billed amounts.

For Medicaid eligible individuals, an electronic case record is established within the Department's INRHODES computer system. The case record indicates funding source code, hours authorized and authorization period for homemaker services. Although the INRHODES computer system electronically transmits certain information to the MMIS on a daily basis, this information is not transmitted. Case records have not been established for individuals receiving homemaker services under the SSBG program.

Vendors are responsible for billing under the proper funding code based upon information contained on the HS-3 *Authorization of Homemaker / Home Health Aide Services Adult Day Care*. Since information within the MMIS is incomplete regarding eligibility for all individuals receiving homemaker services, controls are not adequate to ensure that all payments for homemaker services are authorized and charged to the appropriate funding source. During fiscal 2006, the department processed an expenditure adjustment transferring \$1,384,312 from the SSBG to Title XIX (Medical Assistance) to correct erroneous funding source codes indicated by the homemaker service vendors.

Questioned Costs: None

RECOMMENDATION

2006-55 Strengthen procedures to ensure that vendor billings for homemaker services are verified as to authorized recipient, funding source, authorization period and authorized hours prior to payment.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2006-56

STATE CHILDREN'S INSURANCE PROGRAM – CFDA 93.767

Administered by: Department of Human Services (DHS)

ELIGIBILITY

The basic objective of the State Children's Health Insurance Program (SCHIP) as authorized by Title XXI of the Social Security Act is to initiate or expand health insurance programs for low-income, uninsured children. States are afforded flexibility in the implementation of programs to meet this objective. In Rhode Island, the State has obtained waivers from the federal government that allow reimbursement of medical insurance coverage provided to certain individuals previously under the Medicaid program at the enhanced SCHIP federal financial participation rate.

Eligibility for both the Medicaid and the SCHIP programs is determined through the Department's INRHODES computer system; however, specific SCHIP eligibility criteria have not been programmed into that system. Instead, all individuals first become Medicaid eligible. The Department's procedures to identify and claim amounts eligible under SCHIP consist primarily of disbursing capitation or fee-for-service payments initially as Medicaid eligible expenditures and then, using queries against the Medicaid Management Information System (MMIS), reclassifying certain amounts based on eligibility characteristics. The queries isolate individuals meeting the SCHIP eligibility criteria and then accumulate expenditures (both fee-for-service and capitation payments) for the defined time period.

The State, as outlined in its SCHIP State plan, has required that information about the existence of health insurance from other sources be considered in determining eligibility for SCHIP. This information may not be fully considered as intended in the SCHIP State Plan because of the manner in which eligibility is determined.

Medicaid eligibility criteria within the INRHODES computer system inquires about the existence of other health insurance coverage primarily for third party liability purposes -- the existence of other health insurance coverage is recorded for cost avoidance purposes but does not automatically deny eligibility. SCHIP eligibility criteria require a more thorough examination of the applicant's access to health insurance coverage at a certain cost and consideration of whether the applicant denied or canceled coverage within the recent period preceding application. While the application for SCHIP collects information related to other insurance, the INRHODES system is not programmed to fully consider these unique SCHIP eligibility characteristics. Individuals that may not be SCHIP eligible because of other insurance related issues would still be considered Medicaid eligible.

DHS structures its queries to accumulate costs for SCHIP eligible children by excluding those with verified existence of other medical coverage. This does not fully meet the eligibility

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

criteria outlined in the State's SCHIP plan which requires consideration of access to other health coverage.

Further, the terms and conditions of the program that were applicable during fiscal 2006 and prior years also included the provision that parents covered as part of the demonstration population be uninsured. During fiscal year 2006, the State received a redistribution of SCHIP funding to be utilized for available claiming for fiscal years 2004 and 2005. This allowed the State to claim for remaining SCHIP costs of approximately \$38 million (capitation and fee-for-service amounts) for these years, of which approximately \$22 million related to claiming for the demonstration population. Of this \$22 million in demonstration claiming, \$2,915,763 (federal share - \$2,015,084) was determined to be for parents with insurance. Enhanced SCHIP claiming for these questioned costs resulted in additional federal reimbursement (above the regular FFP for Medicaid) to the State totaling \$357,237.

SCHIP claiming for capitation and fee-for-service relating to fiscal year 2006 services for the demonstration population totaled in excess of \$42 million. Of this \$42 million in demonstration claiming, \$3,615,549 (federal share - \$2,468,696) was determined to be for parents with insurance. Enhanced SCHIP claiming for these questioned costs resulted in additional federal reimbursement to the State totaling \$491,715. Effective January 2006, the State has elected to no longer claim for parents with other insurance coverage. The questioned costs detailed in this paragraph relate to demonstration claiming from July 1 through December 31, 2005.

The Department uses queries rather than programming its systems to identify SCHIP eligible individuals because of existing system design constraints, continual changes regarding eligibility for SCHIP, and federal limits on funding for the SCHIP program. Accordingly, DHS's current process of determining SCHIP eligibility through queries of MMIS data on a monthly basis appears to be the only cost-effective manner in which to conduct SCHIP claiming.

Controls over this process, however, should be improved by subjecting SCHIP claiming results to a quality control process similar to the process in place over all Medicaid claims. Such a process should provide additional control over the determination of SCHIP eligibility by evaluating eligibility based on the specific income and insurance criteria mandated for the program instead of relying solely on an individual's coding characteristics within the MMIS.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number.)

Questioned Costs: \$4,483,780 – SCHIP Program (net questioned costs after reflecting costs eligible for Medicaid reimbursement is \$848,952)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATIONS

- 2006-56a Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure eligibility and allowable cost program criteria are met.
- 2006-56b Credit federal reports for expenditures that do not comply with the terms and conditions of the SCHIP program.
- 2006-56c Implement procedures to fully consider an individual’s access to other insurance, consistent with the SCHIP State Plan, when determining eligibility for SCHIP.

Finding 2006-57

STATE CHILDREN’S INSURANCE PROGRAM – CFDA 93.767
Administered by: Department of Human Services (DHS)

COST RECOVERIES - PROGRAM PARTICIPANT COST SHARING COLLECTIONS

Some SCHIP eligible individuals participate in a managed care cost-sharing component of the State’s Medicaid program. The State pays a monthly capitation amount to a managed care provider and then seeks reimbursement from the individuals for their “co-pay” amount. “Co-pay” collections reduce federal program expenditures and claims.

The Department bills family units for applicable co-pay amounts based upon family income and other program criteria. Data is not currently available to apply collection of co-pay amounts to Medicaid (CFDA 93.778) or SCHIP (CFDA 93.767) based upon the program that was charged for the capitation amount. Instead all collection of co-pay amounts is applied to the Medicaid program.

Consequently, the federal share of program expenditures for the Medicaid program is understated and the federal share of SCHIP expenditures is overstated. The under/overstatement between the two programs is not offset because of the difference in the 2006 federal financial participation rates (54.45% for Medicaid vs. 68.12% for SCHIP). Cost sharing collections in fiscal 2006 approximated \$3.7 million (for approximately 3,600 individuals); however, the Department cannot determine the amount that should be applied to each program.

Questioned Costs: None

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

RECOMMENDATION

2006-57 Implement procedures to allow crediting the appropriate federal program for the collection of co-pay amounts under the State's Rite Care Cost Share program.

Finding 2006-58

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

RITE SHARE

The State operates its Rite Share program to provide health insurance through employers for Medicaid eligible individuals and families as a cost effective alternative to its Rite Care program. Rite Share involves paying the employee share of health insurance coverage directly to the employer or in many cases, the employee. During our audit, we noted several instances where individuals left employment and terminated their health coverage but still continued to receive payments from DHS for their coverage. Of the cases that we reviewed, we noted ten instances identified during fiscal 2006 where individuals enrolled in the program received \$31,690 (federal share - \$17,404) for health insurance premiums when they no longer had active medical coverage.

Federal regulation 42 CFR 433.20 requires the State to refund the federal share of overpayments that are subject to recovery to CMS through a credit on its Quarterly Statement of Expenditures (Form CMS-64). The federal share of overpayments subject to recovery must be credited on the Form CMS-64 report submitted for the quarter in which the 60-day period following the discovery is made regardless of whether or not the overpayment has been recovered by the State. The above reported overpayments have not been credited back to CMS on Form CMS-64.

As part of the Rite Share enrollment process, DHS accumulates necessary health insurance information to determine the cost effectiveness of the coverage provided by the employer. Such information includes the benefits covered by the plan, the cost of the plan, the employee's share, employee co-payments, etc. DHS does not obtain any documentation from the health insurance plan as verification of coverage. Verification is only made with the employer.

Once enrolled, DHS does not currently have any means of verifying that Medicaid recipients maintain their employment and ultimately their health insurance coverage. This represents a significant control weakness considering that DHS, in many cases, pays premiums directly to Medicaid recipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

In addition to paying premiums to these individuals, DHS also retroactively dated their insurance coverage termination date in the MMIS to the date the individual terminated their employment. This resulted in the State paying all fee for service claims submitted on behalf of these individuals in addition to paying the premiums for their employer coverage. Total fee-for-service claims paid for the periods when these individuals should have had employer coverage totaled \$18,032, most of which were for services that would have been covered as in-plan services.

DHS should improve controls to monitor the employment and sustained health insurance coverage of Rite Share participants to prevent overpayments and unnecessary benefit liabilities from being incurred by the Medicaid program.

Questioned Costs: \$17,404

RECOMMENDATIONS

- | | |
|----------|---|
| 2006-58a | Improve controls to ensure that Rite Share participants enroll and sustain valid health insurance coverage to prevent program overpayments. |
| 2006-58b | Reimburse the federal government for program overpayments within 60 days of their discovery. |

Finding 2006-59

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

FEDERAL REPORTING

Controls should be improved over the preparation of the quarterly reporting of Medicaid expenditures on Form CMS-64 report. We found that the process to accumulate information needed to prepare the report is complex and requires extensive manual effort. Most of the information regarding claims paid is provided through the MMIS operated by the State's fiscal agent; however, other data must be derived from the State accounting system. Further, a complete reconciliation of administrative expenditures is not performed between amounts reported on the CMS-64 and expenditures reported in the State's accounting system.

Although the reconciliation and reporting of program expenditures has improved, the overall process could be streamlined by better aligning the account structure within the State's accounting system with the categories of expenditure data generated by the MMIS and required for preparation for the CMS-64. Better alignment of accounts and coding would facilitate preparation of the CMS-64 as well as the reconciliation of data reported by the fiscal agent which ultimately is recorded in the State's accounting system.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section III – Federal Award Findings and Questioned Costs

DHS currently reports administrative expenditures claimed by other State agencies (DEA, DOH, MHRH, DCYF) based on cost certifications filed by these departments or transactions recorded in the State's accounting system. For certain administrative expenditure categories, DHS imputes State matches for federal expenditures certified by other State agencies to derive total costs reported on the CMS-64. Based on interagency agreements between DHS and other State agencies, all Medicaid claiming initiated by other departments should be recorded in authorized accounts within the State accounting system demonstrating the appropriate State/Federal shares of the expenditures. Agency compliance with this mandated accounting would allow DHS to completely reconcile administrative expenditures reported in the State's accounting system with those reported on cost certifications filed by those agencies and ultimately Form CMS-64.

During fiscal year 2006, administrative costs pertaining to other state agencies reported on Form CMS-64 totaled \$8,515,369 (federal share) while expenditures reported in the State accounting system totaled \$8,673,697. In addition, DHS Medicaid administrative expenditures reported on Form CMS-64 totaled \$35,438,371 (federal share) (which agreed with the results of the department's cost allocation system for fiscal 2006) while expenditures in the State accounting system totaled \$34,881,416. Ideally, expenditures reported on the State's SEFA which is prepared from data reported by the State's accounting system should be reconciled with amounts claimed on federal reports to explain reporting differences.

No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64.

DHS is also required to complete Form PMS-272 Report for the Medical Assistance Program. The main function of the PMS-272 is to detail both administrative and program grants authorized for the program and actual expenditures reported on the CMS-64 for the program. We noted that for certain quarters, DHS estimates federal expenditure amounts when Form CMS-64 is not completed in time to determine the actual amount of federal expenditures for the quarter. For one quarter, cumulative program expenditures reported on the PMS-272 report were overstated by \$4.2 million and cumulative administrative expenditures were understated by \$5.1 million. DHS should improve its federal reporting process to ensure that accurate Medicaid expenditure amounts are reported on the PMS-272 report.

Questioned Costs: None

RECOMMENDATIONS

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|----------|---|
| 2006-59a | Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS. |
| 2006-59b | Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

2006-59c Report cumulative disbursements on the PMS-272 based on actual expenditures in accordance with report guidelines.

Finding 2006-60

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

HOSPITAL SETTLEMENTS

DHS requires inpatient hospital providers to file cost settlement reports within two years from the end of the hospital's fiscal year. DHS uses these settlement reports to determine amounts owed to or due from participating hospitals. During fiscal 2006, most hospitals should have submitted cost reports for their fiscal years ended in 2003 and prior.

At June 30, 2006, seven out of fourteen hospitals were current with their required cost settlement reports through fiscal 2003. Of the remaining hospitals, three hospitals had submitted cost reports through fiscal 2002, two hospitals had submitted through 2001, and two were further delinquent with one submitting cost reports only through fiscal 1995.

DHS should settle all amounts owed to or from hospital providers in a timely manner. Enforcement provisions (withholding of amounts owed to a hospital as provided in Rhode Island General Law section 40-8-13.2) should be utilized as deemed appropriate. In instances where Medicaid has over-reimbursed hospitals, this will allow timely credit of these amounts to the federal government.

Questioned Costs: None

RECOMMENDATIONS

- 2006-60a Recover identified hospital settlements from providers in a timely manner and credit the federal government for their share within 60 days.
- 2006-60b Utilize the enforcement provisions of the Rhode Island General Laws to ensure hospitals submit year-end settlement reports within required time frames.

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Finding 2006-61

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

LOCAL EDUCATION AGENCIES

School-based health services reimbursable under the Medicaid program are provided by Local Education Agencies (LEAs) to students with special needs pursuant to an Individualized Education Plan (IEP). Services are provided in the school setting or at another site in the community and include speech therapy, physical therapy, occupational therapy, audiological services, counseling, and other medical services.

During fiscal years 2005 and 2006, DHS developed and communicated formal policies and procedures in the form of a special education services guidebook designed to improve overall LEA compliance with Medicaid regulations. The guidebook established the specific medical service and record keeping requirements for special education services provided by LEAs. Although DHS communicated these policies and procedures and met with LEA officials, no specific monitoring procedures were in place during fiscal 2006 to evaluate LEA compliance with the mandated policies and procedures.

We tested 80 claims, for special education services provided by two local education agencies that were reimbursed by the Medicaid program during fiscal 2006. We made site visits to the LEAs and evaluated each claim for compliance with policies mandated within DHS's special education guidebook. Our testing found 13 out of 80 claims (16.25%) with one or more missing compliance features. The federal share of questioned costs identified in our sample totaled \$442 (5.18%) out of total federal claims of \$8,535 included in our sample. Most instances of non-compliance related to the following issues:

- Student reported absent on date(s) of service,
- Services provided were not documented in the student's IEP,
- Incorrect procedure codes billed,
- Incorrect number of units billed for service provided, and
- Individual providing service was not adequately licensed.

As part of our testing, we verified that the individuals providing services at the LEA were licensed in accordance with Medicaid regulations. DHS's policies require that the service be conducted by an individual licensed by either the State Department of Health (DOH) or certified by the State Department of Education (RIDE). An audit of Rhode Island's LEA claiming conducted by DHHS's Office of Inspector General (OIG) during fiscal year 2004 raised an issue regarding the eligibility of services provided by providers not licensed by the DOH. Follow-up correspondences between DHS and the OIG seemed to validate the RIDE certification of providers of speech and language services. The Rhode Island Attorney General certified that the

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Section III – Federal Award Findings and Questioned Costs

licensure requirements of the RIDE were equivalent to the licensure requirements of the Department of Health. For other types of LEA service providers (e.g., psychological counselors, occupational therapists, physical therapists, day program providers), a response to a request for clarification of this issue with the Centers for Medicare and Medicaid Services (CMS) indicated that all providers need to be licensed by the DOH just as if they were providing services outside of LEAs. Applying this stricter licensure requirement to our test results adds 9 instances of non-compliance with associated federal questioned costs of \$1,346.

Local education agencies are also reimbursed by Medicaid for certain administrative costs associated with school-based health services. Most LEAs utilize a third-party contractor to determine the amount of administrative reimbursement the agencies are due from the Medicaid program on a quarterly basis. The LEAs provide the third party contractor with employee time sheets, salary related data, and expenditure reports on a quarterly basis and additional budget and capital asset data on an annual basis. The contractor utilizes a random moment time study analysis to determine costs allocable to school-based health services that are ultimately reimbursable through Medicaid. The contractor reports the amounts to be reimbursed through Medicaid to DHS and the LEA each quarter. DHS reimburses LEAs for administrative costs as determined by the contractor and the contractor is paid a rate contingent on the amount reimbursed by Medicaid from the LEA. Although DHS has included policies outlining allowable administrative claiming in the special education services guidebook, no specific procedures have been implemented to ensure that administrative claiming determined by the LEA's contractor are accurate and in compliance with these policies.

DHS needs to supplement the implementation of the policies and procedures outlined in the special education services guidebook with enhanced monitoring and controls to evaluate compliance by LEAs and to ensure that only services meeting Medicaid regulations are being reimbursed. DHS should also consider requiring the pre-authorization of Medicaid eligible special education services based on a child's IEP. The MMIS could then apply edits to ensure that submitted claims are consistent with services outlined within the IEP.

Questioned Costs: \$1,788

RECOMMENDATIONS

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|----------|---|
| 2006-61a | Consider pre-authorization within the MMIS for special education services specified in student's individualized education plans. Subject special education claims to edits for pre-authorization as a requirement for payment approval. |
| 2006-61b | Expand post audit/monitoring procedures of special education claims to ensure compliance with DHS's "Medicaid Direct Services Guidebook for Local Education Agencies". |
| 2006-61c | Ensure that licensure requirements for LEA providers claiming Medicaid reimbursement meet federal regulations. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

2006-61d Implement review procedures for administrative claiming determinations being conducted by a third party contractor on behalf of local education agencies.

Finding 2006-62

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

CONTROLS OVER MEDICAID EXPENDITURES ADMINISTERED BY OTHER STATE AGENCIES

In addition to the DHS, the Medicaid program is administered through several agencies, most notably the Department of Mental Health, Retardation, and Hospitals (MHRH), Department of Elderly Affairs (DEA), Department of Health (DOH), and the Department of Children, Youth, and Families (DCYF). During fiscal 2006, DHS, the single state Medicaid agency, executed new interagency agreements with all other state agencies administering portions of the program. In response to prior year audit findings, these new agreements were designed to improve controls over Medicaid expenditures administered by mandating other state agencies to:

- ❑ Seek approval of any contract or subcontract, including any purchase of goods, software, or equipment, with a value of \$25,000 or greater in advance by DHS.
- ❑ Seek approval of any contract or subcontract involving the transfer or use of data concerning Medicaid expenditures or eligibility in advance by DHS.
- ❑ Obtain a benefit and administrative claiming review certifying that all agency Medicaid claiming complies with the terms of the interagency agreement, the Medicaid State Plan, and applicable federal requirements.
- ❑ Develop and submit a provider contract rate setting and cost assignment methodology for DHS approval if applicable to any allowable service (e.g., MHRH hospital per diem rate, group home per diem rates, DCYF contracted placement per diem rates)
- ❑ Submit plans for the transition of any Medicaid benefit claims to the MMIS from their current process (if applicable).

The majority of these requirements were effective beginning October 2005 with completion of task deliverables no later than September 30, 2006. We found the other State agencies' compliance with these requirements to be incomplete and, in some instances, no efforts toward compliance had commenced.

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Section III – Federal Award Findings and Questioned Costs

In addition, our testing of administrative claiming by other State agencies noted instances of non-compliance with interagency agreements that included the following transactions:

- Three transactions for administrative type expenditures were charged to Medicaid program accounts at 100% FFP (however, subsequently charged on Medicaid federal reports at 54.45% by DHS) instead of the administrative FFP of 50%, resulting in federal questioned costs of \$100.
- Certain indirect operating costs were charged at enhanced rates instead of the allowable 50% federal reimbursement percentage, resulting in federal questioned costs of \$1,390.

Medicaid administrative and benefit expenditures administered by other State agencies during fiscal year 2006 exceeded \$550 million. The above requirements were designed by DHS to improve its overall oversight and monitoring of substantial Medicaid activities administered by other State agencies. Completion of the above listed tasks would provide additional controls over the allowability and eligibility of significant Medicaid operations administered by other State agencies. In addition, it would document established rate-setting methodologies for long-term care and group home facilities administered by other state agencies that, once approved, will require evaluation and monitoring for compliance.

DHS should ensure that other State agencies contract for administrative and benefit claiming reviews that provide a written certification to DHS that the agency has complied with both the interagency agreements and Medicaid program requirements. These reviews should be performed by DHS or DHS approved contractors to ensure that both administrative and benefit claiming reviews are conducted by professionals with the necessary knowledge and experience with the Medical Assistance program to conclude that all charges meet program regulations.

DHS should continue efforts to have all Medicaid benefit claims processed through the MMIS. Completion of these efforts will ensure that all claiming is subject to the control edits designed in the MMIS and would significantly reduce the risk of duplicate payments within the program.

Contracting by other Departments - Suspension and Debarment

DHS utilizes various service providers and contractors for the operation of the Medical Assistance Program. Federal regulations prohibit States from contracting with or making subawards under covered transactions to suspended or debarred parties. Covered transactions include procurement contracts for goods or services equal to or exceeding \$100,000 and all non-procurement transactions (e.g., subawards to subrecipients). Contractors receiving individual awards for \$100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

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The Department of Mental Health, Retardation and Hospitals (MHRH) and the Department of Elderly Affairs contracted with various vendors for Medicaid eligible services in excess of \$100,000 during fiscal year 2006. We found instances in each department where contracts with vendors in excess of \$100,000 were executed during fiscal 2006 without certifications from the vendor indicating that they were not suspended or debarred from participating in the Medicaid program. Upon our inquiry, MHRH was able to obtain the required certification from the provider.

The Department of Human Services should ensure that all contracts for the provision of Medicaid eligible services contain required certifications concerning suspension and debarment including contracts entered into by other departments. These requirements should be included in the memorandum of understanding that the Department of Human Services has with each state department which participates in the Medicaid program.

Questioned Costs: \$1,490

RECOMMENDATIONS

- | | |
|----------|---|
| 2006-62a | Ensure that other state agencies responsible for administering Medicaid services comply with the terms of the interagency agreements and provide DHS with all required mandates. |
| 2006-62b | Once approved, develop a review process to ensure compliance with authorized rate setting procedures for long-term care and group home facilities administered by other State agencies. |
| 2006-62c | Review and strengthen procedures to ensure current agreements containing the required suspension and debarment certifications are in place for all providers. |

Finding 2006-63

MEDICAL ASSISTANCE PROGRAM - CFDA 93.778
Administered by: Department of Human Services (DHS)

FISCAL AGENT OVERSIGHT

DHS is highly dependent on its fiscal agent's extensive and complex computer system (MMIS), which includes controls for processing payments on behalf of eligible Medicaid beneficiaries as well as controls over disbursing state and federal funds. Oversight of these operations by DHS is essential to ensure that the fiscal agent complies with program regulations, and controls are functioning as designed. This is critically important considering the authority delegated to and dollar value of disbursements processed by the fiscal agent.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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We have recommended in prior audit reports that DHS improve its oversight by monitoring the internal control procedures and financial activities employed by the fiscal agent. Monitoring is necessary to ensure that effective controls are in place over program disbursements, and that financial data is being accurately reported for presentation in the State's financial statements and federal reports. Financial monitoring procedures have not been fully developed, and responsibility for financial monitoring has not been centralized or well coordinated. DHS may need additional resources to fully accomplish these objectives.

We noted the following matters:

- ❑ *DHS should ensure that the fiscal agent has adequate internal control policies and procedures in place to pay claims in accordance with program regulations and to control cash disbursements made on behalf of the State.* The internal control structure through which the fiscal agent processes Medicaid claims is totally separate and distinct from the State's accounting system and related control procedures used to disburse other state expenditures. During fiscal 2006, the State's fiscal agent contracted for and completed a Type I "SAS 70" review. This review documented the design and operation of key internal controls utilized by the fiscal agent. A Type II "SAS 70" review should be performed going forward which would include testing the operating effectiveness of the fiscal agent's documented controls over Medicaid claims processing.
- ❑ *DHS has not developed procedures to effectively monitor the financial activities of the fiscal agent.* For example, DHS has not implemented sufficient procedures to verify MMIS financial data used to record program activity and prepare federal reports. Additionally, procedures are not in place to ensure all prescription drug rebates are billed and collected, provider accounts receivable balances are accurately reported, and third party liabilities have been identified and collected. Most importantly, the fiscal agent performs incompatible functions of billing, recording, and receiving drug rebates, third party liability collections, and provider refunds. DHS performs no oversight procedures to ensure receipt of all collections by its fiscal agent.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number.)

Questioned Costs: None

RECOMMENDATIONS

- 2006-63a Obtain a Type II "SAS 70" examination performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

- 2006-63b Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected.

Finding 2006-64

MEDICAL ASSISTANCE PROGRAM – CFDA 93.778
Administered by: Department of Human Services (DHS)

MEDICAID CLAIMS FOR CHILDREN IN FOSTER CARE

The Department of Children, Youth, and Families (DCYF) is responsible for providing a wide array of services to children in its care. Since most children in the State’s care are eligible for Medicaid, the cost of some of these services are reimbursed through Medicaid. Some children are placed in a residential facility (non-foster home) that is intended to provide comprehensive services which may include case management, treatment and assessment, room and board, and personal care. Examples of residential facilities include the following:

- ❑ foster care placements through private agencies;
- ❑ independent living placements;
- ❑ supervised apartments;
- ❑ high end residential treatment placements;
- ❑ group home placements; and
- ❑ emergency shelter placements.

DCYF contracts with these providers either (1) by contract, where a set number of placements is included within an annual contracted amount, or (2) on an as needed, purchased service basis.

DCYF uses its RICHIST computer system to administer services provided to children in foster care. RICHIST maintains a funding hierarchy to allocate payments for services to the appropriate funding sources based on the nature of the service provided and the child’s eligibility characteristics. Many of the residential placement services highlighted above are reimbursed, in whole or in part, through Medicaid. Once RICHIST has determined that the service is to be reimbursed by Medicaid, the claim is “processed” through the Medicaid Management Information System (MMIS) operated by the State’s fiscal agent. The MMIS subjects these claims to a more limited edit and control process than most provider claims paid through the system.

We reviewed 20 residential placement payments which were reimbursed to DCYF through Medicaid for the following:

- verification of recipient’s Medicaid eligibility,

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Section III – Federal Award Findings and Questioned Costs

- provider accreditation {Joint Commission on Accreditation of Healthcare Organizations (JCAHO), Council on Accreditation (COA), Commission on Accreditation of Rehabilitation Facilities (CARF)},
- facility licensure by DCYF,
- existence of contract with provider and consistency of amount paid with contract terms,
- documentation supporting DCYF's allocation of contract amounts among room and board, case management, treatment and assessment, and personal care,
- verification that the RICHIST system funding hierarchy appropriately determined the amount billed to Medicaid, and
- verification that the DCYF client was not absent from the placement during the dates of service billed to Medicaid.

We found that:

- ❑ 2 out of the 20 claims included Medicaid reimbursement for periods when the child was absent from the facility thus making claiming for these days unallowable under Medicaid regulations, (federal questioned costs - \$427);
- ❑ 7 out of the 20 claims included in our sample were paid to unaccredited facilities; and
- ❑ contracts supporting annual provider payment amounts and resulting per diem rates (included within the RICHIST system) could not be provided for 9 of the 20 payments tested.

We observed that if the residential placement facility was accredited, 100% of the all-inclusive per diem rate was charged to Medicaid. No adjustment was made for the room and board portion of the rate. For facilities lacking accreditation, there was no documentation to support the breakout of the all-inclusive per diem rate into components (e.g., treatment and assessment, room and board, case management and personal care). In most of these instances, all components excluding room and board were billed to Medicaid.

We also found that a contract increase of \$15,000 was given to a DCYF provider for the purpose of pursuing CARF accreditation. This increase was added to the fiscal 2004 provider contract and subsequently reimbursed via the per diem rate charged to Medicaid. To date, this provider has not achieved accreditation and the allowability of these additional contract costs is questionable.

In general, controls over Medicaid claims for children in foster care, which originate through DCYF's RICHIST system, should be enhanced to match controls in place for all other Medicaid claims processed through the State's MMIS. MMIS processing for these claims includes recipient eligibility edits but not many of the other specific claim controls designed in the MMIS. Controls over residential placement services are particularly deficient because DCYF is reimbursed for the amount requested -- approved provider rates for DCYF providers

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are not maintained within the MMIS. Further, controls within the MMIS to detect duplicate billings are ineffective since services could be billed under a comprehensive per diem rate and also on a fee-for-service basis. Lastly, policies regarding the Medicaid allowability of specific items and the determination of appropriate provider rates have not been established.

DHS has attempted to address some of these issues in a Medicaid interagency agreement with DCYF which requires the development and approval of such methodologies, however, performance of this provision of the agreement has not been completed (refer to Finding 2006-62).

Questioned Costs: \$427

RECOMMENDATIONS

- 2006-64a Formalize a claiming methodology for DCYF residential placements which utilize an all-inclusive per diem rate that is consistent with federal regulations. Alternatively, reimburse providers on a fee-for-service basis or include residential placements as in-plan services through Rite Care.
- 2006-64b Enhance controls over Medicaid claims originating from DCYF's RICHIST system so that they are equivalent to controls in place over all other Medicaid claims paid through the MMIS.

Finding 2006-65

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

State Homeland Security Program (SHSP) – CFDA 97.073

Administered by: Rhode Island Emergency Management Agency (RIEMA)

ACTIVITIES ALLOWED OR UNALLOWED

Several funding streams were established by the Department of Homeland Security and combined in single awards under the Homeland Security Grant Program. Awards made in federal fiscal year (FFY) 2004 included, among others, the State Homeland Security Program (SHSP) and awards made in FFY2005 included the Emergency Management Performance Grant (EMPG). In addition to various federal statutes, the *Program Guidelines and Application Kits* prepared by the federal grantor indicate specific activities that are allowable or unallowable within each of the funding streams. Specifically:

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- ❑ under the SHSP for FFY2004, expenditures for construction or renovation of facilities are unauthorized; and
- ❑ under the FFY2005 award, funds may not be used for any type of construction or renovation in the EMPG program.

We found that during state fiscal year 2006, the RIEMA authorized pass-through expenditures in the FFY2004 SHSP grant to fund the construction and renovation of a Secondary Operations Center at one of its subrecipients. These costs totaled \$4,240. Additionally, we found that RIEMA used federal funds under the FFY2005 EMPG grant to replace the roof at its warehouse facility. These costs totaled \$26,232. RIEMA indicated that, for the cost charged to the EMPG grant, federal funding was actually approved under another grant. A correcting adjustment to move the cost to the appropriate account/grant was intended but never occurred.

Questioned Costs: \$30,472

RECOMMENDATION

2006-65 Adjust the federal reports and reimburse the federal government for the unallowable renovation costs. Prepare an adjustment to charge expenditures totaling \$26,232 to the proper account/grant.

Finding 2006-66

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

State Homeland Security Program (SHSP) – CFDA 97.073

Administered by: Rhode Island Emergency Management Agency (RIEMA)

PAYROLL CERTIFICATION/ACTIVITY REPORTS

OMB Circular A-87 requires that where employees work on multiple activities or cost objectives, a distribution of their salaries or wages must be supported by personnel activity reports or equivalent documentation. These reports must reflect an after the fact distribution of the actual activity and must account for the total activity for which each employee is compensated.

During fiscal 2006, the RIEMA did not require employees who worked on multiple grants to prepare timesheets that reported their time by activity. The timesheets simply indicated the number of hours each employee worked on a daily basis without indicating their functional

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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or program activity. Personnel costs were allocated to the Homeland Security Cluster grants by a predetermined percentage rate.

The auditee disagrees, in part, with this finding and its views are outlined in the accompanying corrective action plan (Section E of this report – refer to corresponding finding number.)

Questioned Costs: Unknown

RECOMMENDATION

2006-66 Utilize personnel activity reports or equivalent documentation to support allocation of personnel costs to Homeland Security Cluster Programs.

Finding 2006-67

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

State Homeland Security Program (SHSP) – CFDA 97.073

Administered by: Rhode Island Emergency Management Agency (RIEMA)

EQUIPMENT MANAGEMENT

Federal regulations require that a State use, manage, and dispose of equipment acquired under a Federal grant in accordance with State laws and procedures. Equipment records should be maintained, a physical inventory of equipment should be taken at least once every two years and reconciled to the equipment records, an appropriate control system should be used to safeguard equipment, and equipment shall be adequately maintained.

The RIEMA uses grant funding to purchase domestic preparedness equipment which can be classified into three main categories, 1) to be used directly by the RIEMA, 2) to be passed-through to subrecipients and other state agencies, and 3) to be held in inventory by the RIEMA until needed by subrecipients.

State procedures require that each agency, when acquiring a capital asset, submit a *Capital Asset Acquisition Report* (form SFA-12) to the Office of Accounts and Control. Data reported on the Form SFA-12 is used to record fixed asset transactions in the State's database (Fixed Asset Control and Tracking System). EMA personnel informed us that only equipment purchases intended to be used directly by the RIEMA are reported under this procedure. RIEMA also indicated that fixed asset reporting responsibilities for equipment purchased for other state

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agencies vest with that agency, and that equipment held in inventory for ultimate use by subrecipients does not require reporting.

We found the following weaknesses in controls over equipment management acquired with Homeland Security Cluster grant funds:

- ❑ No complete inventory of equipment is maintained for RIEMA equipment stored at three warehouse locations.
- ❑ Partial inventory lists of equipment were provided to us resulting from a physical inventory recently conducted by warehouse personnel. We noted various items of equipment at all three sites that were not included on any of the inventory listings. RIEMA stated that the lists were incomplete because they have not completed their physical inventory.
- ❑ The inventory listings do not reflect the purchase price, date of acquisition, or the federal grant under which the equipment was purchased.
- ❑ Equipment purchases reflected in the state accounting records do not identify whether the assets are retained for RIEMA use, were passed-through to a subrecipient or another state agency, or are currently held in inventory by RIEMA for future use.
- ❑ Equipment is not effectively safeguarded. Various individuals, outside of RIEMA, have access to the Varley Building, where some of the Homeland Security equipment is stored. Fewer personnel have access to the trailer situated on RIEMA property; however, HSGP equipment is not stored in a secured area within the trailer. Most of the equipment, which primarily consists of small, high-dollar specialized electronic devices, is stored in unlocked containers. Lastly, the Scituate warehouse, that is the primary storage facility for RIEMA, does not currently have a working alarm system. RIEMA is in the process of improving the security system at this location.
- ❑ There is no segregation of duties between the physical safeguarding of equipment and the record-keeping function.

Questioned Costs: None

RECOMMENDATIONS

- 2006-67a Establish and maintain equipment inventory records identifying all equipment purchased and recorded in State accounting records. These records should include pertinent data such as purchase date, acquisition cost, and grant under which it was funded. The records should also reflect whether the equipment is State-owned, passed-through to another entity including another State agency, or held in inventory for future use by subrecipients.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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- 2006-67b Improve physical security over equipment inventory.
- 2006-67c Segregate the responsibilities of safeguarding the equipment from the record-keeping function.

Finding 2006-68

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

State Homeland Security Program (SHSP) – CFDA 97.073

Administered by: Rhode Island Emergency Management Agency (RIEMA)

SUBRECIPIENT MONITORING

Office of Management and Budget Circular A-133 requires pass-through entities to (1) monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements, (2) ensure that subrecipients expending \$500,000 or more in federal awards have met applicable audit requirements, (3) ensure that appropriate corrective action is taken on findings, and (4) require that subrecipients permit the pass-through entity and auditors access to records and financial statements to ensure compliance with the Circular.

The RIEMA utilizes multiple subrecipients to administer the State Homeland Security Grant programs. Awards range from under \$100,000 to more than \$1 million and totaled approximately \$13 million from the FFY2004 grant and \$8.2 million from the FFY2005 grant. In addition, the RIEMA purchased certain specialized equipment which it also passed-through to various subrecipients.

Federal regulations require the pass-through entity to consider such factors as program complexity, percentage passed-through, amount of awards, and subrecipient risk when establishing policies for during-the-award monitoring. RIEMA did not sufficiently consider these factors in developing a comprehensive monitoring plan for its subrecipients. Overall, the procedures utilized by RIEMA during FY2006 were not sufficient to ensure that federal awards to its subrecipients were used for authorized purposes in compliance with laws, regulations, and the provisions of contracts and grant agreements.

We found the following weaknesses in RIEMA's controls and procedures over subrecipient monitoring:

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
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- ❑ No subrecipient site visits were conducted by RIEMA during FY2006. RIEMA did require each subrecipient to submit quarterly fiscal reports and quarterly progress reports which were desk reviewed to determine that cash was being expended and progress was being made on the approved projects.

- ❑ RIEMA included an audit requirement in the conditions / assurances attached to each subrecipient grant award; however the agency did not receive, or subsequently request that subrecipients submit copies of independent audit reports and related management letters. Accordingly, the RIEMA could not determine: (a) whether such audits were performed, and if so, whether any noncompliance was identified with respect to the subrecipient's RIEMA award, (b) whether there were any instances of continued inability or unwillingness of a subrecipient to have the required audits, or (c) the effects of any subrecipient noncompliance, if any, on RIEMA's records.

RIEMA should strengthen subrecipient monitoring procedures to ensure that federal awards to subrecipients were used for authorized purposes in compliance with laws, regulations, and the provisions of contracts and grant agreements.

Questioned Costs: None

RECOMMENDATIONS

- 2006-68a Establish appropriate policies and procedures to monitor subrecipients utilizing site visits, audits or other means as considered appropriate.

- 2006-68b Obtain and review subrecipient audit reports, as applicable, ensuring that appropriate corrective action is taken on findings cited in the audit, and determining the effects of noncompliance, if any, on the RIEMA's records.

Finding 2006-69

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

State Homeland Security Program (SHSP) – CFDA 97.073

Administered by: Rhode Island Emergency Management Agency (RIEMA)

SPECIAL TESTS AND PROVISIONS – SUBGRANT AWARDS

Federal regulations require that States obligate federal funds for subgrants under the State Homeland Security Program (SHSP) within 60 days after the date of the grant award. There

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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must be an action by the State to establish a firm commitment, the commitment must be unconditional on the part of the State, there must be documentary evidence of the commitment; and the award terms must be communicated to the subgrantee and, if applicable, accepted by the grantee. The State should have written procedures for making subgrant awards, including any standards for administrative lead-time for obligation of funds and issuance of awards.

RIEMA was unable to provide us with evidence that it obligated federal funds for subgrants within the 60 day time limitation in both the 2004 and 2005 grants. Program management asserted that the obligations were entered directly into the federal *Initial Strategy Implementation Plan (ISIP)* online within the required time limitation. Management also asserted that if the obligations had not been entered, RIEMA would not have been able to draw down funds.

We also found that correspondence with subgrantees regarding awards indicated that the award/obligation to each subgrantee was conditional upon a satisfactory application request for federal funds having been subsequently filed with the state agency by each subrecipient. The applications detailed the equipment or projects to be purchased/undertaken. RIEMA program personnel reviewed the applications for compliance with the State Homeland Security Grant requirements. Once approved, a formal *Statement of Subgrant Award* document was forwarded to the respective subrecipient. In our opinion, this document represented the unconditional, firm commitment made by the State to provide the federal funds to the subrecipient. The statements we reviewed were dated approximately four months after the date of the grant award, beyond the 60 day time requirement.

RIEMA does not have any written procedures for making subgrant awards or administering any part of the Homeland Security Grant Programs.

Questioned Costs: None

RECOMMENDATIONS

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| 2006-69a | Establish adequate internal control policies to properly obligate award monies within the required time frames. Generate and retain appropriate authoritative documentation of the commitment. |
| 2006-69b | Develop formal written procedures/policies for awarding and monitoring subgrant awards. Include standards for administrative lead-time for obligation of funds and issuance of awards. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2006-70

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

State Homeland Security Program (SHSP) – CFDA 97.073

Administered by: Rhode Island Emergency Management Agency (RIEMA)

EARMARKING

Federal regulations require that no more than 3 percent of the FFY2004 and FFY2005 grant funds made available to a State may be used for costs of management and administration. For the FFY2005 grant award, any portion of the three percent retained by the State for this purpose must be included within the maximum twenty percent of total funds retained by the State for the *State Homeland Security Program (SHSP)*, *Law Enforcement Terrorism Prevention Program (LETPP)*, and *Urban Areas Security Initiative (UASI)*. For the FFY2004 grant award, any portion of the 3% retained by the State must be included within the 20% of total funds available to the State. Federal regulations also require that each state obligate not less than 80 percent of grant funds to local units of governments. Under the FFY2004 grant, the obligation must be determined from the total grant award. In the FY2005 grant, the 80% must be determined under the SHSP, LETPP, and UASI programs.

Due to accounting inadequacies, RIEMA was not able to satisfactorily demonstrate its compliance with these requirements. Expenditures for the FFY2005 grant were commingled with other grant awards in a single account within the State's accounting system. For the FFY2004 grant, a single account was used to post expenditures in the SHSP, LETPP, or CCP sub-programs. RIEMA attempted to classify the expenditures under each of the grant awards on separate spreadsheets according to the program guidelines. We found that these spreadsheets were not complete and did not reconcile with expenditure data posted in the State's accounting system.

Questioned Costs: None

RECOMMENDATIONS

- | | |
|----------|---|
| 2006-70a | Utilize unique account numbers to record expenditures by CFDA number and/or federal grant award for all federal grants. Ensure the accounts utilized facilitate demonstrating compliance with applicable earmarking requirements. |
| 2006-70b | Reconcile expenditures posted in the State's accounting system with the internally prepared spreadsheets to ensure completeness and accuracy of assessing compliance with earmarking requirements. |

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

Finding 2006-71

HOMELAND SECURITY CLUSTER:

Homeland Security Grant Program - CFDA 97.067

State Domestic Preparedness Equipment Support Program (State Homeland Security Grant Program) - CFDA 97.004

State Homeland Security Program (SHSP) – CFDA 97.073

Administered by: Rhode Island Emergency Management Agency (RIEMA)

REPORTING – FEDERAL FINANCIAL STATUS REPORTS

Federal regulations for the Homeland Security Grant Programs require that the RIEMA submit a quarterly Financial Status Report (SF-269A) for each grant award. The RIEMA must report quarterly and cumulative program outlays, obligations and federal funds authorized for each award utilizing the SF-269A.

Quarterly Financial Status Reports submitted for the state fiscal year ended June 30, 2006 were materially misstated. Controls were not in place to ensure that information was complete and accurately reported in accordance with the applicable federal reporting instructions. RIEMA posted expenditures from multiple grant awards in a single account within the State's accounting system, which did not facilitate accurate reporting. Data reported on several of the Financial Status Reports were not supported by the State's accounting system -- significant variances existed between reported and actual program expenditures from the accounting system. For example, expenditures totaling \$324,000 were reported as quarterly expenditures on three consecutive SF-269A reports for the FFY2004 grant. RIEMA was not gathering expenditure data from all account numbers linked to the appropriate CFDA number for the FFY2005 grant reports. Variances as much as \$600,000 existed between the SF-269A reports and the accounting system for both grant awards.

We also noted that there was insufficient supervisory review of the federal reports and related supporting documentation. The same individual prepared and submitted the reports to the federal government.

Questioned Costs: None

RECOMMENDATIONS

2006-71a Prepare reports in accordance with applicable federal reporting instructions.

2006-71b Utilize unique account numbers to record/report federal expenditures by CFDA number and grant award for all grants.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Section III – Federal Award Findings and Questioned Costs

- 2006-71c Reconcile reported federal expenditures to the state accounting system. Ensure that all program expenditure data is accumulated from the state accounting system.
- 2006-71d Implement supervisory review and approval of federal reports and related supporting documentation.

Finding 2006-72

RESEARCH AND DEVELOPMENT CLUSTER:

CFDA - Various

Administered by: University of Rhode Island

COST PRINCIPLES – PAYROLL CHARGES

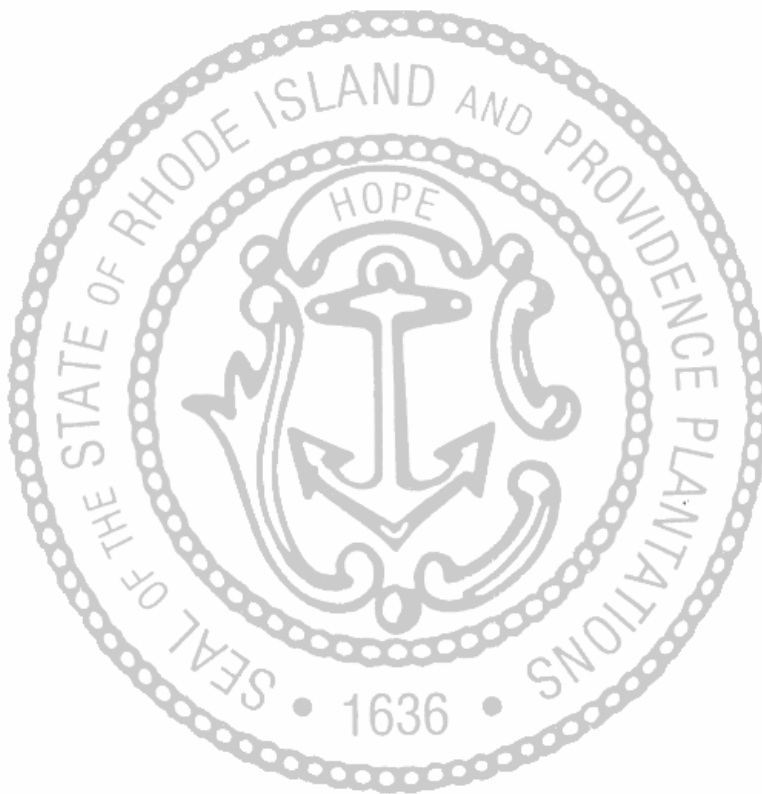
OMB Circular A-21 requires that the distribution of salaries and wages be based on payroll documented in accordance with the generally accepted practices of the college or university, and that the distribution of staff time to appropriate grant activity be adequately documented on a contemporaneous basis in accordance with various prescribed options (effort reporting). We noted that the University did not have an effective procedure to generate effort certification reports for limited contract and non-student hourly employees.

Questioned Costs: \$2,804,420

RECOMMENDATION

- 2006-72 The University should ensure that certification work performed by limited contract and non-student hourly employees are consistently applied in accordance with OMB Circular A-21, and existing University Policies.

Corrective Action Plan



Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-1 – Corrective Action

2006-1a

The Department of Administration will continue to implement additional Oracle application modules to complete the implementation of an integrated accounting system that fully meets the state's management and financial reporting needs.

Contact person: Beverly Najarian, Director of Administration
401.222.2280

2006-1b

The remaining subsidiary accounting systems will be converted to use the RIFANS account structure.

Anticipated Completion Date: April 1, 2007

Contact person: Chief Information Officer
Division of Information Technology
401.222.4444

2006-1c

New reports have been developed and reviewed by Office of Accounts and Control staff to improve transaction classification.

Contact person: Lawrence Franklin, Jr., State Controller
401.222.6731

Finding 2006-2 – Corrective Action

Implementation of RIFANS has corrected several control deficiencies. New policies and procedures will be implemented during fiscal year 2007 to correct the remaining control deficiencies.

Anticipated Completion Date: May 1, 2007

Contact person: Lawrence Franklin, Jr., State Controller
401.222.6731

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-3 – Corrective Action

A monitoring function has been established as of May 2006 within the Office of Accounts and Control to prevent accumulation of deficit balances and ensure that amounts are reimbursed timely.

Contact person: Lawrence Franklin, Jr., State Controller
401.222.6731

Finding 2006-4 – Corrective Action

The Office of Accounts and Control will work with Treasury to integrate the investment function within the accounting system and post investment activity on a daily basis.

Anticipated Completion Date: April 1, 2007

Contact persons: Frank Caprio, General Treasurer
401.222.2397
Lawrence Franklin, Jr., State Controller
401.222.6731

Finding 2006-5 – Corrective Action

New Oracle fixed asset module will be in use in February 2007. Improved controls and procedures to insure adequate accounting and physical control over capital assets will be implemented during fiscal year 2007.

Anticipated Completion Date: April 1, 2007

Contact person: Lawrence Franklin, Jr., State Controller
401.222.6731

Finding 2006-6 – Corrective Action

The Office of Accounts and Control, The Office of General Treasurer and the Budget Office will work together to enhance controls over funds on deposit with the fiscal agent.

Anticipated Completion Date: April 1, 2007

Contact persons: Frank Caprio, General Treasurer
401.222.2397

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Rosemary Booth-Gallogly, Budget Officer
401.222.6300
Lawrence Franklin, Jr., State Controller
401.222.6731

Finding 2006-7 – Corrective Action

The Office of Accounts and Control will implement procedures to ensure that all MATERIAL capital lease activity is identified and recorded in accord with GAAP.

Anticipated Completion Date: March 1, 2007

Contact person: Lawrence Franklin, Jr., State Controller
401.222.6731

Finding 2006-8 – Corrective Action

2006-8a

The State Controller will redesign of the Federal Grants Information schedule (FGIS) to require that each submitted FGIS contains a certification that the information reported has been reconciled with data reported to the federal government.

Anticipated Completion Date: June 30, 2007

2006-8b

A complete review of existing CFDA references was completed in May 2006. New procedures have been implemented to insure that all federal revenue and expenditures are properly linked in RIFANS.

Contact person: Lawrence Franklin, Jr., State Controller
401.222.6731

Finding 2006-9 – Corrective Action

Due to State's implementation of recommended control enhancements at or subsequent to fiscal year end, no further corrective action is required. This item was closed as of August 2006.

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Contact person: David Sullivan, Tax Administrator
401.222.3050

Finding 2006-10 – Corrective Action

The State implemented a new purchasing/accounts payable module and reconfigured its statewide accounting system now known as RIFANS. New access control procedures are in place within RIFANS and accordingly no recommendation is made to enhance RISAIL access controls. This item was closed as of June 30, 2006.

Contact person: Lawrence Franklin, Jr., State Controller
401.222.6731

Finding 2006-11 – Corrective Action

Due to State's implementation of recommended control enhancements at or subsequent to fiscal year end, no further corrective action is required. This item was closed as of June 15, 2006.

Contact person: David Sullivan, Tax Administrator
401.222.3050

Finding 2006-12 – Corrective Action

2006-12a

State will work with the Controllars office to identify data elements that need to be tracked and track the user id making those changes into a logfile.

Anticipated Completion Date: June 1, 2007

2006-12b

Due to the State's full implementation of program change control in October 2006, no further action is required.

Contact person: Chief Information Officer
Division of Information Technology
401.222.4444

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-13 – Corrective Action

2006-13a

State CISO will review current security audit findings and also review findings by Bear Hill Security to ensure the finding are being addressed and meet the State's standards.

2006-13b

State CISO will prioritize findings of assessment of compliance and prioritize those findings to meet the security standards.

Anticipated Completion Date: June 30, 2007

Contact person: Chief Information Officer
Division of Information Technology
401.222.4444

Finding 2006-14 – Corrective Action

2006-14a

A task force is in place between DOA and DOT to reevaluate all financial reporting needs while upgrading controls. Upgraded reporting and controls to be ongoing.

Estimate proper integration of FMS and RIFANS to be completed in FY08.

2006-14b

A task force has been established between DOA and DOT to establish short-term goals to achieve long term full functionality of FMS.

Estimate proper integration of FMS and RIFANS to be completed in FY08.

Contact person: Assistant Director – Financial Management
Department of Transportation
401.222.6590

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-15 – Corrective Action

2006-15a

A task force has been established between DOA, DOT and Oracle to automate ledger comparisons. Monthly reconciliations will occur with the addition of pending unfilled accounting positions at DOT.

2006-15b

Controls have been established using Oracle software with ongoing reconciliations performed by Financial Management as of 7/06.

2006-15c

A monthly allocation of payroll charges implemented in 2/07 by Financial Management.

2006-15d

Labor additive for 2005 being utilized pending FHWA approval of 2006 labor additive rate, then retro-active adjustment will be utilized by Financial Management. DOT has contracted with Maximus to establish a federally approved A-87 overhead rate beginning in FY08.

2006-15e

Procedure initiated in coordination with the Controller's Office on 7/1/06.

2006-15f

Procedure initiated in coordination with the Controller's Office on 7/1/06.

2006-15g

Oracle programming, DOIT and DOT have redefined parameters to run year-end encumbrance report and have tested the running of this report to properly insure the encumbrances outstanding report is accurate. Testing completed in 2/07.

Contact person: Assistant Director – Financial Management
Department of Transportation
401.222.6590

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-16 – Corrective Action

2006-16a

This process will be implemented in March 2007 with the addition of the unfilled accounting personnel in Financial Management.

2006-16b

The DOT grants and receivable is properly billing Federal Highway for all federal accounts receivable as soon as all federal requirements are met.

2006-16c

The Office of Accounts and Control will implement procedures to require all departments receive notification of charges to their accounts(s) that originate external to their department.

Anticipated Completion Date: June 30, 2007

Contact person: Assistant Director – Financial Management
Department of Transportation
401.222.6590

Finding 2006-17 – Corrective Action

The Lottery has delivered its Information Systems Security Policies and Procedures to the gaming systems vendor and is mandating their compliance. All of the security issues that were noted in the Auditor General's finding that could be corrected with the current gaming systems have been addressed. The gaming system vendor has assured the Lottery that the outstanding issues will be addressed by the new on-line system, which is scheduled to be delivered during September 2006.

To further ensure that the new on-line system has all of the necessary security controls in place prior to its delivery, the Lottery, in conjunction with its information security consulting firm, has worked to develop security requirements that the gaming systems vendor must include in the new on-line gaming system.

Once the new system has been delivered, the Lottery, and its third party contractor, will do an independent audit of the on-line system to ensure that all of the security measures are in place and that the gaming systems vendor is in compliance with the Lottery's Information Security Policies and Procedures.

Anticipated Completion Date: September 2006

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Contact person: Gerald S. Aubin
Rhode Island Lottery
401.463.6500

Finding 2006-18 – Corrective Action

2006-18a

ERSRI concurs and will develop procedures and policies to expedite employer posting of contributions thereby allowing the ANCHOR system to automatically record revenue.

2006-18b

ERSRI anticipates completion of the analysis and reconciliation by the close of fiscal 2007.

2006-18c

An accounting manual is in the process of being developed by an independent accounting firm, which is targeted for completion by December 2006.

2006-18d

Through Fiscal 2006, the system employed an Assistant Director-Finance. Subsequent to her departure in June 2006, ERSRI engaged an independent CPA to assist with the fiscal 2006 audit and provide oversight of key accounting and financial reporting functions.

2006-18e

ERSRI concurs with recommendation 2006-18e.

Anticipated Completion Date: see above dates

Contact person: Frank Karpinski, Executive Director
401.222.2203

Finding 2006-19 – Corrective Action

ERSRI anticipates implementation of a reconciliation procedure during Fiscal 2007.

Anticipated Completion Date: Fiscal 2007

Contact person: Frank Karpinski, Executive Director
401.222.2203

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-20 – Corrective Action

See Corrective Action Plan for Finding 2006-63.

Finding 2006-21 – Corrective Action

See Corrective Action Plan for Finding 2006-44.

Finding 2006-22 – Corrective Action

2006-22a

A staff person has been added to perform this function. This person is currently monitoring agencies' compliance with the terms of the Treasury/State agreement.

Anticipated Completion Date: September 30, 2006

2006-22b

The ongoing monitoring function will identify those programs out of compliance. Where feasible the CMIA agreement will be amended to more closely match current practices.

Anticipated Completion Date: January 31, 2007

2006-22c

The computer program to calculate CMIA interest liabilities will be adjusted to report only those programs not in compliance with the Treasury/State agreement.

Anticipated Completion Date: December 31, 2007

2006-22d

The computer program to report refund transactions will be corrected to properly report refund transactions subject to CMIA interest. The errors for FY 2006 cannot be corrected. They will be reported as corrections when compiling the CMIA Annual Report for FY 2007.

Anticipated Completion Date: December 31, 2007

Contact person: Lawrence Franklin, Jr., State Controller
401.222.6731

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-23 – Corrective Action

See Corrective Action Plan for Finding 2006-5.

Finding 2006-24 – Corrective Action

2006-24a

DHS will continue the work with the DHS Contractor, NG/IT, to delineate the necessary duties in both the development and the production environments of InRhodes. DHS will continue to involve the Division of Information Technology for guidance in this process to construct the required segregation of duties between these two environments and to establish the correct user access roles for the InRhodes system to insure the data is secure.

2006-24b

DHS will continue the work with the DHS Contractor and the FAMIS Unit to review the InRhodes User Access roles, specifically the 'SSS' User role, to insure they are appropriate and consistent with the job function of the individual. There is an open change order to develop 'SSS-Display only' roles for many for the staff previously assigned the 'SSS' role. Regular review of the roles assigned on InRhodes, especially the 'SSS' role is on-going.

2006-24c

DHS will seek consultation and guidance with the Division of Information Technology to establish the necessary functions to control security access for all InRhodes users, including the contract vendor (NG/IT.) and to establish a security review scheduled for all non-DHS personnel.

2006-24d

DHS has turned on the monitor tool available for InRhodes Users is able to produce reports on system activity. DHS will work in conjunction with the Division of Information Technology to establish monitoring protocol to track security reports for InRhodes users.

2006-24e

The EBT contractor, eFunds, has installed OMNI 3200 PIN terminals, which will now be programmed to timeout after ten (10) minutes of inactivity by the user. The present procedural requirements remain in place that requires users to sign-off from the PIN terminal when not in use. This programming is anticipated to be complete no later than May 31, 2007.

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Anticipated Completion Dates: See Above

Contact person: Edward P. Sneesby, Associate Director
Management Services/Program Operations
401.462.2424

Finding 2006-25 – Corrective Action

Agree and will implement.

In order to ensure timely completion of SMI reviews that includes written communication of findings and development of a collaborative corrective action plan, we will:

1. Establish a new procedure that includes a review status log that clearly delineates review date(s), written report completion date, date of corrective action letter sent to sponsor, date corrective action due, date corrective action responses received, final determination status, date closure letter sent, and date review filed.

Response: Implemented

2. Establish protocols for the amount of time acceptable for completion of review reports and subsequent follow-up activities.

Response: Implemented

The acceptable limit for completion of SMI review reports is 30 days following the completion of the on-site review. Any deviations from the 30 day time-frame will be explained in the SMI Review tracking log. Certain reviews may require flexibility in adherence to rigid time-frames. In particular, USDA has offered guidance that allows states flexibility in conducting SMI reviews of residential child care institutions (RCCIs) where the site operates like a home. In these situations, institutional documentation like production records is often limited and impractical. When these reviews are conducted, often it is necessary to communicate with the sponsor after the on-site review to complete the necessary data collection. Such follow-up may affect the timely completion of the review report.

3. Establish protocols for periodic reviewer status reports of SMI reviews.

Response: Implemented

Reviewers will meet monthly with Nutrition Coordinator to review and explain status of all outstanding reviews. Issues related to the review itself or the completion of the review will be noted in the SMI Review Status Log.

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Contact person: Adrienne R. DiMeo, Coordinator Child Nutrition Programs
401.222.4253
email: Adrienne.DiMeo@ride.ri.gov

Finding 2006-26 – Corrective Action

The department will strengthen internal control procedures to ensure that contracts are renewed on a timely basis and that suspension and debarment requirements are met through either contract certifications or review of the *Excluded Parties List System*.

Anticipated Completion Date: June 30, 2007

Contact person: Timothy McCormick, Associate Director
401.462.6856

Finding 2006-27 – Corrective Action

We agree with your finding that documentation that supports reported data should be maintained for review and settlement. In SFY'06, the RI WIC Program transitioned from its legacy MIS to the new WEBS System. The new WEBS has a 90-day "hard close" system. This will ensure that financial reports are locked after a 90-day period. Because of this new functionality, reports that are re-run after the 90-day closeout will not change. The only updates to these reports will occur during the final grant closeout. All documentation supporting reports will be maintained for audit purposes.

WIC currently tracks time & effort for WIC-related work in broad categories. WIC implemented a more granular tracking system to accurately report subcategories of time & effort for the WIC grant fiscal year 2006 and will use this more refined data for reporting purposes.

The auditor's findings considered the charges to be appropriate for the WIC Program, however they listed these charges as questionable costs. WIC disagrees that there are any questionable costs associated with this finding. Although the % of personnel time spent in a specific sub-category of activity was estimated during the audit period, the total personnel charges are justifiable and appropriate for allowable costs. We have recorded time according to the guidelines which have been acceptable in the past. We will design our recording system to capture time and effort by function. Presently this system will be manual and will be difficult to monitor.

We have requested that the electronic time recording system developed by DOA be made available to us to enhance our ability to comply with your finding.

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Contact person: Charles White, Acting Chief, WIC Program
401.222.5939

Finding 2006-28 – Corrective Action

One functionality of the new WIC WEBS information system is the automation of reporting on the final disposition all food instruments within 150 days. This routine analysis will be conducted on a monthly basis. See inserted procedure.

RI WIC Operations Manual (Added 11/2006)

SF - 16 Tests and Provisions – Disposition of Food Instruments

Purpose

To ensure: The reconciliation of all food instruments (within 150 days) issued under the WIC Food Benefit Program (WIC) are in compliance with the Federal regulations governing the accountability of all issued Food Instruments.

Policy

Food Instruments which the local agency (LA) has in its possession which have been issued and are unusable, or which were issued to a participant and returned to the clinic unusable/unwanted shall be appropriately coded in the system as “voided”. Redeemed Food Instruments must be identified as one of the following: (1) Voided / Issued, (2) Lost/Stolen, (3) Expired, (4) Duplicate, (5) Unmatched. All redeemed Food Instruments will be reconciled to issued Food Instruments on a one- to-one basis.

Procedures

Reconciliation

The Rhode Island WIC Program, accessing WEBS and banking reports, will utilize a series of monthly reports that provide complete tracking for every check issued. These include:

Bank Transaction Listing: Lists each check cleared by the bank during the processing month, date cleared, dollar amount and transaction code.

Bank Exception Report: Identifies checks that cannot be reconciled to the issue records either because the check number is not recognized as currently valid, or because the check was not identified as voided/issued, lost/stolen, expired, duplicate or unmatched. These checks are researched to determine their final disposition.

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Closeout Reconciliation Report: Provides a one-to-one reconciliation report that shows, at a detailed check level, the disposition of each check that was created during the month being closed out.

Checks Rejected by the Bank Report: Lists detailed data of checks rejected by the bank during the screening and prepayment audit.

In addition, the state WIC Office receives check image records of all checks processed during the month. This combination of reports and check images allows the WIC Program to track every check and determine its final disposition.

This process is in place presently.

Contact person: Charles White, Acting Chief, WIC Program
401.222.5939

Finding 2006-29 – Corrective Action

As stated above, the WIC Program will ensure that questionable food instrument reports are generated on a monthly basis, reviewed and followed-up as appropriate.

Contact person: Charles White, Acting Chief, WIC Program
401.222.5939

Finding 2006-30 – Corrective Action

Construction department retrained on Davis Bacon Act and accountability discussed. Construction will perform on-going checks to insure Davis Bacon compliance.

PURK to be revised with FHWA to read testing from at least once per month at least twice per year.

Contact person: Assistant Director – Financial Management
Department of Transportation
401.222.6590

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-31 – Corrective Action

2006-31a

Agreed and in compliance for FY07. DOT will institute an A-87 overhead methodology to FHWA coordinated by Maximus for FY08.

2006-31b

Agreed and in compliance per Financial Management as of Q3 2006.

Contact person: Assistant Director – Financial Management
Department of Transportation
401.222.6590

Finding 2006-32 – Corrective Action

Agreed and in compliance per contract administration as of Q4 2006.

Contact person: Assistant Director – Financial Management
Department of Transportation
401.222.6590

Finding 2006-33 – Corrective Action

Procedure restated and the materials section will perform on-going review for compliance.

Contact person: Assistant Director – Financial Management
Department of Transportation
401.222.6590

Finding 2006-34 – Corrective Action

Agreed and in compliance per Grants section as of Q4 2006.

Contact person: Assistant Director – Financial Management
Department of Transportation
401.222.6590

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-35 – Corrective Action

We are complying with your finding regarding this issue. Deb Reavey will oversee this recommendation to insure compliance. This issue has been resolved. The agreements that did not have the Suspension and Debarment Certificates were in place prior to 2005; since then, the Department has included this language in all contracts. Two of the agreements in question have this language in their current agreement. The third has been terminated and we have no plans to contract with this agency in the future.

Contact person: Deborah A. Reavey, Chief of Purchasing
Department of Health
401.222.5179

Finding 2006-36 – Corrective Action

There are three recommendations under this section, which all are concerning time keeping documentation for employees charged to grants. We agree with the recommendations and are piloting a manual time recording record presently. We have also requested that we be given the electronic time recording system developed by DOA to maintain the records on an ongoing basis. We will implement the necessary processes to comply with the recommendation given. There are exceptions to making adjustments on a monthly basis. These exceptions include but are not limited to start up and timing of activity to be performed. This process will be directed by Doug Axelsen and soon will be piloted. We expect that this process will be implemented in Health by May, although there will be issues which will require further development as we improve our process.

Contact person: Douglas Axelsen, Assistant Director of Financial and
Contract Management, Department of Health
401.222.5112

Finding 2006-37 – Corrective Action

We agree with the two recommendations given concerning level of effort and will introduce them as part of our quarterly review process.

Contact person: Douglas Axelsen, Assistant Director of Financial and
Contract Management, Department of Health
401.222.5112

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-38 – Corrective Action

We agree that the contracts you reviewed and the agencies being funded are subrecipients. Through the Request for Proposal process, they have identified a need for funding. We do have measures in place to monitor both funding and the program activities that they are required to perform under the scope of work.

The contracts contain timelines and deliverables. Each contract also references and incorporates the applicant's proposal and the requirements of the Request for Proposal that was issued to identify the agency to perform the services on behalf of HEALTH.

Each applicant was required to demonstrate the financial stability of their organization, and to provide monthly, quarterly and/or annual progress reports as part of their Agreement with HEALTH. We recognize that the progress reports are an important tool to monitor their performance as well as whether or not they are spending the federal dollars appropriately.

When invoices are received, our process is to review each one to assure that the expenses are allowable and reasonable under the Federal OMB Circular 133. If we find an expense that is questionable, the agency is called for clarification. If we determine that the expense is non-allowable, the agency is not reimbursed and an explanation is given to assure compliance in the future.

We agree that we can improve in some areas. Although contract managers routinely meet with the subrecipient, every contract should contain a defined plan to conduct site visits to review financial and programmatic records and to observe the operations of the agency. A component of this plan would be to require that the subrecipient submit a copy of their independent audit report.

Contact person: Deborah A. Reavey
Chief of Purchasing – Department of Health
401.222.5179

Finding 2006-39 – Corrective Action

We agree that indirect costs to federal grants should be taken in the State fiscal year that they occur. We are changing our procedure from charging indirect quarterly or at the end of the grant to one which will require indirect costs to be charged on a monthly basis. This will become effective immediately.

We are not in agreement that state-matching expenditures should not be included in the indirect cost pool and calculation of the Indirect Cost Rate. We do agree that once indirect costs associated with state matching are committed that they should not be used in future years for calculating the indirect cost rate. We are researching this issue to determine and provide documentation to support our position. We agree that the time for any individual

Corrective Action Plan
Findings Included in 2006 Single Audit Report

should not exceed 100%. We would like to have the names of staff where this issue occurred to help us understand and to insure that the proper expenditures are charged appropriately in the future.

Contact person: Douglas Axelsen, Assistant Director of Financial and
Contract Management, Department of Health
401.222.5112

Finding 2006-40 – Corrective Action

A combination of technology improvements and reallocation of personnel resources has been utilized to address the deficiencies identified in the Auditor General's review. The following is a summary of those initiatives.

2006-40a and b

Review and correct the thirty (30) cases found by the Auditor General's review to have discrepancies in the resolution of the IEVS data matches. This corrective action will be completed by June 30, 2007.

The Department has established a unit composed of Senior Eligibility Technicians whose primary assignment is to review and resolve all SWICA interface discrepancies in FIP (TANF) in August 2006. The Department considered this corrective action in the past but limited personnel resources have prohibited implementation. Personnel resources were shifted to this new assignment to establish this unit. This unit will review and resolve all SWICA discrepancies and refer all overpayments to the Claims, Collections and Recoveries Unit.

Continue the established practice that IEVS discrepancies identified by the Quality Control Unit in its QC review process are sent to the Administrator for Field Operations in addition to the usual process of sending these IEVS discrepancies to the supervisors. This corrective action is already implemented.

2006-40c

The department will initiate a change order to correct the InRhodes programming problem identified in the recommendation. The fix should be completed no later than June 30, 2007.

Anticipated Completion Dates: See above.

Contact persons: Edward Sneesby, Associate Director - Program Operations
401.462.2424

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Tina Janik, Administrator - Field Operations
401.462.3019

Finding 2006-41 – Corrective Action

DHS will reconcile and document timing differences between reported expenditures on TANF quarterly reports and amounts reflected in the state accounting system.

Anticipated Completion Date: June 30, 2007

Contact person: Timothy McCormick, Associate Director
401.462.6856

Finding 2006-42– Corrective Action

The Department recognizes the Auditor General’s finding concerning the ACF-199. This is an issue that Congress and the President addressed in the Deficit Reduction Act of 2005, which reauthorized the TANF program. This legislation directed the Secretary of Health and Human Services to promulgate regulations no later than June 30, 2006, to ensure consistent measures of work rates for programs funded with federal and state TANF funds. The regulations are to address what activities may be treated as work, uniform methods for reporting hours of work and the type of documentation needed to report the number of hours worked.

The U.S. Department of Health and Human Services issued interim final regulations on June 29, 2006 requiring States to submit TANF Work Verification State Plans no later than September 30, 2006. Rhode Island submitted its Plan on September 26, 2006. DHS has implemented policy and procedures to comply with that Plan effective October 1, 2006. Subsequently, the Administration for Children and Families (ACF) sent further guidance to all States on the requirements for this Plan and requested resubmission of revised plans. Rhode Island has complied and submitted a revised plan on February 27, 2007. Formal approval from HHS/ACF of Rhode Island’s TANF Work Verification Plan is pending. Rhode Island in the meanwhile is following the protocol that is contained in our submitted plan.

Anticipated Completion Date: Plan is pending approval from HHS/ACF.

Contact persons: Edward P. Sneesby, Associate Director – Program Operations
401.462.2424

Donalda Carlson, Administrator – I& FSS
401.462.6833

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-43 – Corrective Action

2006-43 a, b and c

DHS will correct the cases which the Auditor General's staff found to be deficient and will ensure that proper documentation is maintained in the case file. Supervisors will review the case file with the appropriate worker to ensure an understanding of the correct policy and procedure for documenting both the paper case file and the InRhodes case file.

DHS Transmittal 06-46 issued September 18, 2006, established limits on the use of individual job search and which units are responsible to monitor this activity. Additional instructions on the criteria to monitor successful participation in individual job search activities will be issued to FIP Social Casework staff.

DHS will establish a regular Supervisory Review by the FIP Service and Child Care Assistance programs supervisors of selected case records to check workers' adherence to correct policy and procedure for the documentation of case records.

2006-43d

The fourth step is to assess with the Quality Control Unit the feasibility of establishing quality assurance reviews of Child Care Assistance Program eligibility determinations by the Quality Control Unit. As this will likely involve creating additional staff, this will need the approval of the Director.

Anticipated Completion Dates: June 30, 2007 with respect to 1, 2 and 3
Undetermined for corrective action 4.

Contact persons: Edward P. Sneesby, Associate Director –Program Operations
401.462.2424

Tina A. Janik, Administrator – Field Operations
401.462.3019

Finding 2006-44 – Corrective Action

2006-44a

Response: The Department conducts a comprehensive ADP risk analysis and system security review of its Medicaid Management Information System.

Corrective Action: The Department will coordinate with the Division of Information Technology to examine and seek resources to enhance the risk analysis and system security

Corrective Action Plan
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review of its InRhodes system as part of the FY2009 Budget Submission process (October, 2007).

2006-44b

Response: Within the MMIS protocols are being developed regarding testing procedures for moving emergency code into production.

Corrective Action: Each Business Design Document will have a formal security section that the system analysis must include as part of the design of any modifications to the system, by September, 2007.

2006-44c

Response: The Department continues to coordinate its system security activities with the Division of Information Technology (DoIT). Quarterly meetings are held not only with DoIT but with other security officers of each of the Executive Office of Health and Human Services as well as the Department of Corrections.

Corrective Action: Ongoing

Contact person: Frank A. Spinelli, Associate Director
401.462.1892

Finding 2006-45 – Corrective Action

2006-45a

Accept. The Office of Energy Resources will follow-up more thoroughly on agency audits, which have not been received in a manner consistent with OMB Circular A-133.

2006-45b

Accept. The Office of Energy Resources will issue management decision letters on all findings related to the LIHEAP grant funding within six (6) months as required by OMB Circular A-133.

2006-45c

Accept. The Office of Energy Resources and Central Business Office will include information regarding CFDA number, CFDA title, the funding agency, and applicable compliance requirements as required by OMB Circular A-133 for all contracts with sub recipients.

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Contact person: Matteo Guglielmetti
Office of Energy Resources
401.462.6920

Finding 2006-46 – Corrective Action

2006-46a

Accepted. The Office of Energy Resources will document the procedures used to determine payments of LIHEAP funds to subrecipients by June 30, 2007.

2006-46b

Accepted. The Office of Energy Resources closely monitors cash and the implementation of a procedure manual will reflect the programs attempts to reimburse for immediate cash needs of the subrecipient.

Contact person: Matteo Guglielmetti
Office of Energy Resources
401.462.6920

Finding 2006-47 – Corrective Action

2006-47a

Accepted. The Central Business Office will establish the necessary process for tracking funds by grant award within the RIFANS system by April 30, 2007.

2006-47b

Accepted. The Central Business Office will establish the necessary process for tracking funds by grant award within the RIFANS system by April 30, 2007.

2006-47c

Accepted. The Central Business Office will establish the necessary process for reconciling receipts and expenditures by grant award within the RIFANS system by April 30, 2007.

2006-47d

Accepted. The Central Business Office will establish the necessary process for tracking funds within purchase orders by utilizing cost centers within the RIFANS system effective July 1, 2006.

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Contact person: Matteo Guglielmetti
Office of Energy Resources
401.462.6920

Finding 2006-48 – Corrective Action

Accepted. The Central Business Office will establish the necessary process for compliance with earmarking requirements by April 30, 2007.

Contact person: Matteo Guglielmetti
Office of Energy Resources
401.462.6920

Finding 2006-49 – Corrective Action

2006-49a

Accepted. The Office of Energy Resources will schedule a two week time study to correct the allocations in a timely manner, no less than quarterly.

2006-49b

Accepted. The Central Business Office within the Department of Administration will implement a time sheet to record employee activity to adjust actual time and effort reports to the budget allocation quarterly.

Contact person: Matteo Guglielmetti
Office of Energy Resources
401.462.6920

Finding 2006-50 – Corrective Action

2006-50a

Accepted. Central Business Office will revise the SF-269A reports accordingly.

2006-50b

Accepted. Central Business Office will submit the revised SF-269A reports accordingly.

Corrective Action Plan
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2006-50c

Accepted. Central Business Office will submit a revised REACH SF-269A financial status reports related to the federal fiscal year 2002 and 2004 grant awards.

2006-50d

Accepted. The Central Business Office, and the Office of Energy Resources will maintain supporting documentation as required by federal regulation.

2006-50e

Accepted. Central Business Office will submit a revised Carryover and Reallotment Report for the 2005 grant awards.

Contact person: Matteo Guglielmetti
Office of Energy Resources
401.462.6920

Finding 2006-51 – Corrective Action

The Department accepts the foster care eligibility findings and will continue to administer quality assurance oversight of the eligibility staff in order to eliminate errors in federal IV-E claiming. Management and Budget will recalculate the amount that was inaccurately claimed and will reimburse them in full.

Anticipated Completion Date: Fall 2007

Contact person: Kevin W. Savage, Administrator, Licensing and Regulation
401.528.3629

Finding 2006-52 – Corrective Action

DCYF accepts the adoption subsidy findings. As you know, the Office of Inspector General (OIG) is also auditing this program. DCYF will work with the Office of the Auditor General (OAG) and the OIG to implement all auditing recommendations once the federal audit has been completed. The OAG recommendations will be reviewed with the OIG and Management and Budget will coordinate efforts to implement the findings in as timely a manner as possible. The amount inaccurately claimed will also be reimbursed to the federal government.

Anticipated Completion Date: Fall 2007

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Contact person: Kevin W. Savage, Administrator, Licensing and Regulation
401.528.3629

Finding 2006-53 – Corrective Action

The department will prepare and submit the required Financial Status Report (SF-269) for fiscal year 2006.

Anticipated Completion Date: June 30, 2007

Contact person: Timothy McCormick, Associate Director
401.462.6856

Finding 2006-54 – Corrective Action

2006-54a

The department will implement procedures to ensure that all required audit reports are received and reviewed timely, and that appropriate follow-up is performed on subrecipient audit findings.

2006-54b

The department will also utilize a risk-based approach to perform alternative monitoring procedures to assure subrecipients' compliance with program requirements.

Anticipated Completion Date: June 30, 2007

Contact person: Timothy McCormick, Associate Director
401.462.6856

Finding 2006-55 – Corrective Action

Response: The Department has implemented system modifications that ensure that the appropriate funding source is applied. Each waiver or Title XX individual is assigned a unique program indicator that is stamped to the claim when a provider bills for homemaker services. This program indicator is then mapped to the appropriate funding source.

Due to the nature of the service, home health/homemakers services fluctuate in a given month which creates difficulty in designing an automated decrementing system. In order to verify that the authorized hours are billed within an authorized period, the Department audits

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a sample of homemaker/home health recipients each quarter. A component of this audit checks utilization to authorizations.

Corrective Action: The Department will continue to monitor its audit activities.

Contact person: Frank A. Spinelli, Associate Director
401.462.1892

Finding 2006-56 – Corrective Action

2006-56a

Response: As noted regarding the 2004 and 2005 audit findings, the Department believes that it has put into place the necessary controls to assure the integrity of SCHIP eligibility determinations. The Department no longer uses queries to accumulate costs attributable to SCHIP, but rather, standard monthly reports generated by the MMIS. The Department has worked assiduously since 2001 to have these standard monthly reports produced by the State's fiscal agent following parameters specified by the AG's staff. Accordingly, each month the fiscal agent processes SCHIP eligibility reports for each applicable SCHIP eligibility group – children covered under the SCHIP State Plan and the waiver populations of parents and pregnant women. The Department made each one of these standard reports available for AG review during the 2005 and 2006 audits. If the AG staff determined these reports to be inadequate, which were developed according to AG staff specifications, then the Department would appreciate new specifications for these reports from the AG staff.

Corrective Action: Effective January 1, 2006, reports are warehoused by EDS.

Contact person: Deborah Florio, Administrator
401.462.0140

2006-56b

Response: In 2005 and 2006, the Department worked with the Centers for Medicare & Medicaid Services (CMS) to combine the Medicaid and SCHIP waivers for administrative purposes for both parties. From the State perspective, the State operates an integrated waiver program and has since SCHIP became effective October 1, 1997. Until April 17, 2003, when the SCHIP State Plan was amended for the "separate child health program" for pregnant aliens, SCHIP operated solely as a "Medicaid expansion". Even the program for pregnant aliens is integrated, because they are enrolled in RItE Care Health Plans. The Special Terms and Conditions (STCs) of the combined waivers further attest to the program integration by requiring that Medicaid funds be used for SCHIP waiver-eligible populations, when SCHIP Federal funds are exhausted. Effective January 13, 2006, the STCs for the combined waivers have provided important clarity for program operations and Federal claiming. Upon the State's request for technical clarification on February 10, 2006, CMS issued revised STCs

Corrective Action Plan
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effective September 28, 2006 that affirm enhanced SCHIP claiming is available for parents with insurance in some instances, namely if through RItE Share at redetermination.

Corrective Action: DHS will review Federal reports and make any necessary corrections.

Contact person: Financial & Contract Management
401.462.8656

2006-56c

Response: When the Department was negotiating the STCs of the waivers with CMS, the Department discussed with CMS how the term “uninsured” should apply under the SCHIP waivers with specific reference to RItE Share. Upon the State’s request for technical clarification on February 10, 2006, CMS issued revised STCs effective September 28, 2006 that affirm enhanced SCHIP claiming is available for parents with insurance in some instances, namely if through RItE Share at re-determination.

Corrective Action: DHS will continue to review procedures.

Contact person: Deborah Florio, Administrator
401.462.0140

Finding 2006-57 – Corrective Action

Response: When the Department was negotiating the waiver extension with CMS, the Department raised the issue with CMS about how the cost-sharing collections and RItE Share payments should be handled from a Federal claiming perspective. It was mutually agreed with the CMS that discussion of this issue would be deferred until a later date, as the matter was not one that needed to be resolved in order to extend the waivers for another three years.

Presently, any cost-sharing (i.e., family premium share amounts) collected has been applied to the Medicaid program, even if someone might have been SCHIP eligible. Additionally, RItE Share payments have been claimed in Medicaid (Title XIX). The SFY 06 premium collections were \$3,879,187 while the RItE Share payments were \$6,755,566. This methodology moderates the impact to Federal claiming. These potential net SCHIP family payments can be evaluated against eligible SCHIP capitation and fee-for-service claims paid at the member level that exceeded \$81million in FY 2006. This is a complicated matter because of the composition of families enrolled in RItE Care or RItE Share. Most families are what would be described best as “blended” families (e.g., a combination of Medicaid- and SCHIP-eligible individuals). This has occurred because Rhode Island’s expansion of Medicaid for certain categories of low-income children pre-dated SCHIP. Thus, children under age 8, irrespective of income level or any other case characteristics cannot be SCHIP eligible, although their parents or older siblings might be.

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Given that only a small percentage of the RItE Care/RItE Share enrolled population is subject to premium sharing, that the majority of the enrollees are Medicaid- and not SCHIP-eligible, that most families subject to premium sharing are blended, that the composition of blended families is not a constant, and that the State has consistently expended its Federal SCHIP allotment in recent years, the Department has been tried to be pragmatic in simply applying premium share collections wholly to Medicaid.

Because the AG audit continues to find this practice problematic, the Department formally requested guidance from CMS on March 17, 2006 on whether the current practice is acceptable and, if not, what possible approaches the State might use, with a guiding principle that the approach needs to be cost-effective, given the potential administrative cost (e.g., MMIS changes and training) and the fact that the State's Federal SCHIP allotment would be essentially unaffected (and used completely anyway). The Department finally received a response from CMS to this request for guidance on January 17, 2007. The CMS guidance raises additional questions.

Corrective Action: DHS will seek more specific guidance from CMS.

Contact person: Deborah Florio, Administrator
401.462.0140

Finding 2006-58 – Corrective Action

2006-58a

Response: RItE Share enrollees have an affirmative obligation to notify the Department in a timely manner whenever their employment/insurance status changes in a way that would affect their eligibility or enrollment into RItE Share. Most RItE Share enrollees do notify the Department of changes in a timely manner; some do not, which is the focus of this recommendation.

Maintaining accurate information on employment is a key element in sustaining valid health insurance information. Through enhancements made to our InRhodes system and a related interface between InRhodes and the Employer Contact Unit (ECU), the ECU is notified of enrollees' changes in employment as they are entered in InRhodes. In addition, the Department uses the information obtained through insurance data matches which are conducted quarterly through the Medicaid fiscal intermediary.

The Department is exploring the option to make use of a national employment verification service that is currently used on a limited basis. This service would allow the Department to routinely check on the employment status of RItE Share enrollees who are employed by relatively large employers in Rhode Island. The Department will also explore with the Rhode Island Department of Labor and Training (DLT) the possibility of using DLT's database of newly hired employees or payroll taxes to identify RItE Share enrollees who have

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changed jobs but may not have yet notified the Department. State law mandates that Rhode Island employers notify DLT of new hires. In addition, the Department is reviewing the approaches being used by other States with premium assistance programs for their potential applicability to assuring valid insurance information on RIte Share enrollees.

Additionally, the ECU has conducted outreach to the top twenty-five employers who have the largest volume of RIte Share enrollees. The intent of the outreach, which was done by visiting the employers, was to increase awareness of the RIte Share program. A specific emphasis was made on how employers could assist DHS in identifying employee terminations and/or changes in employer-sponsored insurance (ESI). A process was set up in which each month, prior to the financial cycle, the ECU faxes a list of individuals for whom a RIte Share payment will be made. The employers return the list with any changes or deletions. This process has been in place for the last several months and has proven successful in reducing overpayments.

Also, a script was created in the of Fall 2006 for the RIte Share staff to confirm health insurance and employment status on all telephone communication for all enrolled RIte Share recipients. Along with a printed reminder on all payment reports to RIte Share recipients: "Please contact RIte Share at 462-0311 if your employment or health insurance has changed. Accepting payment after your insurance has ended may be considered Medicaid fraud."

Corrective Action: DHS will continue to investigate other cost-effective approaches to sustaining valid insurance information.

Contact person: Financial & Contract Management
401.462.6856

2006-58b

Response: As noted above concerning 2006-58a, the Department is planning enhanced procedures to assure more accurate data on the employment of RIte Share enrollees. The Department is confident that more accurate data will assure more timely reimbursement of program overpayments.

Corrective Action: DHS will review federal reports and make any necessary corrections.

Contact person: Financial & Contract Management
401.462.6856

Corrective Action Plan
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Finding 2006-59 – Corrective Action

2006-59a

Response: While the current procedures and methodologies result in accurate Federal financial reporting, the department will reevaluate the alignment of accounts and coding within the State accounting system to further improve the posting and reconciliation of MMIS reported data.

2006-59b

Response: The department will reconcile administrative expenditures reported on the CMS-64 with amounts reflected in the State's accounting system, and document any timing differences between the CMS-64 report and underlying accounting data.

2006-59c

Response: The department's current procedures require that expenditure totals as reported on the PMS-272 report be supported by the Federal expenditure totals on federal financial reports. Since the due date for PMS reports sometimes precedes the preparation of the financial report, the use of estimates is occasionally necessary. The department will continue to increase efforts to report cumulative disbursements based on actual expenditures totals as reflected in the financial status report.

Contact person: Timothy McCormick, Associate Director
401.462.6856

Finding 2006-60 – Corrective Action

Response: Article 14 of the FY2008 State Budget strengthens the Department's enforcement capacity of this provision and shortens the time frame for reconciliation and settlement. The federal share will be credited within 60 days as required.

Corrective Action: Implement the provisions of Article 14, on passage

Contact person: Ralph Racca, Administrator
401.462.1879

Corrective Action Plan
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Finding 2006-61 – Corrective Action

2006-61a

Response: The President's 2008 Budget includes a provision to remove enhanced Federal matching for administrative costs including MMIS-related costs. There is also considerable uncertainty concerning Medicaid school-based services because of a Notice of Proposed Rulemaking (NPRM) that would affect certified public expenditures (CPEs) and definition of who is a provider, an anticipated NPRM in the Spring that will address rehabilitative services, and ongoing reviews by the Office of Inspector General of the U.S. Department of Health and Human Services that address certain services provided by the LEAs. Until the outcome of these activities become clear, it is premature to consider undertaking any MMIS-related action which would be inherently expensive to design and implement.

Corrective Action: DHS will monitor Federal developments and determine if, at some future point, this recommendation would be cost-effective.

2006-61b

Response: The Department has instituted a number of controls to ensure the integrity of expenditures for services provided by the LEAs and with the Medicaid regulations, in response to the OIG audit conducted in 2002. These enhanced controls began with the Department's preparation and distribution of the Medicaid Direct Services Guidebook for Local Education Agencies in May 2004. The purpose of this guidebook is to assist LEA personnel in implementing and maintaining a Medicaid reimbursement program for services provided by or for a Local Education Agency. Also in May 2004, DHS held five (5) statewide training sessions to present the guidebook to all LEAs. The training sessions were held at the following locations: one at Barry Hall conference room in the John O. Pastore complex, two at the CCRI Warwick campus, one at the CCRI Lincoln campus, and one at the East Bay Collaborative in Warren. Attendees (approximately 40-50) at each of these sessions consisted of CMS officials, LEA billing agencies, Rhode Island Department of Education, and personnel from all LEAs and charter schools that had an interagency agreement with the Department.

In May and June 2005, DHS conducted five LEA site visits as part of an annual review of compliance with the policies and procedures delineated in the guidebook. The LEAs that participated in the annual review were the Cranston, Pawtucket, Providence, and Warwick, LEAs and Cuffee Charter Schools. These site visits not only assessed compliance with the guidebook, but also served to identify any training needs and clarify the roles and responsibilities of the school personnel involved in the Medicaid Direct Services reimbursement program. Based upon these site visits, the Department provided its findings to those entities reviewed but shared its findings and reinforced its requirements with all LEAs and Charter Schools.

In June-August 2006, DHS conducted site visits to eight LEAs. The LEAs reviewed were Barrington, Cumberland, Newport, Newport Regional (Little Compton, Portsmouth,

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Tiverton, and Middleton), West Warwick, Rhode Island School for the Deaf, Blackstone Academy, and Kingston Hill Academy Charter Schools. Based upon these reviews, all LEAs were notified of a mandatory DHS Medicaid training session which was held on October 13, 2006. At this session, LEAs were informed that each district would be required to submit to the Department an assurance letter and action plan by January 15, 2007. This action plan would demonstrate how each district certifies it complies with all Medicaid documentation requirements. The Department is currently reviewing these action plans.

DHS has been in substantial compliance with oversight and monitoring of Special Education claiming. DHS has dedicated 1 FTE to these activities. DHS has taken the AG recommendations seriously and has allocated scarce human resources to this issue.

Corrective Action: DHS will continue its annual reviews, and revise its guidance and provide additional training as necessary based upon these reviews.

2006-61c

Response: The revisions to the guidebook and the mandatory October 13, 2006 mandatory session described in 2006-61(b) also addressed licensure requirements. A “Medicaid Self-Audit Matrix” was included to ensure the LEAs understood these requirements. Future annual reviews by the Department will include assessment of adherence to the licensure requirements.

Corrective Action: DHS will continue its annual reviews, and revise its guidance and provide additional training as necessary based upon these reviews.

2006-61d

Response: On August 23, 2004 the Department distributed a Rhode Island Medicaid School Based Administrative Claiming Guide to each of the LEAs. The Department initiated procedures in September 2006 to review administrative claiming by a third party on behalf of LEAs. This review has included submission of quarterly report by the third-party contractor and examination of the quality controls by the third-party contractor. Two LEAs – Bristol Warren and Westerly – were selected for detailed review. The two LEAs have provided all of the information that was provided to the third-party contractor that was used to develop their administrative claims for the quarter ending June 30, 2006. The Department is in the process of reviewing these materials against their respective administrative claims to assure that the Department’s guidance has been followed. Based upon these reviews, the guidance may be revised and mandatory training may occur as necessary.

Corrective Action: DHS will continue implementation of its review procedures.

Contact person: Deborah Florio, Administrator
401.462.0140

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-62 – Corrective Action

2006-62a

Response: The department will notify all other state agencies responsible for administering Medicaid services of their requirement under the interagency agreements effective October 1, 2005, and increase the department's monitoring of these agencies to assure compliance.

Contact person: Timothy McCormick, Associate Director
401.462.6856

2006-62b

Response: The department will develop a review process to assure compliance with authorized rate-setting procedures for long-term care and group home facilities administered by other state agencies.

Contact person: Ralph Racca, Administrator
401.462.1879

2006-62c

Response: The department will notify all other state agencies contracting with vendors for Medicaid services of their responsibility to comply with federal regulation governing suspension and debarment.

Contact person: Timothy McCormick, Associate Director
401.462.6856

Finding 2006-63 – Corrective Action

2006-63a

Response: The current contract with EDS requires a Type I SAS 70 be performed bi-annually. The next Type I SAS 70 is scheduled for FY08. If the Department were to substitute a Type II for a Type I additional funding would have to be secured. It is estimated that an additional \$100,000 would be needed to perform a Type II SAS 70.

Contact person: Frank A. Spinelli, Associate Director
401.462.1892

Corrective Action Plan
Findings Included in 2006 Single Audit Report

2006-63b

Response: DHS does have an audit trail process in place that monitors the billing and collection of rebates and third party recoveries. All checks are logged within EDS and forwarded to the financial department where a deposit ticket is prepared by the Financial Specialist and verified by a second person within the financial team. The funds are deposited to the State's General Fund. The deposit ticket and the back up documentation is forwarded to the Drug Rebate Specialist, the TPL Specialist, or the Provider Refund Specialist where the payment is posted to the MMIS. These specialists update the appropriate screens. Updates to these screens are system stamped with the date the screen was updated, the type of transaction, and the clerk ID# who made the change.

In addition to the posting to the MMIS the drug rebate specialist and the TPL specialist maintain MS Excel spreadsheets and/or MS Access database tools to log the payments. The excel and access data base tools are worksheets and changes to them are not tracked.

All payments are communicated to DHS via FACN with details of the individual check amounts and the total dollar amount of the deposit. Bank deposit tickets are attached to the FACN.

Below is a brief description of the general procedures for: Drug Rebate payments, TPL payments, and Provider Refunds.

Drug Rebate Procedures/Controls:

Drug rebate checks are received, logged, and deposited by the financial team. The drug rebate specialist receives the deposit slip, a copy of the check, and the back-up documentation from the manufacturer from the financial team. The drug rebate specialist communicates the deposit to the DHS via FACN with the original deposit slip attached. The FACN lists each individual check by payer (manufacturer) with the amount paid and the total deposit amount. The FACN also documents which calendar quarter the payment is allocated to.

Drug rebate payments are posted upon receipt against the original AR created in the MMIS. Payments are posted via the MMIS financial screens and they are also posted to the drug rebate access database. Posted information includes rate adjustments, disputed amounts, recoupments, and payments. Each posting to the MMIS AR is documented with the transaction type, the change date, and the clerk ID as evidenced in the attached screen shots.

After each financial cycle and at each quarter close, a drug rebate status report is generated through the MS access database and forwarded to DHS. The status report documents by both SFY and by calendar year the total amount invoiced, the total amount received, disputed amounts, and outstanding amounts. These reports are reviewed by DHS.

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TPL Procedures / Controls: Facsimile claims for third party liability (TPL) are generated by MMIS as part of TPL Benefit Recovery functionality. The generation of the facsimile causes an account receivable account to be created.

When a TPL payment is received the TPL specialist identifies the accounts receivable number by utilizing the TPAS (account summary) screen. The payment is posted in the TPRC (A/R reconciliation) screen. If the payment is paid in full the posting will fully satisfy the A/R. If the payment is a partial payment is received. The TPWO screen is utilized to post write offs due to denials or partial payments. If a change is made in the TPRC or TPWO screen prior to the financial, a toll specialist would delete an entry and the cancelled entry would display in the TPAR (a/r history) screen. Once a financial is complete no changes can be made in those screens. The TPRC and TPWO display change date and clerk number.

A FACN is forwarded to DHS containing the check number, dollar amount, recipient information and any attached eob's from insurers.

Provider Refunds Procedures / Controls:

Refunds received from providers are received, logged, detailed for a deposit to the States General Fund and communicated to DHS via FACN. To record the payments within the MMIS, an A/R is established in the MMIS via FNF1 screen. The payment is then posted to the FNF2 screen. The transaction date / change date and the clerk ID# posting the payment is system stamped on the screen for audit purpose.

DHS believes that these procedures are adequate, track changes and demonstrate fiduciary responsibility.

Contact person: Frank A. Spinelli, Associate Director
401.462.1892

Finding 2006-64 – Corrective Action

2006-64a

Response: The Governor's FY2008 Budget proposes to transfer these expenditures from DCYF to DHS, and to convert them to in-plan services in RItE Care.

Contact person: John R. Young, Deputy Director
401.462.3575

Corrective Action Plan
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2006-64b

Response: The Department continues to improve controls over the Medicaid claims originating from DCYF's RICHIST system. More than just eligibility edits are performed on these claims. The following edits are currently being performed:

Edit	Edit Description
002	RECIPIENT INELIGIBLE ON DOS
008	RECIPIENT NUMBER MISSING/INVALID
009	RECIPIENT NAME MISS/INVALID/WITH RECIPIENT NUMBER
012	RECIPIENT NOT ON FILE/AUTO-DENY
243	CLAIM SUSPENDED - PROGRAM INDICATOR BLANK - DETAIL
410	DETAIL OVERLAPPING ELIGIBILITY
466	DETAIL DIAGNOSIS/AGE MISMATCH
501	EXACT DUPLICATE CLAIM
503	SUSPECT DUPLICATE CLAIM
553	MANAGED CARE OVERLAPPING ELIGIBILITY-DETAIL
558	PROCEDURE NOT ALLOWED FOR RITE START RECIPIENT
559	RECIPIENT NOT ELIGIBLE FOR SERVICE
709	DETAIL PROCEDURE/AGE MISMATCH
721	PROVIDER NOT AUTHORIZED TO BILL NON-MA EI RECIPIENT

Corrective Action: The Department will continue to enhance and add edits / audits when appropriate.

Contact person: Frank A. Spinelli, Associate Director
401.462.1892

Finding 2006-65 – Corrective Action

RIEMA agrees with the recommendation. A correcting adjustment will be made to show the roof construction came from a HUD grant and not the 2005 EMPG account. The \$4,240.00 used by a subrecipient for construction of an Emergency Operations Center is being reallocated to allowable costs associated with the same subrecipient not previously reimbursed. Additional monitoring will prevent this mistake in the future.

Anticipated Completion Date: June 30, 2007

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Contact person: Sandra Cabral, Senior Financial Officer
Emergency Management Agency
401.275.4645

Finding 2006-66 – Corrective Action

RIEMA partially agrees with this recommendation. The majority of RIEMA staff is paid 50% from EMPG funding and 50% from State funding. The EMPG grant encompasses all aspects of emergency management and it is irrelevant what duties they are performing at any given time. Overtime is already itemized as to what program depending on the activity.

RIEMA will prepare semi annual certifications certifying employees worked solely on the program and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Anticipated Completion Date: June 30, 2007

Contact person: Cheryl Deacon, SLA Program Manager and Administrative Officer
Emergency Management Agency
401.462.7124

Finding 2006-67 – Corrective Action

RIEMA agrees with the recommendation. RIEMA has already started to inventory all equipment assigned to this agency. The Varley Storage building has been closed and its contents relocated to the main warehouse located in Scituate, RI. This stock has been inventoried and securely stored at this location.

RIEMA has transferred one employee to this warehouse full-time to monitor this equipment and interface with the response teams that operate from this site. RIEMA is also in the process of purchasing a “swipe card” access system to limit authorized access. The Scituate site has also been equipped with a new alarm system.

Record keeping for both State owned equipment and equipment passed through to subrecipients is on going at this time.

Anticipated Completion Date: September 30, 2007

Contact person: Paul Lupoli, Supervisor of Administrative & Technical Services
Emergency Management Agency
401.462.7121

Corrective Action Plan
Findings Included in 2006 Single Audit Report

Finding 2006-68 – Corrective Action

RIEMA agrees with this recommendation. RIEMA hired a new employee on June 26, 2006 who is working on this function. The HHS 2003 Grant monitoring visits have been completed with the exception of two jurisdictions. In addition, audit reports have been received from eight of the nine subrecipients who received grant funding in excess of \$500,000 for the period ending June 30, 2006. With the hiring of this new employee, monitoring with both site visits and audit reports will be ongoing.

Anticipated Completion Date: June 30, 2007

Contact person: Paul Lupoli, Supervisor of Administrative & Technical Services
Emergency Management Agency
401.462.7121

Finding 2006-69 – Corrective Action

RIEMA agrees with this recommendation. A HHS performance review conducted in October 2006 issued comments. RIEMA has worked with DHS to identify better procedures with which to operate. RIEMA has recently reviewed the standard operating procedures from the State of Kentucky. We will implement these types of SOP's in the near future.

RIEMA has started issuing grant awards within the sixty day window as prescribed by Department of Homeland Security.

Anticipated Completion Date: June 30, 2007

Contact person: Paul Lupoli, Supervisor of Administrative & Technical Services
Emergency Management Agency
401.462.7121

Finding 2006-70 – Corrective Action

The FFY 2004 grant award notification and the application information listed all portions of the grant as one whole grant with one CFDA number. Therefore, one account number set up for FFY 2004. We did have information as to totals for SHSP, LETPP, CCP, etc. It must be stated that the previous Program Manager did not list any categories on any purchases and it would be impossible for fiscal to "guess" what categories were applicable. Our balances reflected expenditures subtracted off the full grant award amount. We are in the process of reviewing all expenditures and classifying them.

Corrective Action Plan
Findings Included in 2006 Single Audit Report

The FFY 2005 grant was divided by CFDA numbers. We have set up account numbers by CFDA number (SHSP, CCP, LETPP, and EMPG) and they each have separate account numbers. EMPG is split further to show the expenditures for EMPG Locals and Training separate from other EMPG expenditures. In SFY 2007 the payroll accounts were not set up for EMPG 2006 and SHSP 2006 until February 2007 (several requests were made for this to happen since July 2006). All positions were corrected February 2007. Adjustments are pending to correct payroll charges from July 2006 through January 2007. The information regarding the lack of categories applies to the FFY 2005 expenditures as well.

The state sub grantees (i.e. RI State Police, DEM, Fire Marshall) did not use separate account numbers for their expenditures. Our transfers were based on the grant reimbursement form completed by the receiving agency. We have contacted each of these agencies to request separate account numbers. They are initiating requests to comply.

The fiscal unit has been understaffed for a long period of time and this has led us to be severely behind in our reconciliations. A fiscal clerk position was recently filled in January 2007. We currently are waiting for two computers to be ordered, received, and installed for our fiscal employees. We have been reassigned under “fiscal fitness” joining with the military staff under one fiscal leadership. All these factors will assist the fiscal staff in becoming current.

Anticipated Completion Date: June 30, 2007

Contact person: Sandra Cabral, Senior Financial Officer
Emergency Management Agency
401.275.4645

Finding 2006-71 – Corrective Action

In June of 2006 we submitted many vouchers to Accounts and Control that were to be included in the “final” June “B” statement. SF-269 reports considered these payments as paid. Subsequently several of these vouchers were rejected by Accounts and Control and not included in the “final” June figures. This caused a discrepancy. It would be my recommendation to submit a corrected June 2006 SF-269. Since reports are cumulative the error will be corrected in current SF-269 reports.

In SFY2006 the state budget office changed the format of payments to state sub-grantees. Formerly we adjusted appropriate expenditures from their account to our accounts. The expenditures were then listed on RIEMA’s appropriate accounts and funds were drawn down to cover the expenditures. The total amounts of the expenditures were reported on the SF-269s and matched the “B” statements. The budget office forced us to change our policy and to transfer the deposit of funds drawdown directly to the state sub-grantees. This caused much confusion in reporting expenditures on the SF-269s.

Corrective Action Plan
Findings Included in 2006 Single Audit Report

The changes to the fiscal unit and a definite SOP will address the insufficient supervisory review of federal reports and related supporting documentation issue. The current procedure is an electronic submission and approval of the SHSP SF-269s. An electronic signature is applied.

Anticipated Completion Date: June 30, 2007

Contact person: Sandra Cabral, Senior Financial Officer
Emergency Management Agency
401.275.4645

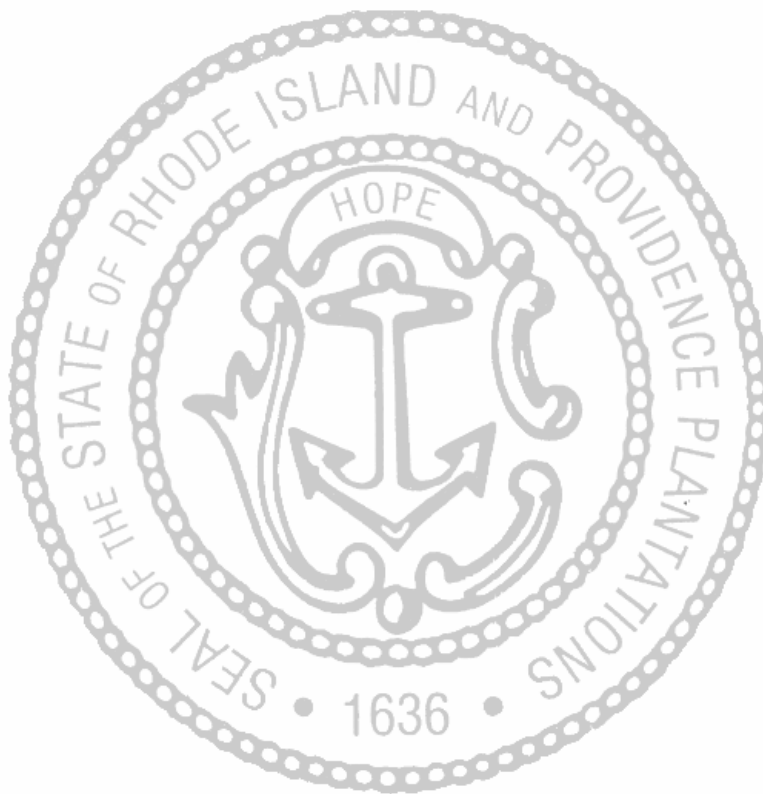
Finding 2006-72 – Corrective Action

The University monitors the distribution of salaries to the appropriate grants through its effort certification reports. However, the documentation of certification of the work performed for limited contract and non-student hourly employees was not generated in a timely manner for the required semi-annual reporting period January 2006 to June 2006. This oversight resulted from the changes to the PeopleSoft system effort report process in order to comply with the amended Disclosure Statement for student and graduate assistants. Subsequent to June 30, 2006, the University has generated all effort reports for the omitted group of employees. The University has instituted changes to the effort reporting procedures so that all effort reports are in accordance with OMB Circular A-21 to insure that the distribution of staff time to appropriate grant activity is documented, approved and reported timely.

In mid-December 2006, the University produced and distributed effort reports for the period January 1 through June 30, 2006 to those limited contract and non-student hourly employees. As of January 31, 2007, effort was satisfactorily documented and approved on all but approximately \$141,405 of the questioned costs identified. The University expects to complete this exercise in its entirety in the next few months.

Contact person: Sharon B. Bell, Controller
University of Rhode Island
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Kingston, RI 02881
401.874.2378
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**Summary Schedule
of Prior Audit Findings**



**Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in Previous Single Audit Reports</u>
Food Donation	10.550	05-31
Food Stamp Cluster:		
Food Stamps	10.551	05-32
State Administrative Matching Grants for Food Stamp Program	10.561	05-29, 05-30
Child Nutrition Cluster:		
School Breakfast Program	10.553	05-29, 05-31
National School Lunch Program	10.555	05-29, 05-31
Special Milk Program for Children	10.556	05-29
Summer Food Service Program for Children	10.559	05-29, 05-31
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	05-29, 05-30, 05-33, 05-34, 05-35, 05-36, 05-37
Public Works and Economic Development Cluster:		
Economic Adjustment Assistance	11.307	05-38
Section 8 Project-Based Cluster:		
Section 8 New Construction and Substantial Rehabilitation	14.182	05-39, 05-40
Community Development Block Grants/State's Program	14.228	02-30
Unemployment Insurance	17.225	05-29, 05-30
Trade Adjustment Assistance - Workers	17.245	01-22
WIA Cluster:		
WIA Adult Program	17.258	05-29, 05-41
WIA Youth Activities	17.259	05-29
WIA Dislocated Workers	17.260	05-29, 05-41
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	05-29, 05-42, 05-43, 05-44
Federal Transit Cluster:		
Federal Transit – Formula Grants	20.507	05-29, 05-45
Freight Rail Improvement Project	None	04-43
Student Financial Assistance Cluster:		
Federal Family Education Loans	84.032	05-50
Federal Perkins Loan Program – Federal Capital Contributions	84.038	05-51, 05-52
Federal Pell Grant Program	84.063	05-53
Federal Direct Student Loans	84.268	05-52, 05-54, 05-55, 05-56
Title I Grants to Local Educational Agencies	84.010	05-29, 05-46, 05-47, 05-48

**Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program**

<u>Program Title</u>	<u>CFDA Number</u>	<u>Findings included in Previous Single Audit Reports</u>
Special Education Cluster:		
Special Education – Grants to States	84.027	05-29, 05-46, 05-47, 05-48, 05-49
Special Education – Preschool Grants	84.173	05-29, 05-46, 05-47, 05-48, 05-49
Rehabilitation Services – Vocational Rehabilitation Grants to States	84.126	05-29, 05-30
Improving Teacher Quality State Grants	84.367	05-29, 05-46, 05-47, 05-48
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283	04-55, 05-29, 05-57, 05-58
Temporary Assistance for Needy Families	93.558	04-58, 04-59, 04-71, 05-29, 05-32, 05-59, 05-60, 05-61, 05-62, 05-63, 05-64
Child Support Enforcement	93.563	04-60, 04-61, 04-62, 04-63, 04-71
Low-Income Home Energy Assistance	93.568	04-64, 05-29, 05-65
Community Services Block Grant	93.569	02-52
CCDF Cluster:		
Child Care and Development Block Grant	93.575	04-58, 04-59, 04-71, 05-29, 05-32, 05-63, 05-64
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	04-58, 04-59, 04-71, 05-29, 05-32, 05-63, 05-64
Foster Care – Title IV-E	93.658	05-29, 05-30, 05-66
Adoption Assistance	93.659	05-29, 05-30, 05-67
Social Services Block Grant	93.667	02-52
State Children’s Insurance Program	93.767	04-71, 05-29, 05-32, 05-64, 05-68, 05-69, 05-70
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	05-29
State Survey and Certification of Health Care Providers and Suppliers	93.777	05-29
Medical Assistance Program	93.778	04-71, 05-29, 05-32, 05-59, 05-64, 05-70, 05-71, 05-72, 05-73, 05-74, 05-75, 05-76, 05-77, 05-78, 05-79
Block Grants for Prevention and Treatment of Substance Abuse	93.959	05-29
State Domestic Preparedness Equipment Support Program	97.004	04-87, 04-89, 04-90, 04-91

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
01-22	17.245	The Department of Labor and Training (DLT) lacks adequate internal control procedures to ensure the reliability of data reported on federal report form ETA 563 (<i>Quarterly Determinations, Allowance Activities and Reemployment Services Under the Trade Act – OMB No. 1205-0016</i>).						
	01-22c	Seek to automate the process using existing and more sophisticated systems.	00-20c		X			DLT was recently awarded a \$250,000 federal grant for Trade MIS Improvement. One of the projects to be undertaken will assess, design and develop an application to replace an existing Access-based system to accurately track and maintain applicants participating in the TAA program. This system will also function to produce all required State and Federal reports, including the ETA 563. It is anticipated that this project will begin in February 2007.
02-30	14.228	The Department needs to improve its monitoring procedures to ensure that subrecipients are using CDBG funds for authorized purposes in compliance with laws, regulations and the provisions of contract and grant agreements.						
	02-30a	Improve subrecipient monitoring procedures by ensuring all required subrecipient site visits are conducted and by reviewing all subrecipient audit reports on a timely basis.	01-19			X		
	02-30b	Update the checklist used to review subrecipient audit reports to include the current terminology and reporting requirements of OMB Circular A-133.				X		
02-52	93.667	The department's subrecipient monitoring procedures may not be sufficiently comprehensive to ensure federal sub-awards are used for authorized purposes in compliance with laws, regulations and the provisions of contracts or grant agreements.						
	02-52a	Perform alternative monitoring procedures when audit reports do not provide timely and reasonable assurance of a subrecipient's compliance with program requirements.	00-43			X		See Corrective Action Plan for finding 2006 – 54

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
	02-52b	Perform timely and substantive follow-up on subrecipient audit findings – particular emphasis is warranted when findings remain uncorrected for multiple reporting years.	93.569 01-45b 98-40		X			See Corrective Action Plan for finding 2006 – 54
04-43	None	RIDOT has not submitted required financial reports for the Freight Rail Improvement Project on a regular basis.						
	04-43a	Prepare and submit quarterly reports as required by the Grant Agreement. Reconcile amounts reported to the State's accounting system.	03-32a				X	Program ceased activity.
	04-43b	Require reports to be reviewed by supervisory personnel prior to submission.	03-32b				X	
04-55	93.283	The DOH was significantly late in submitting certain FSR-269 reports.						
	04-55	Implement procedures to ensure that Financial Status Reports (FSR-269) are submitted to the federal grantor on a timely basis, as required.					X	
04-58	93.558 93.575 93.596	We noted variances between the PSC-272A (cumulative disbursement totals, ACF-196 (TANF expenditures), and ACF-696 (Child Care).						
	04-58	Strengthen internal procedures to ensure that cumulative disbursement totals as reported on the quarterly Federal Cash Transaction Report are supported by federal reports and the state accounting system.			X			
04-59	93.558 93.575 93.596	No procedures are in place to obtain suspension and debarment certificates for real property rental contracts.						
	04-59	Strengthen internal controls to ensure that copies of all contracts are maintained and suspension and debarment verifications are performed for all contracts.				X		See Corrective Action Plan for finding 2006 – 26
04-60	93.563	CSE does not reconcile child support collections and disbursements recorded in its computer system (INRHODES) with amounts recorded in the State accounting system.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>			
04-60a		Accumulate all child support collections and distributions in the department computer system and reconcile to the amounts recorded in the State accounting system.	97-35			X		We developed a new quarterly ad-hoc report that began running effective January 1, 2006. Even with this enhancement, we still have additional issues that need to be resolved before a more complete reconciliation can be performed. One of the unresolved issues is bounced checks, which continue to be a problem. I have instituted a policy that we will not accept personal checks after the first check for that individual or employer bounces. The case will be flagged to alert the family court data entry person. We are also working with the family court to institute a policy that any lump sum payments over \$100.00 will have to be payable by bank check, cash, money order or credit card. We are exploring the possibility of point of sale at court to validate all checks before posting. We ran an ad-hoc report of returned check letters that we sent to both non-custodial parents and employers during the 2006 calendar year. Currently we have no way to track bounced checks in an automated fashion. Lastly, we have had a continuous staffing issue in the accounting office, both in terms of significant turnover and/or shortages. We have upgraded fiscal clerk positions to accountants to reverse the trend.			
			98-37a								
			99-34a								
			00-34a								
			01-38a								
			02-42a								
			03-44a								
			04-60b		Investigate and resolve the difference regarding child support collections pending distribution reported by the CSE and State accounting systems.	98-37b				X	
						99-34b					
						00-34b					
01-38b											
02-42b											
03-44a											
04-61	93.563	CSE personnel do not verify data supplied by the Division of Payment Management agrees to department records.									
04-61		Reconcile the cash balance reported on the PSC-272 report with the State accounting system.	03-45			X		This was not implemented due primarily to the staffing issues identified in 04-60 above.			
04-62	93.563	Control procedures are not adequate to ensure that medical support, once ordered by the court, is enforced.									

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Implemented</i>	<i>Partially Implemented</i>	<i>Not Implemented</i>	<i>No Longer Valid</i>	<i>Comments</i>
04-62a		Enhance control procedures to ensure that medical coverage information is recorded within the CSE INRHODES computer system on a timely basis when medical support is ordered by the court.	00-35a		X			OCSS joined the Arkansas Medial Consortium. The company secured by the State of Arkansas has been working with Rhode Island for over a year to program our system to electronically match our non-custodial parent information against the insurance data base to assure that when the court orders that the child be placed on the non-custodial parent's medical coverage, that the order is complied with. The company is conducting the matches, verifying the matches and will be sending the National Medical Form to the employer to enroll the child. Once verified, the information is entered on the InRHODES system in the insurance panel. If there is a court order for medical coverage but no medical insurance match, the system will be programmed to generate a motion for a cash medical order.
			01-39a 02-43a 03-46a					
04-62b		Initiate appropriate enforcement action for medical support orders.	00-35b 01-39b 02-43b 03-46b		X			
04-63	93.563	Semi-annual certifications were not properly completed and payroll cost allocations to the CSE program were not substantiated						
04-63a		Obtain semi-annual certifications for all employees who charge 100 percent of their time to the CSE program.				X		We have instituted policies relative to non IV-D related work and shifted the burden of the non IV-D work to Family Court. As far as the issue of semi annual certifications for all employees who charge 100% of their time on the CSE program is concerned, this is performed on a department-wide basis now that Child Support is part of DHS. As a result, the Child Support program now fully complies with DHS policies and procedures regarding this requirement. We will have the supervisors for each respective unit sign these certifications going forward.
04-63b		Compare total charges reported on the biweekly payroll registers to the payroll costs posted to the State accounting system and investigate any discrepancies.					X	

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
04-64	93.568	Charges for salaries and benefits are not supported by activity reports or time sheets. Management was unable to support \$585,000 in payroll charges to the LIHEAP program.						
04-64		Allocate employee salaries and fringe benefits costs to the appropriate activities based on routine time sheets or random moment time-studies.	03-47			X		DHHS has issued a management decision regarding previously questioned costs. However, also see Corrective Action Plan for finding 2006 – 49
04-71	93.558 93.563 93.575 93.596 93.767 93.778	DHS does not have a process in place to update and reassess risk assessments when significant system changes occur. Further, policies and procedures to identify and address security risks related to system changes have also not been implemented by DHS.						
04-71d		Address all information system security weaknesses cited in the DHHS OIG's review of general controls for the MMIS.			X			See Corrective Action Plan for finding 2006 – 44
04-71e		Conduct biennial reviews of all installations involved in the administration of HHS programs including a complete evaluation of physical and data security operating procedures.			X			See Corrective Action Plan for finding 2006 – 44
04-87	97.004	We found inadequate controls to ensure compliance with federal cash management requirements. The RIEMA maintained cash in excess of their immediate needs.						
04-87		Limit drawdowns of federal cash to immediate needs.		X				
04-89	97.004	We found various weaknesses in the RIEMA controls and procedures over subrecipient monitoring.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Finding and Recommendation Number	CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
04-89	04-89a	Establish appropriate policies and procedures to monitor subrecipients utilizing site visits, audits or other means as considered appropriate.				X		See Corrective Action Plan for finding 2006-68
	04-89b	Revise the <i>General Grant Conditions / Assurances</i> to reflect the appropriate audit requirements and requiring subrecipients submit audit reports.		X				
	04-89c	Obtain and review subrecipient audit reports, as applicable, ensuring that appropriate corrective action is taken on findings cited in the audit, and determining the effects of noncompliance, if any, on the EMA's records.				X		See Corrective Action Plan for finding 2006-68
04-90	97.004	The SF-269a report for the quarter ended 6/30/04 was materially misstated.						
04-90	04-90a	Prepare reports in accordance with applicable federal reporting instructions.				X		See Corrective Action Plan for finding 2006-71
	04-90b	Reconcile reported federal expenditures to the state accounting system.				X		See Corrective Action Plan for finding 2006-71
	04-90c	Retain adequate documentation supporting reported data.		X				
	04-90d	Require supervisory review of reports and supporting documentation prior to submission to the federal government.				X		See Corrective Action Plan for finding 2006-71
04-91	97.004	The RIEMA does not maintain inventory records of equipment purchased with grant funds						
	04-91	Establish and maintain equipment inventory records identifying all equipment purchased and recorded in State accounting records, and whether the equipment is State-owned, passed-through to another entity including another State agency, or held in inventory for future use by subrecipients.				X		See Corrective Action Plan for finding 2006-67.
05-29	Various	The State did not have adequate controls to ensure compliance with federal cash management requirements in drawing cash for federal programs.						

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
05-29a		Implement a centralized monitoring system and strengthen controls over drawdown procedures to ensure compliance with the Treasury/State agreement and CMIA requirements.	97-11 98-08 99-10 00-10 01-09 02-17a 03-20a 04-29a		X			See Corrective Action Plan for finding 2006-22
		Several major programs were using inappropriate funding techniques. The proper technique will minimize the interest liability.						
05-29b		Continue to review the basis for requesting Federal funds (i.e., funding techniques) for applicable Federal assistance programs, and modify the Treasury/State agreement to more accurately match funding techniques to current practices.	02-17c 03-20c 04-29c		X			See Corrective Action Plan for finding 2006-22
		Our review of the annual interest liability report disclosed various inconsistencies in the report data used to compile interest liabilities for the major programs.						
05-29c		Modify procedures to ensure that all programs or program components complying with the funding techniques specified in the Treasury/State agreement are excluded from the interest liability calculation.	02-17b 03-20b 04-29b			X		See Corrective Action Plan for finding 2006-22
05-29d		Strengthen procedures to ensure that the detailed transaction data used in interest liability calculations is supported by the data recorded in the State accounting system.				X		See Corrective Action Plan for finding 2006-22
05-30	Various	The State did not have adequate controls to ensure compliance with regulations governing the use, management and disposition of equipment purchased with federal funds.	97-10 98-07 99-09 00-09 01-08 02-16 03-19 04-30			X		See Corrective Action Plan for finding 2006-23

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
05-31	10.550	We noted numerous variances in inventory records of food commodities.						
	10.553							
	10.555							
	10.559							
05-31		Improve controls over the receipt and distribution of donated food commodities by ensuring that all required forms are completed and recorded in the inventory records when goods are received, shipped, or damaged.	03-21 04-31		X			The CDC has modified policies and procedures to improve controls over the receipt and distribution of food commodities on hand. The CDC is moving towards implementing an automated inventory management system for FY2007.
05-32	10.551	Control weaknesses exist in the InRHODES system for eligibility over Food Stamps, TANF, Child Care, SCHIP and Medical Assistance.						
	93.558							
	93.575							
	93.596							
	93.767							
	93.778							
05-32a		Assign INRHODES system access for contractor employees such that access to the production version of the system is not permitted or severely limited and adequately controlled.				X		See Corrective Action Plan for finding 2006 – 24a
05-32b		Review INRHODES system access for all users to assure that it is appropriate and consistent with assigned job functions. Specifically review all users assigned the ‘SSS’ user role and limit assignment of this role to just those individuals requiring that wide level of access.				X		See Corrective Action Plan for finding 2006 – 24b

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Implemented</i>	<i>Partially Implemented</i>	<i>Not Implemented</i>	<i>No Longer Valid</i>	<i>Comments</i>
05-32c		Assign all INRHODES systems security administrative functions to DHS personnel. Contract vendors needing access to any INRHODES resources should formally request the access through this DHS administrator. DHS should develop procedures that mandate all contracted vendors having access to INRHODES be required to re-certify their access needs with the DHS systems security administrator on a scheduled basis.				X		See Corrective Action Plan for finding 2006 – 24c
05-32d		Develop and implement standard monitoring and tracking security reports that will supply the DHS systems security administrator, required details pertaining to the activities of all INRHODES users. Follow-up on all activity considered questionable or potentially inappropriate.			X			See Corrective Action Plan for finding 2006 – 24d
05-32e		Modify the functions permitted by a specific user access role to ensure that individuals cannot perform incompatible functions. Further, the review should be expanded to search out any other type of inappropriate or overlapping access that exists between any other existing INRHODES user roles.		X				
05-32f		Establish an automated sign-off / deactivation process over the pinning terminals, which would take place immediately upon the completion of the pinning process. If this deactivation cannot take place immediately, then the E-Funds security system should be configured to 'time-out' these terminals after the shortest allowable 'time-out' period.				X		See Corrective Action Plan for finding 2006 – 24e
05-33	10.557	Benefit drawdown requests were not made in accordance with the CMIA agreement. This non-compliance is the result of the failure to establish a formal set of policies and procedures.						
05-33		We recommend that WIC Department personnel prepare a formal policy and procedures manual to govern compliance with the Cash Management requirements stipulated in the CMIA agreement. We further recommend that the manual require finance personnel to maintain adequate documentation to substantiate all drawdown requests and compliance with the federal requirements.			X			The preparation of revised policies related to CMIA have not yet been completed. The target date is January 1, 2007.
05-34	10.557	Errors were found during examination of the FNS-798 report.						

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05-34		Current procedures for filing the FNS-798 report requires that the electronic submission be signed by the preparer and also by another individual who is attesting to the completeness and accuracy of the information. Accordingly, we recommend that the WIC Department continue to comply with the established review and submission procedures. However, we recommend that management stress the importance of filing complete and accurate reports and that the individuals responsible for completing and certifying the reports take due professional care in signing off on the submissions.		X				
05-35	10.557	The DOH is not properly reporting the disposition of all food instruments within 150 days of issue, as required by regulation.						
05-35		We recommend that the Administration review the current procedures for monitoring the disposition of WIC Food Instruments and the federal requirements of such. Upon completion of the review, we recommend that a formal policy and procedures manual be developed and implemented to ensure compliance with the federal requirements.				X		See Corrective Action Plan for finding 2006 – 28
05-36	10.557	We found actual investigations of high-risk vendors were documented; however, the process for identifying and selecting high-risk vendors for review was not documented. Therefore, we could not verify that all high-risk vendors were identified and prioritized.						
05-36		The WIC implemented a new MIS vendor analysis system subsequent to June 30, 2005. This system appears to provide a significant amount of data that is utilized to rate (provide a numerical score) the retail food vendors resulting in the identification of high-risk vendors. We recommend that WIC continue to utilize this new system. However, we also recommend that management review and update the policy and procedures manual to ensure that it contains all pertinent information that would enable an outside user to understand the scoring system, and the criteria for determining the range of scores that constitute classification as a high-risk vendor. Lastly, we recommend that management prepare and maintain a memorandum that specifically identifies the vendors that were selected for testing and the reasons for their selection.	04-34	X				
05-37	10.557	The DOH should maintain a detailed set of capital asset records to account for all assets acquired with federal funds.						

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	05-37	We recommend that WIC personnel in conjunction with personnel from the Office of Accounts and Control complete an accumulation of all historical costs relating to capital assets acquired by the WIC Program. The detail listing should include a description of the capital asset, date of acquisition, cost basis, estimated useful life, location of asset, and applicable identification information (i.e. serial number etc).			X			See Corrective Action Plan for finding 2006-5
05-38	11.307	The US Dept of Commerce has determined and notified the Corporation that the Corporation has excess cash as defined under the program guidelines.	04-36	X				
05-39	14.182	The Corporation did not review the minimum number of tenant files during its management and file review.						
	05-39	Rhode Island Housing should select the minimum number of tenant files required by the Guide and institute a control policy and procedure to determine whether it is complying with the requirement.			X			
05-40	14.182	Funds were used for other than project purposes. During June 2005, Rhode Island Housing returned funds totaling \$537,778 to the respective Post-1980 Development's residual receipts escrow accounts.			X			
05-41	17.258 17.260	Our testing of WIA client files revealed two clients who received services but were not verified as having been registered with the selective service.						
	05-41	Require confirmation of Selective Service registration, as applicable. Include a copy of the confirmation in the participant's file.			X			
05-42	20.205	Labor compliance checklists were sometimes missing, others were missing one or both required signatures.						
	05-42	Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis Bacon Act requirements.	03-29 04-40			X		See Corrective Action Plan for finding 2006 - 30
05-43	20.205	RIDOT's method for allocating labor charges to various projects by use of a "labor additive" has not been approved by the FHWA. We found unallowable costs included in the calculation of the rate.						

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05-43	05-43a	Request a formal interpretation from the Federal Highway Administration as to whether their distribution of leave and fringe benefit costs to Federal construction projects requires Federal review and approval.	03-30a 04-41a			X		See Corrective Action Plan for finding 2006 – 31
	05-43b	Revise the methodology for computing the labor additive rate to include only allowable costs to Federal projects.	03-30b 04-41b			X		See Corrective Action Plan for finding 2006 – 31
	05-43c	Adjust charges to Federal projects based on a provisional labor additive rate to actual on an annual basis.	03-30c 04-41c			X		See Corrective Action Plan for finding 2006 – 31
05-44	20.205	RIDOT did not process an expenditure credit into the federal billing system.						
05-44		Reimburse the Federal Highway Administration for the expenditure credit not processed through the billing system.		X				
05-45	20.507	RIDOT did not submit one of two required DBE reports.						
05-45		Prepare and submit DBE reports as required by program regulations.	03-31 04-42	X				
05-46	84.010 84.027 84.173 84.367	RIDE does not have adequate procedures in place to ensure subrecipients do not have federal cash on hand in excess of their immediate needs. Cash requests by subrecipients are generally processed once a month and funds are generally advanced based on forecasts prepared by the subrecipient for the month.						

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05-46		Require all subrecipients to request funds on a reimbursement basis.	<u>84.010</u>	X				
			97-25					
			98-24					
			<u>84.010</u>	X				
			<u>84.027</u>					
			<u>84.173</u>					
			99-29					
			00-24					
			01-27					
			02-38					
			03-33					
			04-46					
05-47	84.010 84.027 84.173 84.367	RIDE does not document review of consolidated resource plans to determine if the LEA has complied with the supplement/supplant requirement.	<u>84.048</u>	X				
			97-25					
			98-24					
05-47		Document whether each LEA met the Supplement not Supplant requirement based on review of the Consolidated Resource Plans and related documentation submitted by the LEA. Ensure that each CRP contains assurances signed by the LEA.	<u>84.367</u>	X				
			04-46					
05-48	84.010 84.027 84.173 84.367	RIDE does not perform timely reviews of subrecipient audit reports and conduct appropriate follow-up.						
05-48		Obtain subrecipient audit reports in a timely manner, and provide applicable management decision letters to local educational agencies within required time frames.		X				

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05-49	84.027	Sufficient documentation does not exist to support changes made by the RIDE census information submitted by LEA's.						
	84.173							
05-49		Ensure data reported to the federal Department of Education regarding the number of children receiving special education and related services is based on certified census counts provided by local education agencies. Require local educational agencies to certify the census count of children receiving special education and related services as of December 1, annually.		X				
05-50	84.032	Exit interviews were not performed in 8 of 25 cases examined at the Community College of RI.						
	05-50							
05-50		The College should review and enhance its current procedures for conducting exit counseling procedures to ensure counseling is performed in conformity with Federal regulations.		X				
05-51	84.038	Nine student files examined at the University of RI lacked evidence of an entrance interview.						
	05-51							
05-51		The University should enhance its policies and procedures to ensure all documentation is properly maintained in accordance with federal regulations.		X				
05-52	84.038	The University of Rhode Island did not provide proper notification to students with date and amount of disbursement of their loan and right to cancel.						
	84.268							
05-52		We suggest that the University implement procedures to notify the student of the receipt of their FDL, or Federal Perkins Loan funds and their right to cancel, whether written or electronically.	04-49	X				
05-53	84.063	The Community College of Rhode Island) did not properly transmit payment information for those students receiving grants to DOE within the required 30-day timeframe.						
	05-53							
05-53		The College should review its procedures to ensure students receiving Federal Pell Grants are transmitted to the Department of Education within the required 30-day timeframe.	04-51	X				

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05-54	84.268	Not all of the student files selected for testing contained a record of an exit interview being performed or mailed (University of Rhode Island).						
	05-54	We recommend that the University strengthen its procedures to ensure that a signed exit interview form or confirmation that on-line counseling was performed be received from all borrowers to be in compliance with the federal requirements regarding exit interviews.	<u>84.032</u> 02-39 03-34	X				
			<u>84.268</u> 04-52	X				
05-55	84.268	Student status was not transmitted by URI to the NSLDS within 30 days, as required						
	05-55	We recommend the University strengthen its procedures over notification of status changes to NSLDS to ensure notification occurs in a timely and accurate manner.		X				
05-56	84.268	URI did not perform 7 refund calculations within 30 days, as required.						
	05-56	The University should take the necessary procedures to ensure that Title IV refund calculations are being performed in accordance with federal regulations.		X				
05-57	93.283	Not all of the contracts with service providers contained certifications that the providers were not suspended or debarred from participating in the CDC grant programs.						
	05-57	We recommend that the Department of Health ensure that all contracts for goods and services under Centers for Disease Control & Prevention grant programs contain the required certifications.	03-39 04-53 (finding only)		X			See Corrective Action Plan for finding 2006 – 35
05-58	93.283	The Department of Health does not require employees who work solely on a single Federal award or cost objective, or their supervisors, to sign certifications that they worked solely on that program for the period covered by the certification.						

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05-58		We recommend that the Department of Health – CDC require employees working on a single Federal award or cost objective, or their supervisors, to sign certifications to that effect, on at least a semi-annual basis. We also recommend that personnel activity reports showing actual distribution of activity be prepared on a monthly basis for employees working on multiple activities.	03-40 04-54			X		See Corrective Action Plan for finding 2006 – 36
05-59	93.558 93.778	TANF eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						
05-59a		Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.	98-36 99-33a 00-32a 01-36a 02-41a 03-41a 04-56a		X			See Corrective Action Plan for finding 2006 – 40a
05-59b		Maintain documentation supporting the resolution of data match discrepancies. Initiate modifications when discrepancies impact eligibility and/or benefit levels.	99-33b 00-32b 01-36a 02-41b 03-41b 04-56b		X			See Corrective Action Plan for finding 2006 – 40b
05-60	93.558	The Department lacks adequate internal control procedures to ensure the reliability of data reported on federal report form ACF-204.						
05-60a		Strengthen supervisory review and approval procedures to ensure that all necessary information is included in the report and the information is accurate, within the proper reporting period and is supported by accurate calculations and reasonable estimates.	03-42a 04-57a	X				
05-60b		Maintain adequate detailed supporting documentation for amounts reported.	03-42b 04-57b	X				
05-60c		Correct and resubmit the fiscal year 2004 ACF-204 report to the federal government.	03-42c 04-57c	X				

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05-61	93.558	We noted variances between the ACF-196 (TANF expenditures), and the amounts recorded in RI-SAIL.						
	05-61	Strengthen internal procedures to ensure that expenditures reported on the quarterly ACF-196 TANF Financial Report are supported by amounts reflected in the state accounting system.			X			See Corrective Action Plan for finding 2006 – 41
05-62	93.558	The ACF-199 TANF Data Report does not report actual work hours as required by regulation.						
	05-62	Implement a method of gathering and reporting actual work activity hours as required by HHS instructions.				X		See Corrective Action Plan for finding 2006 – 42
05-63	93.558 93.575 93.596	Childcare workers sometimes failed to comply with established procedures regarding hardcopy documentation of eligibility and income. This resulted in errors in the calculation of provider payments and co-payments.						
	05-63a	Strengthen controls to ensure adherence to procedures requiring agency personnel obtain and properly utilize required documentation to update electronic case file records prior to approving childcare eligibility and determining payment amounts, as well as, determining compliance with work participation requirements.	01-46 02-47 03-50 04-68		X			See Corrective Action Plan for finding 2006 – 43
	05-63b	Identify policies and procedures regarding supervision of individual job search activities.				X		See Corrective Action Plan for finding 2006 – 43
	05-63c	Include Child Care cases in the sample case review process.				X		See Corrective Action Plan for finding 2006 – 43
05-64	93.558 93.575 93.596 93.767 93.778	DHS does not have a process in place to update and reassess risk assessments when significant system changes occur. Further, policies and procedures to identify and address security risks related to system changes have also not been implemented by DHS.						

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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
05-64	05-64a	Develop a comprehensive ADP risk analysis and system security review process to ensure a coordinated approach to identifying and addressing security risks related to information systems used to administer federal programs.	03-43a 04-71a			X		See Corrective Action Plan for finding 2006 – 44
	05-64b	Implement procedures to ensure that risk assessments are conducted for significant system changes that could affect overall information system security.	03-43b 04-71b			X		See Corrective Action Plan for finding 2006 – 44
	05-64c	Utilize recognized industry standards (i.e., Federal Information Systems Controls Audit Manual (FISCAM), National Institute of Standards and Technology (NIST)) governing security of Federal ADP systems and information processing to aid in the development of the department's policies and procedures relating to system security.	03-43c 04-71c	X				
05-65	93.568	Financial Reporting. Errors were noted in the SF-269 report submitted by LIHEAP personnel.						
	05-65	We recommend that the State submit a corrected version of the SF-269 in accordance with the Financial Status Report instructions. In addition, the State is required to obligate any unused funds by September 30, 2006, currently totaling \$713,740. If the State cannot obligate these funds by that date, we recommend that the State seek out and document approval from the grantor to carry the funds forward.				X		See Corrective Action Plan for finding 2006 – 50
05-66	93.658	Questioned costs relating to eligibility for maintenance payments for children in foster care.						
	05-66a	Adjust federal reports to reimburse the federal government for the unallowable maintenance costs.			X			
	05-66b	Quantify all previous maintenance cost claims that relate to children who resided in unlicensed homes and adjust federal reports to reimburse the federal government; discontinue claiming these costs on future IV-E 1 reports.			X			
05-67	93.659	Questioned cost relating to eligibility for adoption assistance. Not all eligibility documentation is maintained in a central location.						

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05-67a 05-67b		Adjust federal reports to reimburse the federal government for the unallowable adoption subsidy charges.		X				The department now reviews, at the time of recertification, each Title IV-E subsidy to verify that "special needs" criteria exists and documents the special needs criteria in the RICHIST database as well as on the written agreement. The department administration also reviewed, with the entire staff, appropriate record keeping practices in order to avoid any future mishandling of vital child welfare records. Management and Budget is continuing to work with the MIS division to redesign the adoption subsidy module of the RICHIST database to create a tab that mirrors page 1 of the Adoption Subsidy Agreement which identifies specific eligibility criteria.
		Reassess and document policies and procedures used to identify adoption subsidy payments that are eligible for federal financial participation; implement an appropriate quality control system to ensure that all claims meet federal eligibility requirements.			X			
05-68	93.767	Specific eligibility criteria for the SCHIP program have not been programmed into the INRHODES system. The Department must use queries to identify SCHIP eligible individuals and program costs. Controls over these queries were not adequate to ensure that only individuals meeting SCHIP eligibility requirements were claimed. In addition, the INRHODES system does not adequately consider other insurance when determining SCHIP eligibility.						

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05-68	05-68a	Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure eligibility and allowable cost program criteria are met.	02-54a 03-53a 04-72a			X		See Corrective Action Plan for finding 2006 – 56a
	05-68b	Credit federal reports for expenditures that do not comply with the terms and conditions of the SCHIP program.	02-54b 03-53b 04-72b			X		See Corrective Action Plan for finding 2006 – 56b
	05-68c	Implement procedures to fully consider the existence or availability of other insurance when determining eligibility for SCHIP.	02-54c 03-53c 04-72c			X		See Corrective Action Plan for finding 2006 – 56c
	05-68d	Maintain adequate supporting documentation for all capitation and fee-for-service claims identified as SCHIP eligible through ad-hoc queries.	04-72d		X			
05-69	93.767	Data is not available to apply collection of co-pay amounts to either Medicaid or SCHIP, whichever program was initially charged. All co-pay collections are applied to the Medicaid program.						
05-69		Implement procedures to allow crediting the appropriate federal program for the collection of co-pay amounts under the State's Rite Care Cost Share program.	02-55 03-54 04-73			X		See Corrective Action Plan for finding 2006 – 57
05-70	93.767 93.778	Certain situation exist within the Medicaid Program that require eligibility technicians to manually assign aid categories to specific Medicaid cases, by-passing the automated determination by the INRHODES system. Incorrect assignment of aid category codes by eligibility technicians have resulted in SCHIP claiming for individuals that are not SCHIP eligible.						
	05-70	Improve controls and policies relating to manually determined eligibility segments within INRHODES to ensure that correct aid category codes are assigned to medical benefit recipients within the Medical Assistance and SCHIP programs.	03-56 04-74		X			
05-71	93.778	Controls are not adequate to ensure that all payments for homemaker services are charged to the appropriate funding source.						

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05-71		Strengthen procedures to ensure that vendor billings for homemaker services are verified as to authorized recipient, funding source, authorization period and authorized hours prior to payment.	93.667			X		See Corrective Action Plan for finding 2006-55
			<u>93.778</u>					
			00-42					
			01-49					
			02-53					
			<u>93.778</u>					
			03-57					
			04-75					
05-72	93.778	The department's oversight of its fiscal agent designated to pay Medical Assistance Program claims was not adequate to ensure the reliability of data reported by the Medical Management Information System and to ensure claims were processed in accordance with the Department's instructions and federal requirements.						
05-72a		Obtain an annual examination ("SAS 70" review) performed by independent certified public accountants of the fiscal agent's internal control policies and procedures.	97-43a		X			See Corrective Action Plan for finding 2006-63
			98-45b					
			99-43a					
			00-47a					
			01-54a					
			02-58a					
03-59a								
04-77a								
05-72b		Improve financial oversight of the fiscal agent by enhancing procedures to (1) verify information from the MMIS used to record program activity and prepare federal reports, (2) monitor the billing and collection of drug rebates and (3) ensure third party liabilities are identified and collected.	97-43b				X	See Corrective Action Plan for finding 2006-63
			98-45a					
			99-43b					
			00-47b					
			01-54b					
			02-58b					
03-59b								
04-77b								
05-73	93.778	Delays in verifying TPL information contributed to lost TPL recovery. (Questioned cost \$ 1,921,062).						

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05-73	05-73a	Review existing procedures to ensure that third party liabilities are identified on a timely basis.	97-45	X						
			98-47a							
			99-46a							
			00-49a							
			01-55a							
			02-59a							
			03-60a							
			04-78a							
	05-73b		Reimburse the federal government for its share of uncollected third party liability recoveries.	98-47b			X		Questioned costs remain unresolved.	
				99-46b						
				00-49b						
				01-55b						
				02-59b						
				03-60b						
04-78b										
05-74	93.778	Over \$85 million of program expenditures were processed by systems independent of the MMIS. These other accounting systems have not been designed to contain all the control procedures of the MMIS.								
			05-74a	Improve controls by requiring all benefit-type program expenditures to be processed through the MMIS	97-52		X		See Corrective Action Plan for finding 2006 – 62	
					98-51					
					99-49a					
					00-51a					
					01-56a					
					02-60a					
					03-61a					
			04-79a							
			05-74b		Enhance oversight and monitoring procedures related to school-based medical services to ensure that LEA claiming complies with mandated policies.				X	

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05-74	c	Implement oversight procedures for the determination of per-diem rates established for state operated facilities.	01-56c 02-60b 03-61b 04-79b			X		See Corrective Action Plan for finding 2006 – 62b
	d	Implement control procedures to ensure the allowability of administrative expenditures charged to the Medicaid program by other departments.	98-48b 99-49b 00-51c 01-56d 02-60c 03-61c 04-79c			X		See Corrective Action Plan for finding 2006 – 62a
	e	Implement monitoring procedures to ensure that other State agencies are complying with MOU and/or interagency agreements that mandate their allowable Medicaid claiming activity.	03-61d 04-79d			X		See Corrective Action Plan for finding 2006 – 62a
	f	Reimburse the federal government for its share of questioned costs identified.	04-79e			X		See Corrective Action Plan for finding 2006 – 62
	g	Improve controls over nursing home per diem rates by periodically verifying rates established through the rate setting process with those reported in the MMIS system.			X			
05-75	93.778	DHS did not obtain revised agreements from all its contractors that certify that the organization and its principals are not suspended or debarred from participating in the Medicaid Program.						

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05-75a		Review and strengthen procedures designed to ensure current agreements containing the required suspension and debarment certifications are in place for all providers.	98-54b		X			See Corrective Action Plan for finding 2006 – 62c
			99-51					
			00-53 01-58 02-61 03-62a 04-80a					
05-75b		Implement procedures to ensure that individuals/entities participating in the Medical Assistance Program have not been excluded from participation by any federal organization.	03-62b 04-80b	X				
05-75c		Revise Addendum I to the department's standard provider agreement to fully comply with 42 CFR 455.106.	03-62c 04-80c	X				
05-76	93.778	We noted instances of provider overpayments that were not reported timely on federal reports.						
05-76a		Reimburse the federal government for program overpayments within 60 days of their discovery.	03-63 04-81a			X		See Corrective Action Plan for finding 2006 – 58
05-76b		Credit the federal government in a timely manner for all provider payments outstanding for more than 180 days.	04-81b	X				
05-77	93.778	The process to accumulate information for the CMS-64 report is complex and requires extensive manual effort. No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64.						
05-77a		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		X			See Corrective Action Plan for finding 2006 – 59
05-77b		Completely reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system.	02-65a 03-65a 04-82b			X		See Corrective Action Plan for finding 2006 – 59
05-77c		Report cumulative disbursements on the PMS-272 based on actual expenditures in accordance with report guidelines.	03-65f 04-82c			X		See Corrective Action Plan for finding 2006 – 59

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

<i>Finding and Recommendation Number</i>	<i>CFDA</i>	<i>PRIOR YEAR FINDINGS AND RECOMMENDATIONS</i>	<i>Prior rec. number</i>	<i>Imple-mented</i>	<i>Partially Imple-mented</i>	<i>Not Imple-mented</i>	<i>No Longer Valid</i>	<i>Comments</i>
05-78	93.778	One hospital submitted overdue settlement reports for the years 1995 to 2001 DHS settlement reports indicate the hospital owes \$3.1 million for the period reported. The hospital disputes a large portion of the amount owed.						
05-78a		Recover identified hospital settlements from providers in a timely manner and credit the federal government for their share within 60 days.	03-66 04-83			X		See Corrective Action Plan for finding 2006 – 60
05-78b		Utilize the enforcement provisions of the Rhode Island General Laws to ensure hospitals submit year-end settlement reports within required time frames.				X		See Corrective Action Plan for finding 2006 – 60
05-79	93.778	We found several cases where individuals were paid directly for health insurance coverage after they had terminated employment. The recipients did not return premium payments to DHS.						
05-79		Improve controls to ensure that Rlte Share participants enroll and sustain valid health insurance coverage to prevent program overpayments.	03-70 04-85			X		See Corrective Action Plan for finding 2006 – 58