State of Rhode Island
and Providence Plantations

SINGLE AUDIT REPORT

Fiscal Year Ended June 30, 2013

Office of the Auditor General
State of Rhode Island and Providence Plantations - General Assembly
Dennis E. Hoyle, CPA - Auditor General
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March 31, 2014

FINANCE COMMITTEE OF THE HOUSE OF REPRESENTATIVES

JOINT COMMITTEE ON LEGISLATIVE SERVICES, GENERAL ASSEMBLY,

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS:

I am pleased to submit the State's ***Single Audit Report*** for the fiscal year ended June 30, 2013. This audit was required by both state law (sections 22-13-4 and 35-7-10 of the General Laws) and the federal Single Audit Act.

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

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

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

Respectfully submitted,

Dennis E. Hoyle, CPA
Auditor General

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 2% of the assets and 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 64% of the assets and 2% of the revenues of the business-type activities;

- the Ocean State Investment Pool, an external investment trust, which represents less than 1% of the assets and revenues of the aggregate remaining fund information; and

- all the component units comprising the aggregate discretely presented component units.

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

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

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Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As described in Notes 1(T) and 18(F), the State implemented Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, which resulted in a change in the component units included within the State reporting entity.

As described in Note 7(J), the State has borrowed from the federal Unemployment Insurance Trust Fund to fund unemployment benefits paid from the Employment Security Fund, a major fund. At June 30, 2013, the amount outstanding was $155 million and the Employment Security Fund had a net deficit of $81 million.

As described in Note 13, various lawsuits have been filed challenging legislatively enacted pension reforms. The parties are participating in on-going court ordered mediation. An adverse judgment to the State resulting from these challenges could significantly increase both the unfunded liability of the plans included within the pension trust funds and the State's actuarially determined annual required contribution.

Our opinions are not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages A-4 through A-22, the Budgetary Comparison Schedules on pages A-111 through A-114, and the Schedules of Funding Progress on pages A-115 through A-116 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis, and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of the State's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State's internal control over financial reporting and compliance.

Dennis E. Hoyle, CPA
Auditor General

December 19, 2013

Management's Discussion and Analysis

State of Rhode Island

Fiscal Year Ended June 30, 2013

Management's discussion and analysis (MD&A) provides a narrative overview and analysis of the financial activities of the State of Rhode Island (State) for the fiscal year ended June 30, 2013. The MD&A is intended to serve as an introduction to the State's basic financial statements, which have the following components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The MD&A is designed to (a) assist the reader in focusing on significant financial matters, (b) provide an overview of the State's financial activities, (c) identify any material changes from the original budget, and (d) highlight individual fund matters. The following presentation is by necessity highly summarized, and in order to gain a thorough understanding of the State's financial condition, the following financial statements, notes and required supplementary information should be reviewed in their entirety.

Financial Highlights – Primary Government

Government-wide Financial Statements

- **Net Position:** The total assets of the State exceeded total liabilities on June 30, 2013 by $1,698.8 million. This amount is presented as "net position" on the Statement of Net Position for the Total Primary Government. Of this amount, ($1,385.2) million was reported as unrestricted net position (deficit), $660.5 million as restricted net position, and $2,423.5 million as net investment in capital assets.

- **Changes in Net Position:** In the Statement of Activities, the State's total net position increased by $370.4 million in fiscal year 2013. Net position of governmental activities increased by $301.4 million, primarily because increases in tax revenue, charges for services and miscellaneous revenue exceeded the growth in expenses which were subject to careful control and management. Tax revenues increased primarily because of the stronger economy as the State gradually emerged from the "Great Recession." Net position of the business-type activities increased by $69.1 million due primarily to the significant operating surplus of the Employment Security Fund. The fund was positively impacted by a declining unemployment rate, changes in benefits and measures implemented to increase the longer term financial strength of the fund.

Fund Financial Statements

<u>Governmental Funds</u>

- The State's governmental funds reported a combined ending fund balance of $1,057.8 million, an increase of $67.3 million in comparison with the previous fiscal year. This is primarily a result of the increase in the fund balance of the General Fund, which in turn is attributable to increases in general revenues coupled with careful management of expenditures. In addition, the fund balance of the Intermodal Surface Transportation Fund benefited from an inflow of funds from the transfer of land to a discretely presented component unit.

- As of June 30, 2013, the State's General Fund reported an ending fund balance of $401.1 million, an increase of $28.0 million as compared to the prior year. This change resulted from increases in general revenue, primarily taxes, in fiscal year 2013 and further enhanced controls over expenditures, which resulted in general revenue expenditures being less than appropriations by $17.8 million.

- As of June 30, 2013, the State's Intermodal Surface Transportation Fund reported an ending fund balance of $141.7 million, an increase of $33.0 million as compared to the prior year. The increase was mainly due to an inflow of funds from a transaction involving the transfer of land to a discretely presented component unit.

Proprietary Funds

- The Rhode Island State Lottery transferred $379.2 million to the General Fund in support of general revenue expenditures during the fiscal year, an increase of $1.5 million in comparison with the previous fiscal year.

- The Employment Security Fund ended the fiscal year with a fund deficit of ($81.3) million, as compared with a ($151.5) million deficit at the end of fiscal year 2012. This favorable change is primarily attributable to a significant reduction in benefits paid due to the improving employment level in the State and changes in benefits.

- The R.I. Convention Center Authority ended the fiscal year with a net position deficiency of ($55.9) million, a deficit increase of ($1.7) million compared with the prior year. The Authority has historically had a net position deficiency as the amount of debt related to capital assets has exceeded the net book value of the capital assets, because the repayment term for the debt is generally longer than the depreciable life of the assets.

Overview of the Financial Statements

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

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

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

Government-wide Financial Statements

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

- The **Statement of Net Position** presents all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as "net position." Over time, increases and decreases in the government's net position may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

- The **Statement of Activities** presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods; for example, uncollected taxes and earned but unused vacation leave. This statement also presents a comparison between direct expenses and program revenues for each function of the government.

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

- **Governmental Activities:** The activities in this section represent most of the State's basic services and are generally supported by taxes, grants and intergovernmental revenues. The governmental activities of the State include general government, human services, education, public safety, natural resources, and transportation. The net position and change in net position of the internal service funds are also included in this column.

- **Business-type Activities:** These activities are normally intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include the operations of the Rhode Island Lottery, Rhode Island Convention Center Authority and the Employment Security Trust Fund.

- **Discretely Presented Component Units:** Component units are entities that are legally separate from the State, but for which the State is financially accountable. These entities are listed in Note 1. The financial information for these entities is presented separately from the financial information presented for the primary government.

Fund Financial Statements

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

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

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

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

- **Proprietary funds:** Services for which the State charges customers a fee are generally reported in proprietary funds. The State maintains two different types of proprietary funds; enterprise funds and internal service funds. Enterprise funds report activities that provide supplies and services to the general public. Internal service funds report activities that provide supplies and services for the State's other programs and activities. Similar to the government-wide statements, proprietary funds use the accrual basis of accounting. The State has three enterprise funds, the Lottery Fund, Convention Center Authority (RICCA) and the Employment Security Fund. These funds are each presented in separate columns on the basic proprietary fund financial statements. The State's internal service funds are reported as governmental activities on the government-wide statements, because the services they provide predominantly benefit governmental activities. The State's internal service funds are reported on the basic proprietary fund financial statements in a single combined column. Individual fund data for these funds is provided in the form of combining statements and can be found in the supplementary information section of the State's CAFR.

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

Discretely Presented Component Units

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

Notes to the Financial Statements

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

Required Supplementary Information

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

Other Supplementary Information

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

Government-Wide Financial Analysis

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The State's combined net position (governmental and business-type activities) totaled $1,698.8 million at the end of fiscal year 2013, compared to $1,328.4 million (as restated) at the end of the prior fiscal year. Governmental activities reported unrestricted net position (deficit) of ($1,298.6) million.

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

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

State of Rhode Island's Net Position as of June 30, 2013
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012*	2013	2012	2013	2012*
Current and other assets	$ 2,045,687	$ 1,881,099	$ 124,168	$ 126,097	$ 2,169,855	$ 2,007,196
Capital assets	3,492,383	3,324,273	169,270	177,461	3,661,653	3,501,734
Total assets	5,538,070	5,205,372	293,438	303,558	5,831,508	5,508,930
Long-term liabilities outstanding	2,621,233	2,671,882	386,108	464,090	3,007,341	3,135,972
Other liabilities	1,047,652	992,542	50,844	52,048	1,098,496	1,044,590
Total liabilities	3,668,885	3,664,424	436,952	516,138	4,105,837	4,180,562
Net position (deficit):						
Net investment in capital assets	2,488,755	2,302,368	(65,283)	(64,492)	2,423,472	2,237,876
Restricted	652,126	576,387	8,340	9,308	660,466	585,695
Unrestricted	(1,298,579)	(1,337,807)	(86,571)	(157,396)	(1,385,150)	(1,495,203)
Total net position (deficit) as restated	$ 1,842,302	$ 1,540,948	$ (143,514)	$ (212,580)	$ 1,698,788	$ 1,328,368

* Certain fiscal year balances were restated as discussed in Note 18(F).

As indicated above, the State reported a balance in unrestricted net position (deficit) of ($1,385.2) million as of June 30, 2013 in the Statement of Net Position. This deficit results in part from the State's use of general obligation bond proceeds (which are reported as debt of the primary government) for other than the primary government's direct capital purposes. In these instances, proceeds are transferred to municipalities, discretely presented component units, and non-profit organizations within the State to fund specific projects. As of June 30, 2013 approximately $605.6 million of general obligation bonds related to such projects were outstanding.

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

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

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

- Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882.4 million of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation to satisfy any deficiency or default of any payment of the bonds. As of June 30, 2013 approximately $765.2 million of principal and $83.1 million of accreted interest are included in the State's debt.

- Historic Tax Credit Bonds - In fiscal year 2009 the R.I. Economic Development Corporation (RIEDC), on behalf of the State, issued $150.0 million of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. As of June 30, 2013, approximately $90.6 million is outstanding.

- The State has entered into certain capital lease agreements, Certificates of Participation (COPS), the proceeds of which are to be used by the State's university and colleges for energy conservation projects or by local school districts to increase electronic communication on a state-wide basis. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly. As of June 30, 2013, approximately $33.9 million is outstanding relating to these projects.

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

Changes in Net Position

The State's overall net position for the primary government improved by $370.4 million during fiscal year 2013. Total revenues of $7,222.6 million were more than expenses of $6,852.1 million. The favorable results were aided by increased general revenues due primarily to an increase in tax collections attributable to the improving economy and increases in miscellaneous revenues. The next largest source of revenues was operating grants and contributions (including federal financial aid) which actually decreased due to the winding down of funding under the American Recovery and Reinvestment Act of 2009 and a significant decline in federal assistance for unemployment insurance benefits. The State's expenses in total, which cover a wide range of services, declined by $81.4 million. This net decrease was caused by reductions in general government costs due to careful expense control and by reductions in employment insurance costs due to fewer workers receiving such payments. These decreases were offset in part by increased spending on human services programs and education due to spending on the Race to the Top program and greater education assistance for local communities.

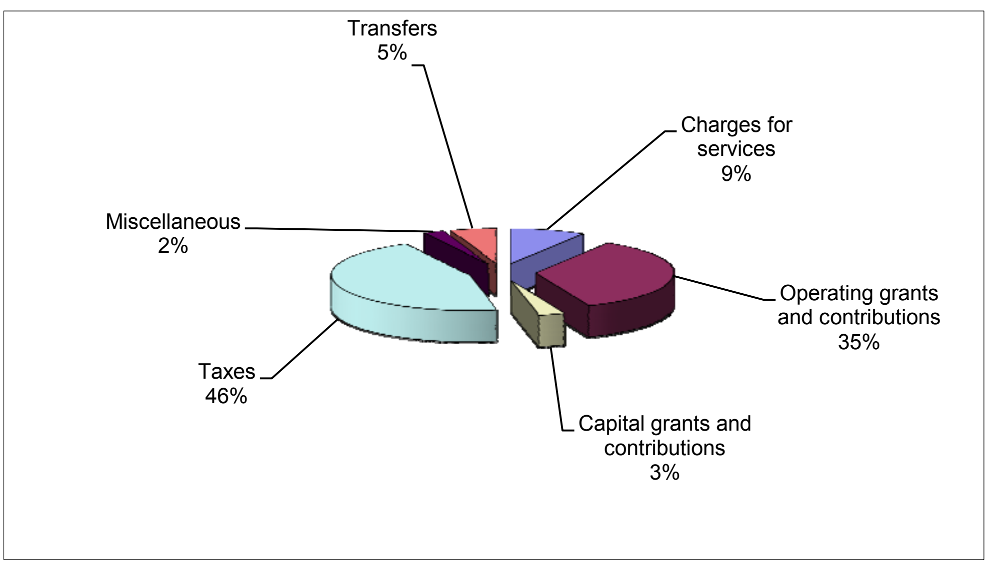
A more detailed analysis of changes in revenues and program expenses for both governmental activities and business-type activities is presented after each of the following pie charts.

State of Rhode Island's Changes in Net Position
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	Governmental Activities 2013	Governmental Activities 2012	Business-Type Activities 2013	Business-Type Activities 2012	Total Primary Government 2013	Total Primary Government 2012
Revenues:						
Program revenues:						
Charges for services	$ 551,500	$ 508,140	$ 1,055,070	$ 1,056,285	$ 1,606,570	$ 1,564,425
Operating grants and contributions	2,211,800	2,194,892	166,164	278,671	2,377,964	2,473,563
Capital grants and contributions	190,551	210,720			190,551	210,720
General revenues:						
Taxes	2,870,969	2,824,368			2,870,969	2,824,368
Interest and investment earnings	4,893	4,304	117	94	5,010	4,398
Miscellaneous	146,997	118,506	24,490	16,564	171,487	135,070
Total revenues	5,976,710	5,860,930	1,245,841	1,351,614	7,222,551	7,212,544
Program expenses:						
General government	625,081	653,003			625,081	653,003
Human services	3,038,841	2,970,269			3,038,841	2,970,269
Education	1,364,575	1,334,355			1,364,575	1,334,355
Public safety	473,580	468,098			473,580	468,098
Natural resources	76,730	85,039			76,730	85,039
Transportation	300,639	268,523			300,639	268,523
Interest	129,714	145,964			129,714	145,964
Lottery			397,625	399,421	397,625	399,421
Convention Center			48,437	49,439	48,437	49,439
Employment insurance			396,909	559,440	396,909	559,440
Total expenses	6,009,160	5,925,251	842,971	1,008,300	6,852,131	6,933,551
Excess (deficiency) before transfers	(32,450)	(64,321)	402,870	343,314	370,420	278,993
Transfers	333,804	344,386	(333,804)	(344,386)		
Change in net position	301,354	280,065	69,066	(1,072)	370,420	278,993
Net position (deficit) - Beginning	1,418,495	1,138,430	(212,580)	(211,508)	1,205,915	926,922
Cumulative effect of prior period adjustments	122,453				122,453	
Net position (deficit) - Beginning, as restated	1,540,948	1,138,430	(212,580)	(211,508)	1,328,368	926,922
Net position (deficit) - Ending	$ 1,842,302	$ 1,418,495	$ (143,514)	$ (212,580)	$ 1,698,788	$ 1,205,915

Chart 1 depicts the State's sources of revenues from Governmental Activities for the fiscal year ended June 30, 2013.

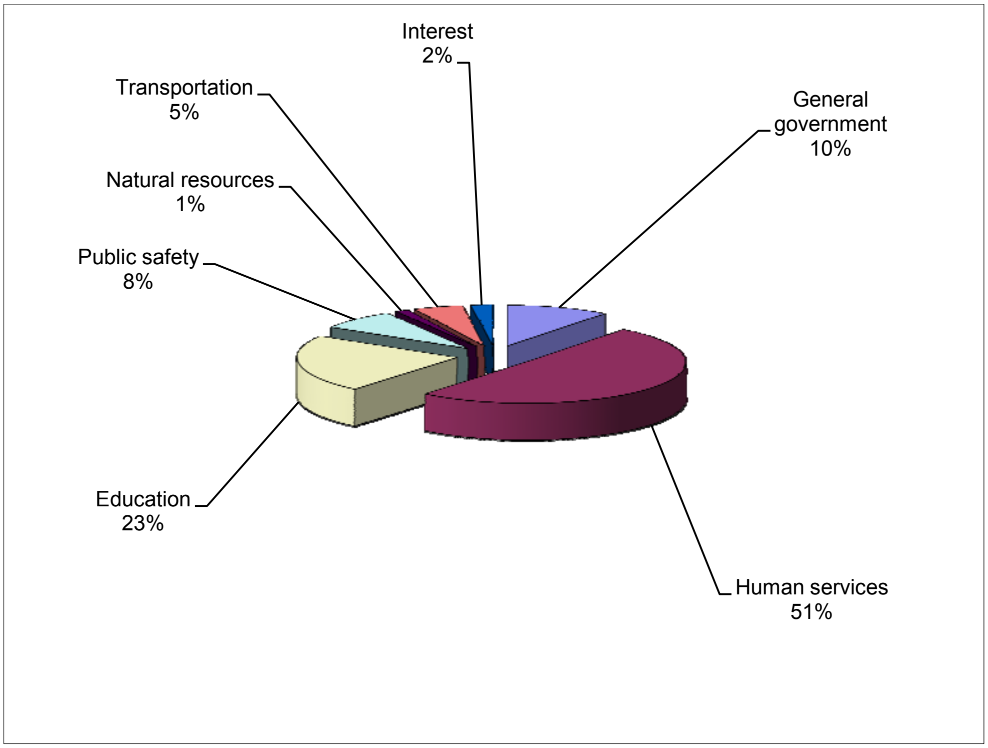
Chart 1 - Revenues and Transfers - Governmental Activities



The relative mix of revenue and transfers by source for governmental activities remained fairly constant in fiscal year 2013 versus the prior fiscal year. Taxes continued to represent the largest source of revenue at 46% of the total while operating grants and contracts represented 35% of the total in fiscal year 2013.

Chart 2 depicts the purposes that program expenses related to Governmental Activities were expended for during the fiscal year ended June 30, 2013.

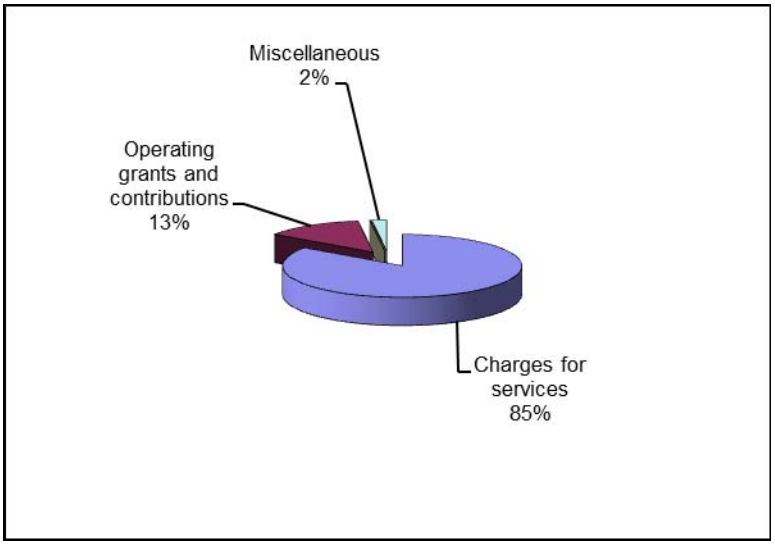
Chart 2 - Program Expenses - Governmental Activities



The relative mix of program expenses - governmental activities remained about the same in fiscal year 2013 as the prior fiscal year. A slight increase from 50% to 51% occurred in the percent of total spending that is directed towards human services programs. This was offset by a decline in spending on general government which went from 11% to 10% of the total, primarily because of careful management of costs.

Chart 3 depicts the State's sources of revenues from Business Type Activities for the fiscal year ended June 30, 2013.

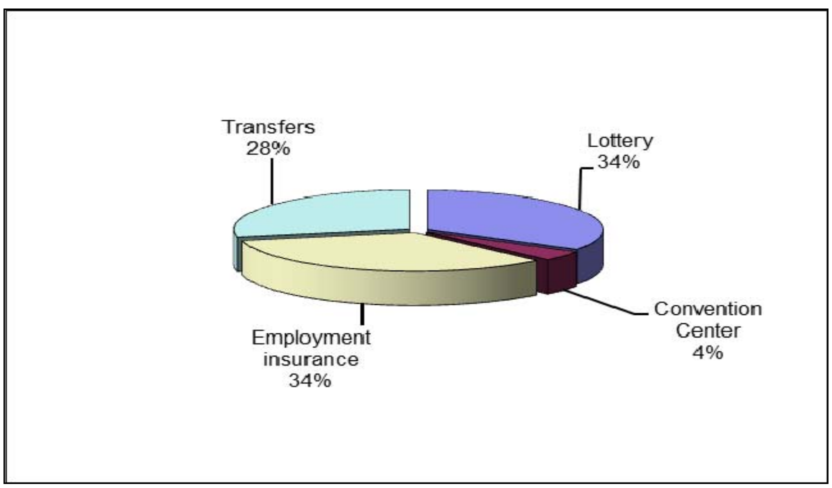
Chart 3 - Revenues – Business Type Activities



Operating grants and contributions declined from 21% to 13% of total revenues - business type activities in fiscal year 2013 when compared to the prior fiscal year because of a significant reduction in spending on the employment insurance program.

Chart 4 depicts the expenses and transfers related to Business Type Activities that were expended during the fiscal year ended June 30, 2013.

Chart 4 - Expenses and Transfers – Business Type Activities



The relative mix of expenses and transfers – business type activities changed significantly due to a reduction in the amount of benefits paid under the employment insurance program. In fiscal year 2013 such payments represented 34% of total business type expenses and transfers as compared to 41% in fiscal year 2012.

Financial Analysis of the State's Funds

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

Governmental Funds

The focus of the State's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the State's financing requirements. At the end of the current fiscal year, the State's governmental funds reported a combined ending fund balance of $1,057.8 million, an increase of $67.3 million from June 30, 2012. A breakdown of the components follows (expressed in thousands):

	2013	2012*	Change	Percent
Governmental Funds				
Nonspendable	$ 174	$ 174	$	
Restricted	942,335	852,147	90,188	10.58%
Unrestricted				
Committed	4,198	24,535	(20,337)	-82.89%
Assigned	105,894	97,957	7,937	8.10%
Unassigned	5,210	15,657	(10,447)	-66.72%
Total	$ 1,057,811	$ 990,470	$ 67,341	6.80%

* Certain fiscal year balances were restated as discussed in Note 18(F).

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

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

Significant changes in fund balance are discussed below:

- The increase in restricted fund balance is primarily a result of new debt issues in fiscal year 2013 reflected in certain capital projects funds.

- The increase in the assigned portion of the unrestricted fund balance is primarily attributable to the general fund surplus that has been earmarked as a resource in the fiscal year 2014 budget.

The major governmental funds of the primary government are:

General Fund

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

	2013	2012	Change	Percent
Restricted	$ 282,137	$ 232,348	$ 49,789	21.43%
Unrestricted				
Committed	4,035	22,793	(18,758)	-82.30%
Assigned	105,639	97,639	8,000	8.19%
Unassigned	9,323	20,374	(11,051)	-54.24%
Total	$ 401,134	$ 373,154	$ 27,980	7.50%

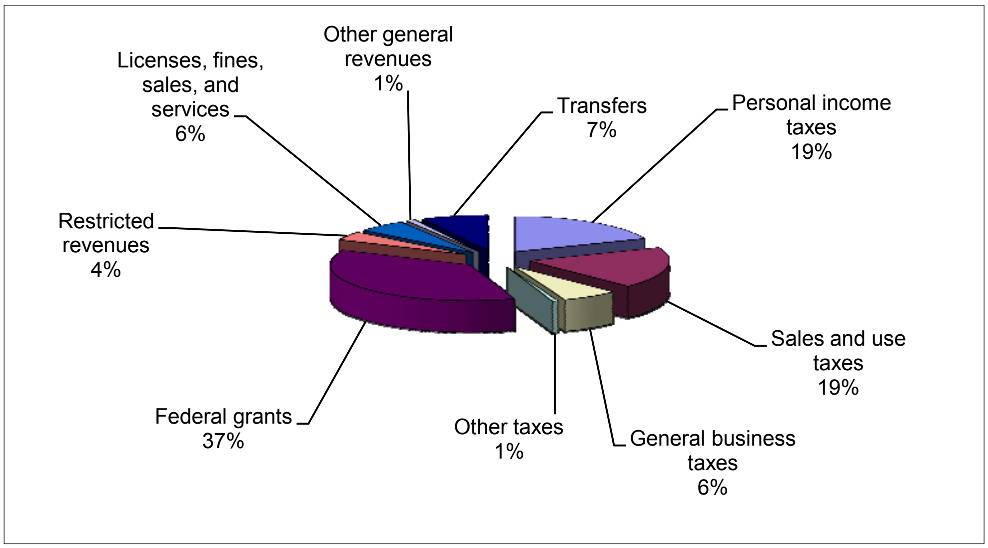
Revenues and transfers of the General Fund totaled $5,737.2 million in fiscal year 2013, an increase of $86.7 million or 1.53%, from the previous year. The revenues from various sources and the change from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2012	
	2013	2012	Amount	Percent
Taxes:				
Personal income	$ 1,083,011	$ 1,059,119	$ 23,892	2.26%
Sales and use	1,073,428	1,043,141	30,287	2.90%
General business	375,014	355,457	19,557	5.50%
Other	37,060	54,174	(17,114)	-31.59%
Subtotal	2,568,513	2,511,891	56,622	2.25%
Federal grants	2,129,847	2,119,476	10,371	0.49%
Restricted revenues	220,983	192,642	28,341	14.71%
Licenses, fines, sales, and services	323,308	313,455	9,853	3.14%
Other general revenues	57,537	71,059	(13,522)	-19.03%
Subtotal	2,731,675	2,696,632	35,043	1.30%
Total revenues	5,300,188	5,208,523	91,665	1.76%
Transfers	437,012	441,953	(4,941)	-1.12%
Total revenue and transfers	$ 5,737,200	$ 5,650,476	$ 86,724	1.53%

Personal income taxes increased modestly between fiscal year 2012 and fiscal year 2013. Final payments, payments made with a return and extension payments, increased by 12.8 percent while withholding tax payments and estimated tax payments had more muted growth of 0.7 percent and 1.3 percent, respectively. These increases were offset in part by an increase in income tax refunds and adjustments paid of 4.0 percent. The spike in final tax payments and the increase in income tax refunds and adjustments paid are due in part to the 2012 Tax Amnesty Act which allowed taxpayers to pay overdue taxes while waiving late payment penalties and reducing the interest rate on overdue taxes by 25.0 percent. The 2012 tax amnesty program, which ran from September 1, 2012 through November 15, 2012, increased final income tax payments received by $5.3 million and increased income tax refunds and adjustments paid by $2.4 million. Accounting for these tax amnesty payments reduces the growth rate for final payments to 8.1 percent and reduces the growth rate for income tax refunds and adjustments paid to 3.1 percent. The modest increase in withholding tax payments in fiscal year 2013 compared to fiscal year 2012 is due to the State's improving economy which saw a decline in the State's unemployment rate from 10.6 percent to 8.8 percent on a state fiscal year basis. The remaining taxes exhibited reasonable year-over-year growth with the exception of Other Taxes which fell by 31.59 percent in fiscal year 2013. This decline was attributable to a sharp drop off in estate and transfer taxes paid in fiscal year 2013 which declined on a nominal basis by $17.9 million or -38.6 percent.

Chart 5 depicts the General Fund's revenues and other sources for the fiscal year ended June 30, 2013.

Chart 5 – Revenues and Other Sources – General Fund



Expenditures and other uses totaled $5,709.2 million in fiscal year 2013, an increase of $161.0 million, or 2.90%, from the previous year. Changes in expenditures and other uses by function from the previous year are shown in the following tabulation (expressed in thousands):

			Increase (decrease) from 2012	
	2013	2012	Amount	Percent
General government	$ 470,328	$ 474,135	$ (3,807)	-0.80%
Human services	3,042,705	2,969,166	73,539	2.48%
Education	1,330,128	1,281,879	48,249	3.76%
Public safety	463,734	459,114	4,620	1.01%
Natural resources	70,145	75,141	(4,996)	-6.65%
Debt Service:				
Principal	125,148	111,711	13,437	12.03%
Interest	68,295	73,249	(4,954)	-6.76%
Total expenditures	5,570,483	5,444,395	126,088	2.32%
Other uses	138,737	103,827	34,910	33.62%
Total expenditures and other uses	$ 5,709,220	$ 5,548,222	$ 160,998	2.90%

The significant increase in the Human Services function is partially attributable to increased Medicaid costs, in both state and federal funds. In addition, there were substantial increases in costs pertaining to the Low Income Home Energy Assistance Program (LIHEAP) and the Supplemental Nutrition Assistance

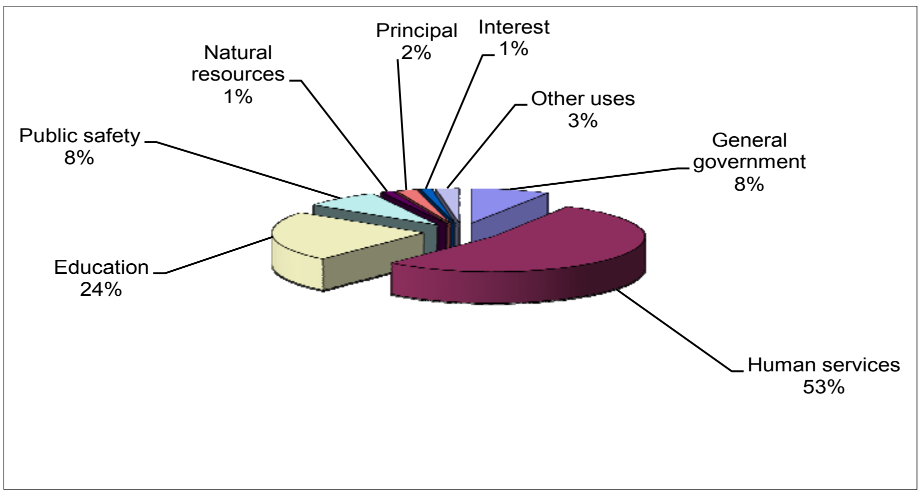
Program (SNAP). Finally, both the Office of Health and Human Services and the Department of Human Services bore new costs associated with the development of an eligibility system called the Unified Health Infrastructure Project (UHIP).

The transition to a new Education Funding Formula was primarily responsible for the increased costs within the Education function. Race to the Top federal grant expenditures also accounted for a signification portion of the increase. These two large increases were partially offset by decreases in expenditures associated with the American Recovery and Reinvestment Act (ARRA) and the Education Jobs Fund.

Debt service expenditures increased due to savings from the refinancing of debt in the prior year not being available again in FY 2013.

Chart 6 depicts the General Fund's Expenditures and Other Uses for the fiscal year ended June 30, 2013.

Chart 6 – Expenditures and Other Uses – General Fund



Intermodal Surface Transportation Fund

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

	2013	2012	Change	Percent
Restricted	$ 145,473	$ 111,537	$ 33,936	30.43%
Unrestricted				
Committed	95	1,742	(1,647)	-94.55%
Assigned	255	117	138	117.95%
Unassigned (deficit)	(4,113)	(4,717)	604	12.80%
Total	$ 141,710	$ 108,679	$ 33,031	30.39%

General Fund Budgetary Highlights – General Revenue Sources

According to the State's Constitution, general revenue appropriations in the general fund cannot exceed 97% of available general revenue sources. These sources consist of the current fiscal year's budgeted general revenue plus the general fund undesignated fund balance from the prior fiscal year. Excess revenue is transferred to the State Budget Reserve Account. If the balance in the Reserve exceeds five percent of the total general revenues and opening surplus, the excess is transferred to the R.I. Capital Plan Fund to be used for capital projects. The budgets for the components of the current fiscal year's general revenue estimates are established by the State's revenue estimating conference. If actual general revenue is less than the projection, appropriations have to be reduced or additional revenue sources must be identified. Certain agencies have federal programs that are entitlements, which continue to require State funds to match the federal funds. Agencies may get additional appropriations provided a need is established.

Adjustments to general revenue receipt estimates resulted in a slight increase of $2.9 million between the original budget and the final budget. General revenue appropriations decreased from the original budget by $62.0 million. Some significant changes between the preliminary and final estimated general revenues and the enacted and final general revenue appropriations (expressed in thousands) are listed below.

General Fund Budgetary Highlights
General Revenue Sources

	Original Budget	Final Budget	Actual	Final Budget vs. Actual Variance
Revenues and sources:				
Taxes:				
Personal income	$ 1,080,857	$ 1,075,300	$ 1,085,765	$ 10,465
General business	369,183	385,600	381,255	(4,345)
Sales and use	1,085,833	1,068,200	1,073,428	5,228
Other taxes	42,249	38,500	37,060	(1,440)
Departmental revenue	342,874	363,400	356,832	(6,568)
Other sources:				
Miscellaneous	4,440	5,665	4,166	(1,499)
Lottery transfer	387,553	380,160	379,225	(935)
Unclaimed property	7,900	7,000	6,269	(731)
Total revenues and other sources	3,320,889	3,323,825	3,324,000	175
Expenditures and other uses:				
General government	441,780	438,416	426,503	11,913
Human services	1,294,456	1,245,771	1,243,282	2,489
Education	1,118,040	1,111,779	1,111,267	512
Public safety	404,750	401,398	398,648	2,750
Natural resources	36,811	36,447	36,346	101
Total expenditures and other uses	3,295,837	3,233,811	3,216,046	17,765
Excess of revenues and other sources over expenditures and other uses	$ 25,052	$ 90,014	$ 107,954	$ 17,940

The positive variance from the fiscal year 2013 actual revenues to the fiscal year 2013 Original Budget for Personal Income Taxes is due in part to the stronger revenue performance of the 2012 tax amnesty program than was forecasted when the fiscal year 2013 Original Budget was enacted. The fiscal year 2013 Original Budget projected tax amnesty receipts for personal income tax of $3.0 million while actual personal income tax amnesty receipts came in at $5.7 million. In addition, actual personal income tax refunds and adjustments came in 4.0 percent below the original budget. These two positive changes in fiscal year 2013 actual revenues relative to the fiscal year 2013 Original Budget were offset in part by personal income tax withholding payments falling short of the Original Budget amount by 1.9 percent. Fiscal year 2013 actual sales and use tax revenues were 0.7 percent above the Final Budget amount reflecting the improved economic climate in the State. The decline in departmental revenue between the fiscal year 2013 Final Budget and the actual revenues was primarily the result of the state not receiving hospital license fee payments that were expected to be received.

The positive expenditure variance in the General Government function of approximately $11.9 million was primarily in three agencies, Administration, Revenue and the General Assembly. Within Administration, the majority of the positive variance was in the Facilities Management program due to lower utility costs and/or usage, as well as personnel savings in many programs and unspent funds for the I-195 Commission that will be carried forward for expenditure in FY 2014. In the Revenue budget, the primary driver of the surplus was unspent local aid funds for local property revaluations, followed by personnel savings due to staff turnover. In the General Assembly budget, the positive variance was primarily in the grants category, where funds may be committed but not fully expended within the fiscal year. The entire surplus for the General Assembly is reappropriated to fiscal year 2014.

The positive expenditure variance in the Human Services function of approximately $2.5 million was due to a positive variance of $8.1 million in the Office of Health and Human Services (OHHS), offset by negative variances in the Department of Human Services (DHS) of $1.8 million and the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (BHDDH) of $4.5 million. The OHHS positive variance was primarily in the Medicaid program due to final caseloads being lower than estimated by the Caseload Estimating Conference in May 2013. The DHS negative variance was primarily due to a payable established for a penalty imposed on the TANF program by the federal government over eligibility and verification discrepancies in a prior year audit. The BHDDH negative variance is primarily attributable to overtime expenditures due to staffing shortages in their 24/7 facilities.

The positive expenditure variance in the Public Safety function of approximately $2.7 million was due to positive variances in the Department of Corrections (DOC) and the Department of Public Safety (DPS). The DOC surplus was the result of a number of equipment purchases not being received prior to the close of the fiscal year and thus requiring reappropriation of funds in fiscal year 2014 to cover the expense when it came due. The DPS surplus was primarily in the Security Services (Capitol Police and Sheriffs) program and was attributable to lower than anticipated equipment purchases, as well as savings from personnel turnover.

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, 2013, amounts to $3,661.7 million, net of accumulated depreciation of $2,328.4 million. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. The total increase in the State's investment in capital assets for the current fiscal year was approximately 4.57% of net book value (as restated). This increase is primarily caused by investments in the construction and rehabilitation of highways and other infrastructure as discussed in the second paragraph below.

Actual expenditures to purchase or construct capital assets were $303.2 million for the year. Of this amount $179.6 million was used to construct or reconstruct highways. Depreciation charges for the year totaled $156.2 million.

State of Rhode Island's Capital Assets as of June 30, 2013
(Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
Capital assets not being depreciated or amortized						
Land	$ 375,225	$ 358,968	$ 45,558	$ 45,558	$ 420,783	$ 404,526
Works of Art	2,389	1,414			2,389	1,414
Intangibles	161,777	159,093			161,777	159,093
Construction in progress*	594,657	450,433	446	24	595,103	450,457
Total capital assets not being depreciated or amortized	1,134,048	969,908	46,004	45,582	1,180,052	1,015,490
Capital assets being depreciated or amortized						
Land improvements	3,700	3,700			3,700	3,700
Buildings*	711,315	685,494	234,384	234,384	945,699	919,878
Building improvements*	270,378	267,714			270,378	267,714
Equipment*	253,089	244,916	27,080	25,646	280,169	270,562
Intangibles	14,040	14,049	175		14,215	14,049
Infrastructure*	3,295,847	3,193,823			3,295,847	3,193,823
	4,548,369	4,409,696	261,639	260,030	4,810,008	4,669,726
Less: Accumulated depreciation or amortization*	2,190,034	2,055,332	138,373	128,152	2,328,407	2,183,484
Total capital assets being depreciated or amortized	2,358,335	2,354,364	123,266	131,878	2,481,601	2,486,242
Total capital assets (net)	$ 3,492,383	$ 3,324,272	$ 169,270	$ 177,460	$ 3,661,653	$ 3,501,732

*Certain fiscal year 2012 balances have been restated.

In fiscal year 2013, the State completed several significant capital projects, including the Sakonnet River Bridge in Tiverton/Portsmouth and the new Pawtucket River Bridge on Route I-95 in Pawtucket.

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

Debt Administration

Under the State's Constitution, the General Assembly has no power to incur State debts in excess of $50,000 without the consent of the people (voters), except in the case of war, insurrection or invasion, or to pledge the faith of the State to the payment of obligations of others without such consent. At the end of the current fiscal year, the State's governmental activities had total bonded debt outstanding of $2,337.8 million, of which $1,103.9 million is general obligation debt, $468.7 million is special obligation debt and $765.2 million is debt of the blended component units. Additionally, accreted interest of $83.1 million has been recognized for debt of one blended component unit, which is not scheduled to be paid until 2052. On an overall basis the State's total bonded debt decreased by $71.5 million during fiscal year 2013. This decrease consists of a $6.8 million decrease in general obligation debt, a decrease of $50.4 million in special obligation debt, and a decrease of $14.3 million in the blended component units' debt. The general obligation debt is supported by the full faith and credit of the State. Other obligations subject to annual appropriation by the R.I. General Assembly totaled $396.7 million and are discussed in Note 7.

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

Bonds authorized by the voters that remain unissued as of June 30, 2013 amounted to $244.6 million; other obligations that are authorized but unissued totaled $277.5 million and are described in Note 7. Additional information on the State's long-term debt can be found in the notes to the financial statements of this report.

Conditions Expected to Affect Future Operations

Fiscal Year 2014 Budget

The first quarter report for fiscal year 2014 prepared by the State Budget Office contains estimates of annual expenditures based upon analysis of expenditures through the first quarter of fiscal year 2014, as well as caseload and medical assistance expenditure estimates and revenue estimates adopted at the November 2013 Caseload and Revenue Estimating Conferences. The fiscal year 2014 balance, based upon these assumptions, is estimated to reflect a $33.4 million surplus in the General Fund.

The Budget Office continues to review department and agency fiscal year 2014 expenditure plans in conjunction with the fiscal year 2015 budget process. Any changes recommended by the Governor to the fiscal year 2014 enacted appropriations, or adopted revenues, will be incorporated in the supplemental appropriations bill, which under current law must be submitted to the General Assembly in January 2014.

The November Revenue Estimating Conference's estimates reflect recent revenue trends and expected collections based upon the current economic forecast. On the revenue side, general revenue receipts are expected to be $45.6 million more than enacted for fiscal year 2014. Taxes are expected to exceed enacted estimates by $31.0 million, while departmental revenues and other sources, including lottery revenues, are also expected to exceed enacted estimates by $14.6 million. The November Revenue Estimating Conference estimates that revenues will be $3,426.6 million as compared with the enacted estimate of $3,381.0 million for fiscal year 2014.

Lottery Revenue

The General Fund derives more than 11% of general revenue from the Rhode Island Lottery.

The Lottery's video lottery operations currently compete with casinos in nearby Connecticut. In addition, Massachusetts lawmakers have passed a bill to allow three casinos and one slot parlor in that State. Massachusetts has developed a two-phase application process for potential operators and developers. The process is anticipated to be completed and operators selected during spring 2014. It is anticipated that there could be an adverse effect on the amount of revenue derived from video lottery facilities in Rhode Island. The Lottery and the State continually monitor the risk to gaming operations resulting from competition in nearby states.

A statewide ballot referendum was approved in November 2012 to allow the expansion of gaming at the Twin River facility located in Lincoln, RI. The expansion allows the facility to offer casino style gaming (i.e., table games) to the public subject to the operational control by the Lottery and/or Department of Business Regulation. The expanded gaming went into operation in June 2013.

Pension Benefits

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

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

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

Other Postemployment Benefits (OPEB)

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

In accordance with GASB Statement No. 45, the State began accounting for retiree health care benefits on an actuarial basis in fiscal year 2008. The most recent actuarial study completed as of June 30, 2011 has determined the State's unfunded actuarial liability for all six plans included in the Rhode Island State Employees' and Electing Teachers OPEB System to be $858.7 million. Based on a discount rate of 5.0%, the State and other participating employers' annual required contribution was $56.8 million. For fiscal year 2013, the State funded the retiree health care program in accordance with law by contributing the actuarially required contribution. See Note 19 – Subsequent Events for information about future changes in the way benefits are provided to certain Medicare eligible retirees.

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

Collective Bargaining

The State is currently in negotiations with the various unions which represent certain State employees for new contracts that would be retroactively effective to July 1, 2013.

Transportation Funding Initiatives

In order to address possible future reductions in federal highway funding and the State's aging transportation infrastructure, the Governor formed a Blue Ribbon Panel for Transportation Funding in 2008. The Panel reviewed Rhode Island's aging transportation infrastructure, the projects required to maintain the transportation infrastructure for the next five years, and the available funding or shortfall in funding for such projects in light of the current status of the Federal Highway Trust Fund, and identified possible options for future funding.

The Blue Ribbon Panel for Transportation Funding released its report in December, 2008. The Blue Ribbon Panel projected that the State would need to spend approximately $639.0 million per year during the next 10 years to maintain Rhode Island's highway system in a state of good operation and repair but that state and federal funding only provided approximately $425.9 million in FY 2013. The Blue Ribbon panel suggested various funding strategies that could possibly be implemented to meet, in whole or in part, the $285 million funding gap each year. Such recommended funding strategies included levying a $3.00 toll on all cars and $6.00 on all trucks entering the State, imposing tolls on all bridges between Aquidneck Island and the mainland, raising passenger-vehicle registration fees, raising the State gasoline tax by as much as 15 cents per gallon, creation of a petroleum product gross receipts tax and a vehicle miles traveled fee. The various revenue strategies outlined would require legislation for implementation. Despite the temporary relief provided through America Recovery and Reinvestment Act (ARRA) funding, transportation infrastructure funding will continue to present challenges and the Blue Ribbon Panel funding strategies may be revisited. The Department of Transportation submitted an application to the Federal Highway Administration requesting permission to establish tolls on I-95, under a pilot program that permits tolling on roads that were constructed with federal funds, but has been informed that the final slot under this pilot program has been granted to another state.

The FY 2014 Appropriations Act established a Special Legislative Commission to make a comprehensive study of all types of funding mechanisms and strategies to support Rhode Island's infrastructure.

Unemployment Insurance Program

The State has borrowed from the Federal Unemployment Trust Fund to continue to pay benefits to unemployed individuals. Outstanding borrowings through June 30, 2013 totaled $155.3 million and the State anticipates needing to continue borrowing in fiscal 2014 in order to fund unemployment benefit payments. The General Assembly passed legislation effective in fiscal years 2012 and 2013 increasing the taxable wage base for employers and reducing the maximum weekly benefit amounts to unemployed individuals. The Department of Labor and Training currently estimates that the combination of benefit adjustments and increased federal and state taxes could enable the State to repay its federal loans from the Federal Unemployment Trust Fund as soon as 2015. This estimate is based on the department's projections of employment and unemployment levels assuming a gradual economic recovery and therefore is uncertain and subject to change.

Google Inc. Settlement

An investigation by the United States Attorney's Office in Rhode Island and the U.S. Food and Drug Administration's Office of Criminal Investigations Rhode Island Task Force resulted in the forfeiture of $500 million in revenue by Google. The State of Rhode Island will receive approximately $110 million of that amount to be utilized for public safety purposes.

Local Government Financial Matters

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

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

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

Requests for Information

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

Basic Financial Statements

State of Rhode Island

Fiscal Year Ended June 30, 2013

State of Rhode Island and Providence Plantations
Statement of Net Position
June 30, 2013
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	**Business - Type Activities**	**Totals**	**Component Units**
Assets				
Current assets:				
Cash and cash equivalents	$ 871,900	$ 23,702	$ 895,602	$ 277,569
Funds on deposit with fiscal agent	154,172	518	154,690	
Investments				18,034
Receivables (net)	576,545	80,676	657,221	64,625
Restricted assets:				
Cash and cash equivalents		8,338	8,338	272,037
Investments	69,319		69,319	38,693
Receivables (net)				4,113
Other assets				39,605
Due from primary government				19,142
Due from component units	4,489		4,489	552
Internal balances	(4,625)	4,625		
Due from other governments and agencies	239,585	1,565	241,150	955
Inventories	1,694	699	2,393	10,246
Other assets	6,984	435	7,419	6,748
Total current assets	1,920,063	120,558	2,040,621	752,319
Noncurrent assets:				
Investments				165,375
Receivables (net)	22,359		22,359	36,201
Due from other governments and agencies	2,680		2,680	
Restricted assets:				
Cash and cash equivalents				101,506
Investments				370,144
Other assets				1,555,854
Due from component units	55,415		55,415	1,394
Capital assets - nondepreciable	1,134,048	46,004	1,180,052	230,599
Capital assets - depreciable (net)	2,358,335	123,266	2,481,601	1,603,157
Derivative instruments	26,883		26,883	
Other assets	18,287	3,610	21,897	185,693
Total noncurrent assets	3,618,007	172,880	3,790,887	4,249,923
Total assets	5,538,070	293,438	5,831,508	5,002,242
Liabilities				
Current Liabilities:				
Accounts payable	624,836	19,574	644,410	93,908
Due to primary government				4,489
Due to component units	19,142		19,142	552
Due to other governments and agencies		5,933	5,933	114
Accrued expenses		4,408	4,408	30
Unearned revenue	74,837		74,837	
Other current liabilities	105,110		105,110	196,406
Current portion of long-term debt	223,727	13,533	237,260	194,446
Obligation for unpaid prize awards		7,396	7,396	
Total current liabilities	1,047,652	50,844	1,098,496	489,945
Noncurrent Liabilities:				
Due to primary government				55,415
Due to other governments and agencies		155,276	155,276	
Net pension obligation	1,816		1,816	
Net OPEB obligation	11,341		11,341	46,878
Unearned revenue		6,305	6,305	12,916
Due to component units				1,394
Notes payable	5,110	43	5,153	20,177
Loans payable				41,375
Obligations under capital leases	222,315		222,315	6,931
Compensated absences	14,387	223	14,610	23,275
Bonds payable	2,334,131	224,261	2,558,392	2,139,690
Other liabilities	32,133		32,133	305,328
Total noncurrent liabilities	2,621,233	386,108	3,007,341	2,653,379
Total liabilities	3,668,885	436,952	4,105,837	3,143,324
Deferred inflows of resources				
Fair value of hedging derivatives	26,883		26,883	
Net position (deficit)				
Net investment in capital assets	2,488,755	(65,283)	2,423,472	1,120,009
Restricted for:				
Budget reserve	171,959		171,959	
Transportation	1,432		1,432	
Debt	114,242	8,340	122,582	284,019
Assistance to other entities	98,293		98,293	
Temporary disability insurance program	154,004		154,004	
Other	112,022		112,022	169,563
Nonexpendable	174		174	90,616
Unrestricted	(1,298,579)	(86,571)	(1,385,150)	194,711
Total net position (deficit)	$ 1,842,302	$ (143,514)	$ 1,698,788	$ 1,858,918

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

State of Rhode Island and Providence Plantations
Statement of Activities
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position — Primary Government			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Totals**	**Component Units**
Primary government:								
Governmental activities:								
General government	$ 625,081	$ 220,376	$ 96,706	$ 1,852	$ (306,147)	$	$ (306,147)	$
Human services	3,038,841	227,158	1,742,901	1,280	(1,067,502)		(1,067,502)	
Education	1,364,575	26,840	219,585	121	(1,118,029)		(1,118,029)	
Public safety	473,580	47,075	44,962	2,083	(379,460)		(379,460)	
Natural resources	76,730	28,975	18,658	3,558	(25,539)		(25,539)	
Transportation	300,639	1,076	88,988	181,657	(28,918)		(28,918)	
Interest and other charges	129,714				(129,714)		(129,714)	
Total governmental activities	6,009,160	551,500	2,211,800	190,551	(3,055,309)		(3,055,309)	
Business-type activities:								
State lottery	397,625	775,993				378,368	378,368	
Convention center	48,437	22,485				(25,952)	(25,952)	
Employment security	396,909	256,592	166,164			25,847	25,847	
Total business-type activities	842,971	1,055,070	166,164			378,263	378,263	
Total primary government	$ 6,852,131	$ 1,606,570	$ 2,377,964	$ 190,551	(3,055,309)	378,263	(2,677,046)	
Component units:	$ 1,232,182	$ 616,480	$ 456,029	$ 86,943				(72,730)
General Revenues:								
Taxes:								
Personal income					1,082,035		1,082,035	
General business					381,252		381,252	
Sales and use					1,070,648		1,070,648	
Gasoline					134,465		134,465	
Other					202,569		202,569	
Interest and investment earnings					4,893	117	5,010	101,462
Miscellaneous revenue					143,240	24,490	167,730	11,849
Gain on sale of capital assets					3,757		3,757	
Transfers (net)					333,804	(333,804)		
Total general revenues and transfers					3,356,663	(309,197)	3,047,466	113,311
Change in net position					301,354	69,066	370,420	40,581
Net position (deficit) - beginning as restated					1,540,948	(212,580)	1,328,368	1,818,337
Net position (deficit) - ending					$ 1,842,302	$ (143,514)	$ 1,698,788	$ 1,858,918

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, 2013
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	$ 501,054	$ 19,292	$ 312,634	$ 832,980
Funds on deposit with fiscal agent		109,234	44,938	154,172
Restricted investments			69,319	69,319
Receivables (net)	499,691	12,519	67,037	579,247
Due from other funds	283	9,379	291	9,953
Due from component units		454		454
Due from other governments and agencies	188,377	50,740		239,117
Loans to other funds	15,568		84,546	100,114
Other assets	367			367
Total assets	$ 1,205,340	$ 201,618	$ 578,765	$ 1,985,723
Liabilities and Fund Balances				
Liabilities				
Accounts payable	548,672	31,657	29,488	609,817
Due to other funds			15,714	15,714
Due to component units	5,093	5,387	8,662	19,142
Loans from other funds	84,545		9,608	94,153
Unearned revenue	89,545	18,384		107,929
Other liabilities	76,351	4,480	326	81,157
Total liabilities	804,206	59,908	63,798	927,912
Fund Balances				
Nonspendable			174	174
Restricted	282,137	145,473	514,725	942,335
Unrestricted				
Committed	4,035	95	68	4,198
Assigned	105,639	255		105,894
Unassigned	9,323	(4,113)		5,210
Total fund balances	401,134	141,710	514,967	1,057,811
Total liabilities and fund balances	$ 1,205,340	$ 201,618	$ 578,765	$ 1,985,723

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

State of Rhode Island and Providence Plantations
Reconciliation of the Balance Sheet of the Governmental Funds
to the Statement of Net Position
June 30, 2013
(Expressed in Thousands)

Fund balance - total governmental funds			$ 1,057,811
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital Assets used in the governmental activities are not financial resources and therefore are not reported in the funds.			
	Capital assets	5,676,713	
	Accumulated depreciation	(2,186,648)	
			3,490,065
Bonds, notes, certificates of participation, accrued interest and other liabilities are not due and payable in the current period and therefore are not recorded in the governmental funds.			
	Compensated absences	(78,392)	
	Bonds payable	(2,420,887)	
	Net premium/discount	(58,619)	
	Refunding costs	15,775	
	Costs of issuance	10,720	
	Obligations under capital leases	(232,975)	
	Premium	(18,441)	
	Refunding costs	6,266	
	Costs of issuance	2,463	
	Interest payable	(21,871)	
	Other liabilities	(54,504)	
			(2,850,465)
Other long-term assets and unearned revenue are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			
	Receivables	16,316	
	Due from component units	59,450	
	Other assets	5,104	
	Unearned revenue	33,094	
			113,964
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net position of the internal service funds is reported with governmental activities.			30,927
Net position - total governmental activities			$ 1,842,302

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

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	General	Intermodal Surface Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 2,568,513	$ 134,465	$ 165,525	$ 2,868,503
Licenses, fines, sales, and services	323,308		(2,541)	320,767
Departmental restricted revenue	220,983	1,044		222,027
Federal grants	2,129,847	272,597		2,402,444
Income from investments	693	174	3,973	4,840
Other revenues	56,844	43,876	46,370	147,090
Total revenues	5,300,188	452,156	213,327	5,965,671
Expenditures:				
Current:				
General government	470,328		163,682	634,010
Human services	3,042,705			3,042,705
Education	1,330,128		260	1,330,388
Public safety	463,734			463,734
Natural resources	70,145		57	70,202
Transportation		372,083	1,804	373,887
Capital outlays			130,415	130,415
Debt service:				
Principal	125,148	36,057	15,765	176,970
Interest and other charges	68,295	20,683	37,874	126,852
Total expenditures	5,570,483	428,823	349,857	6,349,163
Excess (deficiency) of revenues over (under) expenditures	(270,295)	23,333	(136,530)	(383,492)
Other financing sources (uses):				
Bonds and notes issued			81,400	81,400
Proceeds from refundings			88,175	88,175
Proceeds from the sale of certificates of participation			26,690	26,690
Premium			27,507	27,507
Transfers in	437,012	57,513	98,279	592,804
Payment to refunded bonds escrow agent			(101,172)	(101,172)
Transfers out	(138,737)	(47,815)	(78,019)	(264,571)
Total other financing sources (uses)	298,275	9,698	142,860	450,833
Net change in fund balances	27,980	33,031	6,330	67,341
Fund balances - beginning as restated	373,154	108,679	508,637	990,470
Fund balances - ending	$ 401,134	$ 141,710	$ 514,967	$ 1,057,811

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

State of Rhode Island and Providence Plantations
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of the Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 67,341
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Current year acquisitions are therefore deducted from expenses on the Statement of Activities, less current year depreciation expense and revenue resulting from current year disposals.		
Capital outlay	315,644	
Depreciation expense	(145,594)	
		170,050
Bond, note, and certificate of participation proceeds provide current financial resources to governmental funds by issuing debt which increases long-term debt in the Statement of Net Position. Repayments of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		
Principal paid on debt	176,970	
Debt defeased in refunding	92,855	
Accrued interest and other charges	(13,196)	
Proceeds from sale of debt	(196,265)	
Deferral of premium/discount	(27,507)	
Amortization of premium/discount	14,939	
Deferral of issuance costs	1,366	
Amortization of issuance costs	(1,896)	
Deferral of refunding costs	5,523	
Amortization of refunding costs	(1,281)	
		51,508
Revenues (expenses) in the Statement of Activities that do not provide (use) current financial resources are not reported as revenues (expenditures) in the governmental funds.		
Compensated absences	(666)	
Program expenses	(3,321)	
Program revenue	8,707	
Capital grant revenue	(95)	
General revenue - taxes	2,466	
General revenue-miscellaneous	(3,779)	
		3,312
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is reported with governmental activities.		9,143
Change in net position - total governmental activities		$ 301,354

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

State of Rhode Island and Providence Plantations
Statement of Net Position
Proprietary Funds
June 30, 2013
(Expressed in Thousands)

	Business-type Activities-- Enterprise Funds				Governmental Activities
	R.I. State Lottery	R.I. Convention Center	Employment Security	Totals	Internal Service Funds
Assets					
Current assets:					
Cash and cash equivalents	$ 18,915	$ 3,648	$ 1,139	$ 23,702	$ 38,737
Restricted cash and cash equivalents		8,338		8,338	
Funds on deposit with fiscal agent			518	518	
Receivables (net)	7,325	677	72,674	80,676	6,488
Due from other funds		1,859	3,967	5,826	1,437
Due from other governments and agencies			1,565	1,565	
Inventories	699			699	1,692
Other assets	42	393		435	6,610
Total current assets	26,981	14,915	79,863	121,759	54,964
Noncurrent assets:					
Capital assets - nondepreciable		46,004		46,004	
Capital assets - depreciable (net)	402	122,864		123,266	2,317
Other assets		3,610		3,610	
Total noncurrent assets	402	172,478		172,880	2,317
Total assets	27,383	187,393	79,863	294,639	57,281
Liabilities					
Current liabilities:					
Accounts payable	13,942	5,632		19,574	17,642
Due to other funds	1,201			1,201	301
Due to other governments and agencies			5,933	5,933	
Loans from other funds					5,961
Accrued expenses	4,408			4,408	
Unearned revenue		2,447		2,447	
Other current liabilities	671			671	2,450
Notes payable		188		188	
Bonds payable		10,060		10,060	
Compensated absences	167			167	
Obligation for unpaid prize awards	7,396			7,396	
Total current liabilities	27,785	18,327	5,933	52,045	26,354
Noncurrent liabilities:					
Due to other governments and agencies			155,276	155,276	
Unearned revenue	5,625	680		6,305	
Notes payable		43		43	
Bonds payable		224,261		224,261	
Compensated absences	223			223	
Total noncurrent liabilities	5,848	224,984	155,276	386,108	
Total liabilities	33,633	243,311	161,209	438,153	26,354
Net Position (Deficit)					
Net investment in capital assets	402	(65,685)		(65,283)	2,317
Restricted for:					
Debt		8,340		8,340	
Unrestricted	(6,652)	1,427	(81,346)	(86,571)	28,610
Total net position (deficit)	$ (6,250)	$ (55,918)	$ (81,346)	$ (143,514)	$ 30,927

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

State of Rhode Island and Providence Plantations
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2013
(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	$	$ 22,068	$ 256,592	$ 278,660	$ 284,447
Lottery sales	253,365			253,365	
Video lottery, net	520,747			520,747	
Table games	1,881			1,881	
Federal grants			166,164	166,164	
Miscellaneous		417		417	
Total operating revenues	775,993	22,485	422,756	1,221,234	284,447
Operating expenses:					
Personal services	6,212	14,344		20,556	11,983
Supplies, materials, and services	241,384	9,574		250,958	268,724
Prize awards, net of prize recoveries	149,878			149,878	
Depreciation and amortization	151	10,169		10,320	234
Benefits paid			382,162	382,162	
Total operating expenses	397,625	34,087	382,162	813,874	280,941
Operating income (loss)	378,368	(11,602)	40,594	407,360	3,506
Nonoperating revenues (expenses):					
Interest revenue	115	2		117	52
Other nonoperating revenue	1,095	806	22,589	24,490	14
Interest expense		(14,350)	(6,029)	(20,379)	
Other nonoperating expenses			(8,718)	(8,718)	
Total nonoperating revenue (expenses)	1,210	(13,542)	7,842	(4,490)	66
Income (loss) before transfers	379,578	(25,144)	48,436	402,870	3,572
Transfers in	272	23,423	22,532	46,227	7,400
Transfers out	(379,225)		(806)	(380,031)	(1,829)
Change in net position	625	(1,721)	70,162	69,066	9,143
Net position (deficit) - beginning	(6,875)	(54,197)	(151,508)	(212,580)	21,784
Net position (deficit) - ending	$ (6,250)	$ (55,918)	$ (81,346)	$ (143,514)	$ 30,927

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

State of Rhode Island and Providence Plantations
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2013
(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	$ 254,142	$ 22,401	$ 254,458	$ 531,001	$ 279,520
Cash received from video lottery operations, net	518,621			518,621	
Cash received from MUSL for grand prize winners	2,333			2,333	
Cash received from grants			167,066	167,066	
Cash payments to suppliers for goods and services	(3,671)	(8,078)		(11,749)	(267,427)
Cash payments to employees	(6,222)	(14,535)		(20,757)	(12,870)
Cash payments to prize winners	(153,161)			(153,161)	
Cash payments for commissions	(233,345)			(233,345)	
Cash payments for benefits			(382,176)	(382,176)	
Other operating revenue (expense)					14
Net cash provided by (used for) operating activities	378,697	(212)	39,348	417,833	(763)
Cash flows from noncapital financing activities:					
Loan from federal government			180,177	180,177	
Payment of interest on loan from federal government			(7,573)	(7,573)	
Loans from other funds					4,412
Loans to other funds					(868)
Repayment of loans to other funds					849
Repayment of loans from other funds					(1,111)
Transfers in		21,878	24,641	46,519	7,400
Transfers out	(380,638)		(736)	(381,374)	(1,829)
Net transfers from (to) fiscal agent			(236,296)	(236,296)	
Net cash provided by (used for) noncapital financing activities	(380,638)	21,878	(39,787)	(398,547)	8,853
Cash flows from capital and related financing activities:					
Principal paid on capital obligations		(51,073)		(51,073)	
Interest paid on capital obligations		(8,151)		(8,151)	
Acquisition of capital assets	(294)	(1,376)		(1,670)	(82)
Proceeds from the disposition of capital assets	8			8	
Proceeds from bonds		38,141		38,141	
Net cash provided by (used for) capital and related financing activities	(286)	(22,459)		(22,745)	(82)
Cash flows from investing activities:					
Interest on investments	115	2		117	52
Net cash provided by investing activities	115	2		117	52
Net increase (decrease) in cash and cash equivalents	(2,112)	(791)	(439)	(3,342)	8,060
Cash and cash equivalents, July 1	21,027	12,777	1,578	35,382	30,677
Cash and cash equivalents, June 30	$ 18,915	$ 11,986	$ 1,139	$ 32,040	$ 38,737
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:					
Operating income (loss)	378,368	(11,602)	40,594	407,360	3,506
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:					
Depreciation and amortization	151	10,169		10,320	234
Other revenue (expense) and operating transfer in (out)	469		887	1,356	14
Net changes in assets and liabilities:					
Receivables, net	243	424	(2,133)	(1,466)	(3,681)
Inventory	116			116	18
Prepaid items		51		51	(486)
Other assets	(38)			(38)	
Due to / due from transactions	12			12	
Accounts and other payables	(122)	1,254		1,132	519
Accrued expenses	422			422	(887)
Unearned revenue	26	(508)		(482)	
Prize awards payable	(950)			(950)	
Total adjustments	329	11,390	(1,246)	10,473	(4,269)
Net cash provided by (used for) operating activities	$ 378,697	$ (212)	$ 39,348	$ 417,833	$ (763)

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

State of Rhode Island and Providence Plantations
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013
(Expressed in Thousands)

	Pension and Other Postemployment Benefits Trusts	External Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue	Agency
Assets				
Cash and cash equivalents	5,931	$	$	$ 14,487
Deposits held as security for entities doing business in the State				70,211
Advance held by claims processing agent	1,248			
Receivables				
Contributions	30,665			
Due from state for teachers	14,549			
Miscellaneous	16,417	7		1,891
Total receivables	61,631	7		1,891
Investments, at fair value				
Equity in short-term investment fund		13,384		
Equity in pooled trust	7,599,444			
Other investments	122,405		2,267	
Total investments	7,721,849	13,384	2,267	
Total assets	7,790,659	13,391	2,267	$ 86,589
Liabilities				
Accounts payable	5,132	3		2,930
Incurred but not reported claims	2,785			
Unearned revenue	6,064			
Deposits held for others				83,659
Total liabilities	13,981	3		$ 86,589
Net position				
Held in trust for:				
Pension benefits	7,710,558			
Other postemployment benefits	66,120			
Other		13,388	2,267	
Total net position	$ 7,776,678	$ 13,388	$ 2,267	

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

State of Rhode Island and Providence Plantations
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	Pension and Other Postemployment Benefits Trusts	External Investment Trust Ocean State Investment Pool	Private Purpose Touro Jewish Synagogue
Additions			
Contributions			
Member contributions	$ 190,355	$	$
Employer contributions	370,498		
Supplemental employer contributions	15,690		
State contributions for teachers	70,703		
Interest on service credits purchased	1,002		
Service credit transfer payments	593		
From participants		12,178	
Total contributions	648,841	12,178	
Other income	1,256		
Investment income			
Net appreciation in fair value of investments	711,597		224
Interest	60,094	27	
Dividends	17,182		37
Other investment income	7,877		
	796,750	27	261
Less investment expense	14,583	14	
Net income from investing activities	782,167	13	261
Total additions	1,432,264	12,191	261
Deductions			
Retirement benefits	899,223		
Death benefits	3,518		
Distributions	338	1,083	96
Refund of contributions	11,941		
Administrative expense	7,507		
Service credit transfers	593		
OPEB benefits	53,803		
Total deductions	976,923	1,083	96
Change in net position:			
Pension benefits	426,083		
Other postemployment benefits	29,258		
Other		11,108	165
Net position - beginning	7,321,337	2,280	2,102
Net position - ending	$ 7,776,678	$ 13,388	$ 2,267

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Position
Component Units
June 30, 2013
(Expressed in Thousands)

	RIAC	RIEDC	I-195 RDC	RIPTA	RITBA
Assets					
Current Assets:					
Cash and cash equivalents	$ 47,167	$ 5,569	$ 166	$ 3,304	$ 2,051
Investments				2,789	2,728
Receivables (net)	5,229	2,748		4,295	72
Restricted assets:					
Cash and cash equivalents	22,654	12,894			5,365
Investments	11,793	2,967			10,850
Receivables (net)	2,437	1,676			
Other assets	52				390
Due from primary government		108		8,630	
Due from other governments					
Due from other component units	131	95			
Inventories				2,342	166
Other assets	717	77	44	142	107
Total current assets	90,180	26,134	210	21,502	21,729
Noncurrent Assets:					
Investments		1,878		1,622	5,638
Receivables (net)	127	4,551			
Restricted assets:					
Cash and cash equivalents	50,692	6,401			
Investments		26,113			2,483
Other assets		1,135			
Capital assets - nondepreciable	47,885	129		17,052	3,760
Capital assets - depreciable (net)	464,939	53		150,478	148,146
Due from other component units		697			
Other assets, net of amortization	4,840		1,492		1,049
Total noncurrent assets	568,483	40,957	1,492	169,152	161,076
Total assets	658,663	67,091	1,702	190,654	182,805
Liabilities					
Current liabilities:					
Accounts payable	3,455	589	43	7,794	8,065
Due to primary government	454			930	
Due to other component units					
Due to other governments					
Accrued liabilities					
Other liabilities	15,313	3,846	118	5,859	3,077
Current portion of long-term debt	11,672	2,566		32	2,595
Total current liabilities	30,894	7,001	161	14,615	13,737
Noncurrent liabilities:					
Due to primary government	3,575			14,978	
Due to other component units					
Unearned revenue		12,098			
Notes payable	151				5,000
Loans payable	40,059				
Obligations under capital leases					
Net OPEB obligation				37,397	
Other liabilities		3,717		8,200	
Compensated absences					
Bonds payable	281,480	28,698	38,400		61,059
Total noncurrent liabilities	325,265	44,513	38,400	60,575	66,059
Total liabilities	356,159	51,514	38,561	75,190	79,796
Net position (deficit)					
Net investment in capital assets	207,389	182		151,622	80,222
Restricted for:					
Debt					16,605
Other	47,379	2,805			
Other nonexpendable					
Unrestricted	47,736	12,590	(36,859)	(36,158)	6,182
Total net position (deficit)	$ 302,504	$ 15,577	$ (36,859)	$ 115,464	$ 103,009

(Continued)

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

State of Rhode Island and Providence Plantations
Combining Statement of Net Position
Component Units
June 30, 2013
(Expressed in Thousands)

	URI	RIC	CCRI	Other Component Units	Totals
Assets					
Current Assets:					
Cash and cash equivalents	$ 124,156	$ 20,627	$ 17,302	$ 57,227	$ 277,569
Investments				12,517	18,034
Receivables (net)	30,295	4,777	4,518	12,691	64,625
Restricted assets:					
Cash and cash equivalents				231,124	272,037
Investments				13,083	38,693
Receivables (net)					4,113
Other assets				39,163	39,605
Due from primary government	6,198	2,069		2,137	19,142
Due from other governments				955	955
Due from other component units				326	552
Inventories	2,749	508	820	3,661	10,246
Other assets	1,326		120	4,215	6,748
Total current assets	164,724	27,981	22,760	377,099	752,319
Noncurrent Assets:					
Investments	129,805	22,832	2,461	1,139	165,375
Receivables (net)	15,653	4,785	40	11,045	36,201
Restricted assets:					
Cash and cash equivalents	745	92	3,973	39,603	101,506
Investments				341,548	370,144
Other assets	27,194	1,002	784	1,525,739	1,555,854
Capital assets - nondepreciable	27,763	15,406	13,277	105,327	230,599
Capital assets - depreciable (net)	557,036	109,895	61,605	111,005	1,603,157
Due from other component units				697	1,394
Other assets, net of amortization	12,806		24	165,482	185,693
Total noncurrent assets	771,002	154,012	82,164	2,301,585	4,249,923
Total assets	935,726	181,993	104,924	2,678,684	5,002,242
Liabilities					
Current liabilities:					
Accounts payable	39,142	8,567	3,537	22,716	93,908
Due to primary government	1,600	890	615		4,489
Due to other component units				552	552
Due to other governments				114	114
Accrued liabilities				30	30
Other liabilities		1,341	1,352	165,500	196,406
Current portion of long-term debt	29,129	6,883	7,200	134,369	194,446
Total current liabilities	69,871	17,681	12,704	323,281	489,945
Noncurrent liabilities:					
Due to primary government	17,305	14,632	4,925		55,415
Due to other component units				1,394	1,394
Unearned revenue				818	12,916
Notes payable		1,334		13,692	20,177
Loans payable	834			482	41,375
Obligations under capital leases	6,565			366	6,931
Net OPEB obligation				9,481	46,878
Other liabilities	12,815	3,753	22	276,821	305,328
Compensated absences	17,789	1,915	840	2,731	23,275
Bonds payable	233,835	18,364	2,954	1,474,900	2,139,690
Total noncurrent liabilities	289,143	39,998	8,741	1,780,685	2,653,379
Total liabilities	359,014	57,679	21,445	2,103,966	3,143,324
Net position (deficit)					
Net investment in capital assets	351,442	89,220	66,096	173,836	1,120,009
Restricted for:					
Debt				267,414	284,019
Other	55,118	4,003	3,936	56,322	169,563
Other nonexpendable	74,528	16,078	10		90,616
Unrestricted	95,624	15,013	13,437	77,146	194,711
Total net position (deficit)	$ 576,712	$ 124,314	$ 83,479	$ 574,718	$ 1,858,918

(Concluded)

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

State of Rhode Island and Providence Plantations
Combining Statement of Activities
Component Units
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	RIAC	RIEDC	I-195 RDC	RIPTA	RITBA	URI	RIC	CCRI	Other Component Units	Totals
Expenses	$ 61,286	$ 34,690	$ 39,177	$ 120,045	$ 21,945	$ 471,094	$ 141,851	$ 117,076	$ 225,018	$ 1,232,182
Program revenues:										
Charges for services	50,320	2,518		33,239	19,031	308,739	70,800	42,492	89,341	616,480
Operating grants and contributions	4,927	28,474	2,495	65,073		163,258	63,411	78,664	49,727	456,029
Capital grants and contributions	6,427		7	28,896		26,936	14,525	3,275	6,877	86,943
Total program revenues	61,674	30,992	2,502	127,208	19,031	498,933	148,736	124,431	145,945	1,159,452
Net (Expenses) Revenues	388	(3,698)	(36,675)	7,163	(2,914)	27,839	6,885	7,355	(79,073)	(72,730)
General revenues:										
Interest and investment earnings	47	4,130			497	10,702	2,092	340	83,654	101,462
Miscellaneous revenue				965	254	991	1,675	353	7,611	11,849
Total general revenue	47	4,130		965	751	11,693	3,767	693	91,265	113,311
Change in net position	435	432	(36,675)	8,128	(2,163)	39,532	10,652	8,048	12,192	40,581
Net position (deficit) - beginning as restated	302,069	15,145	(184)	107,336	105,172	537,180	113,662	75,431	562,526	1,818,337
Net position (deficit) - ending	$ 302,504	$ 15,577	$ (36,859)	$ 115,464	$ 103,009	$ 576,712	$ 124,314	$ 83,479	$ 574,718	$ 1,858,918

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

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Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

B. Reporting Entity

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

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

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

Blended Component Units

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

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

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

Rhode Island Convention Center Authority (RICCA)

The RICCA was established by State law as a single purpose building authority to finance the development of convention and other event facilities in Providence, RI. RICCA is responsible for the management and operations of the R.I. Convention Center, Dunkin' Donuts Center and the Veteran's Memorial Auditorium Arts and Cultural Center located in Providence. RICCA is dependent upon annual State appropriations of lease revenue by the General Assembly to fund debt service on its outstanding bonds. For more detailed information, a copy of the financial statements can be obtained by writing to the R.I. Convention Center Authority, One LaSalle Square, Providence, RI 02903.

Tobacco Settlement Financing Corporation (TSFC)

TSFC was organized in June 2002 as a public corporation by the State. TSFC is legally separate and provides services exclusively to the State through the purchase of its future tobacco settlement revenues. TSFC is authorized to issue bonds necessary to provide sufficient funds for carrying out its purpose. TSFC's purchase of tobacco settlement revenues from the State did not meet all the requirements of a sale of future revenues and consequently, consistent with generally accepted accounting principles, the TSFC is reflected as a blended component unit. For more detailed information, a copy of the financial statements can be obtained by writing to the Tobacco Settlement Financing Corporation, One Capitol Hill, Providence, RI 02908.

Rhode Island Public Rail Corporation (RIPRC)

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

Discretely Presented Component Units

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

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

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

Major Component Units

Rhode Island Airport Corporation (RIAC)

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

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

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

This commission was created in 2011 by the Rhode Island General Assembly, to oversee, plan, implement, and administer the development of land reclaimed from the Interstate 195 relocation project and the Washington Bridge project. Upon completion of the redevelopment of the I-195 land, the commission will oversee the sale of the land in an attempt to maximize the economic benefits for the State. The commission issued debt and utilized the proceeds to reimburse the primary government for the fair value of the land acquired from the State. The State will appropriate amounts to the commission for debt service and operating assistance until sufficient land sale proceeds are available to fund these expenses. Proceeds from land sales are expected to fund the majority of the debt service. For more detailed information, a copy of the financial statements can be obtained by writing to the Director of Finance and Administration, Rhode Island Economic Development Corporation, 315 Iron Horse Way, Suite 101, Providence, RI 02903.

Rhode Island Public Transit Authority (RIPTA)

This authority was established in 1964 to acquire any mass motor bus transportation system that has filed a petition to discontinue its service, provided that the Authority has determined it to be in the public interest to continue such service. Revenues of RIPTA include passenger revenue and operating assistance grants from the State and federal governments. In addition to significant operating assistance, the State has also forgiven certain debt service obligations owed to the primary government as a means to provide additional financial assistance to the Authority. For more detailed information, a copy of the financial statements can be obtained by writing to the Finance Department, R.I. Public Transit Authority, 265 Melrose Street, Providence, RI 02907, or at www.ripta.com.

Rhode Island Turnpike and Bridge Authority (RITBA)

This authority was created by the General Assembly as a body corporate and politic, with powers to construct, acquire, maintain and operate bridge projects as defined by law. The authority is responsible for the maintenance and operation of the Claiborne Pell, Mount Hope, Jamestown, and Sakonnet River Bridges which are a vital segment of the State's infrastructure. Title relating to the Jamestown and Sakonnet River bridges has remained with the State, thus those capital assets are reported within the primary government on the State's government-wide financial statements. The Claiborne Pell and Mount Hope bridges are reported as capital assets of the authority. For more detailed information, a copy of the financial statements can be obtained by writing to the Executive Director, R.I. Turnpike and Bridge Authority, P.O. Box 437, Jamestown, RI 02835-0437, or at www.ritba.org.

University and Colleges

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

Nonmajor Component Units

Central Falls School District

The Central Falls School District ("District") is governed by a seven member board of trustees that is appointed by the State's Board of Education ("Board"). As a result of the enactment of Chapter 312 of Rhode Island Public Laws of 1991, the State of Rhode Island assumed responsibility for the administration and operational funding of the Central Falls School District effective July 1, 1991. In June 2002, Chapter 16-2 of the Rhode Island General Laws established the board of trustees to govern the Central Falls School District in a manner consistent with most local school committees. In addition, the Commissioner of

Education and the Board have oversight over the development and approval of the District's operating budget and for other significant operating decisions and contracts. The District, which provides elementary and secondary education to residents of the City of Central Falls, is funded primarily through State appropriations and federal grant funds. For more detailed information, a copy of the financial statements can be obtained by writing to the Central Falls School District, 949 Dexter Street – Lower Level, Central Falls, RI 02863-1715.

Rhode Island Higher Education Assistance Authority (RIHEAA)

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

Rhode Island Housing and Mortgage Finance Corporation (RIHMFC)

This corporation, established in 1973, was created in order to expand the supply of housing available to persons of low and moderate income and to stimulate the construction and rehabilitation of housing and health care facilities in the State. It has the power to issue notes and bonds to achieve its corporate purpose. Certain debt issued by the RIHMFC is secured in part by capital reserve funds which the Generally Assembly may, but is not required to, appropriate amounts to fund any deficiencies in such reserves. For more detailed information, a copy of the financial statements can be obtained by writing to the Chief Financial Officer, R.I. Housing and Mortgage Finance Corporation, 44 Washington Street, Providence, RI 02903-1721, or at www.rhodeislandhousing.org.

Rhode Island Industrial Facilities Corporation (RIIFC)

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

Rhode Island Industrial-Recreational Building Authority (RIIRBA)

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

Rhode Island Resource Recovery Corporation (RIRRC)

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

Rhode Island Water Resources Board Corporate (RIWRBC)

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

Quonset Development Corporation (QDC)

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

Related Organizations

The following are "related organizations" under GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units* and Statement No. 61*, The Financial Reporting Entity: Omnibus:* Rhode Island Student Loan Authority, Narragansett Bay Commission, Rhode Island Health and Education Building Corporation, and Rhode Island Clean Water Finance Agency. The State is responsible for appointing a voting majority of the members of each entity's board. However, the State's accountability does not extend beyond the appointments. These entities do not meet the criteria for inclusion as component units of the State and therefore are not part of these financial statements.

C. Financial Statement Presentation

Government-wide Financial Statements

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

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

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

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

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

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

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

Fund Financial Statements

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

The State reports the following fund types:

Governmental Fund Types

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

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

Debt Service Fund – This fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds are used to report resources if legally mandated or when financial resources are being accumulated for principal and interest maturing in future years.

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

Proprietary Fund Types

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

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

Fiduciary Fund Types

Pension and Other Post-Employment Benefit Trust Funds

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

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

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

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

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

In 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.

Major Funds

Governmental funds:

General Fund

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

Intermodal Surface Transportation Fund

This fund accounts for the collection of the gasoline tax, federal grants, and bond proceeds that are used in maintenance, upgrading, and construction of the State's highway system. It also accounts for the proceeds from the Grant Anticipation Revenue Vehicle (GARVEE) bonds, the RI Motor Fuel Tax (RIMFT) revenue bonds, the I-195 Redevelopment District Commission bonds, and related expenditures.

Proprietary funds:

State Lottery Fund

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

Rhode Island Convention Center Authority (RICCA)

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

Employment Security Fund

This fund accounts for the State's unemployment compensation program. Revenues consist of taxes assessed on employers to pay benefits to qualified unemployed persons. Funds are also provided by the federal government, interest income, and loans from the Federal Unemployment Trust Fund.

D. Measurement Focus and Basis of Accounting

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

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

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

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

E. Cash and Cash Equivalents

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

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

F. Funds on Deposit with Fiscal Agent

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

G. Investments

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

H. Receivables

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

I. Due From Other Governments and Agencies

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

J. Interfund Activity

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

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

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

K. Inventories

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

L. Capital Assets

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

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

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

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

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

Depreciation and amortization are recorded in the government-wide financial statements, proprietary funds, fiduciary funds and component unit financial statements. Capital assets of the primary government are depreciated using the straight-line method over the assets' estimated useful life.

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

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

M. Bonds Payable

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

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

N. Obligations under Capital Leases

The construction and acquisition of certain office buildings, campus facilities and other public facilities, as well as certain equipment acquisitions, have been financed through bonds and notes issued by a trustee pursuant to a lease/purchase agreement with the State (See Note 7(E)).

O. Compensated Absences

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

P. Other Assets and Liabilities

Other assets reported within the primary government mainly consist of deposits required by contract with the State's healthcare claims administrator.

Other liabilities include 1) escrow deposits, accrued salary and fringe benefits for the governmental fund types; 2) accrued interest payable, accrued salaries, accrued vacation and sick leave for the proprietary fund types; and 3) escrow deposits, landfill closure costs, accrued expenses, and arbitrage and interest payable for the component units.

Q. Deferred Inflows/Outflows – Derivative Investments

The State reported deferred inflows of resources on the Statement of Net Position relating to the fair value of two interest-earning investment contracts that the Tobacco Settlement Financing Corporation, a blended component unit, entered into in 2002 in conjunction with the issuance of tobacco settlement revenue bonds. The change in the fair value of these instruments is deferred and recognized as investment income consistent with the timing of the purchase of investments pursuant to the related investment contract. See Note 3 for complete details of this derivative transaction.

R. Fund Balances

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

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

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

S. Recently Issued Accounting Standards

During the fiscal year ended June 30, 2013, the State adopted the following new accounting standards issued by GASB:

GASB Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements. This Statement establishes guidance for accounting and financial reporting for service concession arrangements (SCAs). These arrangements are often referred to as public-private partnerships or public-public partnerships (PPP). Implementation of this standard did not impact the State's financial statements.

GASB Statement No. 61 – The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34. This Statement modifies existing requirements for the assessment of potential component units in determining which entities should be included in the financial reporting entity, how those component units should be displayed (blending vs. discrete presentation), and certain disclosure requirements. The implementation of this standard resulted in a number of changes in reported discretely presented component units and related organizations within the State's reporting entity.

GASB Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. This Statement incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance included in Financial Accounting Standards Board and AICPA pronouncements issued on or before November 30, 1989. Implementation of this standard did not significantly impact the State's financial statements.

GASB Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. Deferred outflows of resources represent the consumption of the State's net position that is applicable to a future reporting period. Deferred inflows of resources represent the acquisition of net position that is applicable to a future period. GASB 63 prescribes the reporting requirements for these two elements and requires that the title of the statement of net assets be changed to the statement of net position. In addition to this financial statement title change, implementation of this standard resulted in the reporting of a deferred inflows of resources on the State's government-wide financial statements relating to the fair value of a hedging derivative.

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

GASB Statement No. 65 – Items Previously Reported as Assets and Liabilities. This Statement specifies the items that were previously reported as assets and liabilities that should now be reported as deferred outflows of resources, deferred inflows of resources, outflows of resources, or inflows of resources. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

GASB Statement No. 66 – *Technical Corrections – 2013 – an amendment to GASB No. 10 and No. 62*. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012.

GASB Statement No. 67 – *Financial Reporting for Pension Plans – an amendment to GASB Statement No. 25*. This Statement replaces the requirements of Statements No. 25 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 25 and No. 50 remain applicable to pension plans that are not administered through trust or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment to GASB Statement No. 27*. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014.

GASB Statement No. 69 – *Government Combinations and Disposals of Governmental Operations*. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.

GASB Statement No. 70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2013.

GASB Statement Nos. 65, 68 and 70, in particular, could impact the State's recognition of assets and liabilities in government-wide and/or fund financial statements. The requirements of these statements may require the restatement of beginning net position and fund balances in future periods. The State is currently not planning to early implement these statements, and has made no estimation of the effect these statements will have on the financial statements, except for GASB Statement No. 65.

GASB Statement No. 65 requires that issue costs for long-term debt be expensed in the year incurred. The State estimates that the beginning net position for fiscal year 2014 will decrease by approximately $13 million due to the implementation of GASB Statement No. 65. This will result from the write-off of deferred issuance costs on certain long-term debt.

T. Changes in Reporting Entity

As discussed above in fiscal year 2013 the State implemented *GASB Statement No. 61 – The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. After a full review of all existing component units the following entities are no longer considered component units as they do not present the potential to provide a financial benefit or impose a financial burden on the State.

- Rhode Island Student Loan Authority
- Narragansett Bay Commission
- Rhode Island Health and Educational Building Corporation
- Rhode Island Clean Water Finance Agency
- The College Crusade of Rhode Island

Except for The College Crusade of Rhode Island, the above entities met the criteria to be related organizations of the State.

In addition, the Rhode Island Public Telecommunications Authority is no longer a component unit as its operations have been assumed by the Rhode Island PBS Foundation.

See Note 18F regarding restatements of prior period net position for the State's discretely presented component units resulting from changes in the State's reporting entity resulting from the implementation of GASB Statement No. 61.

U. Changes in Financial Reporting and Financial Statement Presentation

Changes in Financial Reporting

(a) The Tobacco Settlement Financing Corporation modified its revenue recognition policy for tobacco settlement revenues (TSRs) by recognizing the revenue and related receivables at the time of the domestic shipment of cigarettes as opposed to when the TSRs are received. TSRs recognized for fiscal year 2013 included an accrual of $23.2 million. See details regarding the restatement of the TSFC's beginning net position relating to this change in Note 18F.

Changes in Financial Statement Presentation

(a) As a result of the reexamination of all potential component units in conjunction with the implementation of GASB Statement No. 61 – The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34, it was determined that Quonset Development Corporation, Rhode Island Airport Corporation, and the I-195 Redevelopment District Commission are component units of the State. In each instance the entities have the potential to provide a financial benefit or impose a financial burden on the State. They were formerly included as component units of the Rhode Island Economic Development Corporation.

The implementation of GASB Statement No. 61 also resulted in changes to those entities identified as major component units in the State's financial reporting entity. The RI Housing and Mortgage Finance Corporation and RI Resource Recovery Corporation are reported as nonmajor for fiscal year 2013 after previously being reported as major component units in previous financial statements. The RI Turnpike and Bridge Authority is reported as major for fiscal year 2013 after previously being reported as a nonmajor component unit in previous financial statements.

(b) The financial statements of the Tobacco Settlement Financing Corporation (TSFC), a blended component unit, were determined to be more appropriately reflected as a Debt Service Fund, consistent with the implementation of GASB Statement No. 61. This change in presentation resulted from the TSFC's financial statement presentation being consolidated to a single governmental fund.

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

A. Primary Government-Governmental and Business-Type Activities

Cash Deposits

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

In accordance with Chapter 35-10.1 of the General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than 60 days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the cash deposits of the primary government were required to be collateralized at June 30, 2013 pursuant to this statutory provision. However, the Office of the General Treasurer has instituted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the balance of uninsured deposits. Additionally, consistent with State Investment Commission guidelines, certain interest-bearing deposit accounts used as short-term investments are required to be collateralized at 102% of the outstanding balance. The lone exception to the full collateralization requirement is the Ocean State Investment Pool Trust (OSIP or the Trust), which follows the 60 day time deposit rule, but otherwise does not require full collateralization. The investment objective of the OSIP's Cash Portfolio is to seek to obtain as high a level of current income as is generally consistent with the preservation of principal and liquidity within the OSIP's investment guidelines which are consistent with SEC Rule 2-A-7. While investment in the pool is not guaranteed or fully collateralized certain investments within the pool are collateralized. At June 30, 2013, of the $545 million invested, $157 million was either a US Government or Agency Security ($66.2 million) or a Collateralized Repurchase Agreement ($90.7 million).

With the exception of $580,240 in bank balances of the R.I. Convention Center Authority, as of June 30, 2013 all of the bank balances were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's or the blended component unit's name.

Cash Equivalent Investments and Investments

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

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

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

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

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

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

The State's cash equivalents and investments (expressed in thousands) at June 30, 2013 are as follows:

Pooled cash equivalents (at amortized cost)	
Financial company commercial paper	$ 219,900
Other commercial paper	9,500
Asset backed commercial paper	95,660
Government agency repurchase agreement	57,670
Other repurchase agreements	33,000
Treasury debt	51,216
Certificates of deposit	21,000
Government agency debt	14,997
Other notes	31,000
Other Instruments	11,000
Total investments	544,943
Plus: other assets in excess of other liabilities	162
Total investment pool	545,105
Funds held by fiduciary funds and discretely presented component units	
Less:	
Amounts categorized as funds on deposit with fiscal agent	20,821
Amounts held by fiduciary trust funds:	
Pension trusts	200,216
OPEB trust	3,266
RIPTA health fund	1,488
Amounts held for external parties	13,388
Amounts held by discretely presented component units:	
URI	11,018
RIHEAA	306
RIIRBA	3,153
Primary government pooled cash equivalents	291,449
Other primary government cash equivalents and investments	
Repurchase agreements	1,128
Financial company commercial paper	52,633
Government agency debt	16,686
Money Market Mutual Funds	11,214
Total primary government cash equivalents and investments	$ 373,110
Cash equivalents and investments	373,110
Cash	600,149
Total cash, cash equivalents and investments	$ 973,259
Statement of Net Position	
Cash and cash equivalents	895,602
Restricted cash and cash equivalents	8,338
Restricted investments	69,319
Total cash, cash equivalents and investments	$ 973,259

The State's restricted investments, equaling $69,319,000 are held by the Tobacco Settlement Financing Corporation, a blended component unit.

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

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

As of June 30, 2013, information about the State's exposure to interest rate risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

			Investment Maturities (in days) (At Amortized Cost)				
Investment Type	**At Fair Value**	**Total Amortized Cost**	**0-30**	**31-90**	**91-180**	**181-397**	**>397**
Financial Company Commercial Paper	$ 219,914	$ 219,900	$ 43,984	$ 108,967	$ 65,951	$ 998	$
Other Commercial Paper	9,498	9,500	5,500	1,000	3,000	--	
Asset Backed Commercial Paper	95,660	95,660	49,996	45,664	--	--	
Gov't Agency Repurchase Agreements	57,670	57,670	57,670	--	--	--	
Other Repurchase Agreements	33,007	33,000	12,000	21,000	--	--	
Treasury Debt	51,223	51,216	--	14,027	25,052	12,137	
Certificates of Deposit	21,000	21,000	21,000	--	--	--	
Government Agency Debt	15,003	14,997	--	1,000	--	5,999	7,998
Other Notes	31,000	31,000	4,000	22,000	5,000	--	
Other Instruments	11,000	11,000	11,000				
Grand Total	$ 544,975	$ 544,943	$ 205,150	$ 213,658	$ 99,003	$ 19,134	$ 7,998

Non-pooled Cash Equivalents and Investments:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Financial company commercial paper	$ 52,633	$ 52,633	$ 0	$ 0	$ 0
Government agency debt	16,686	16,686	0	0	0
Money Market Mutual Funds	11,214	11,214	0	0	0
Repurchase agreements	1,128	1,128	0	0	0
Cash equivalents and investments	$ 81,661	$ 81,661	$ 0	$ 0	$ 0

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

As of June 30, 2013, information about the State's exposure to credit risk for cash equivalents and investments (expressed in thousands) is as follows:

Pooled Cash Equivalents:

			Quality Ratings (1) (At Amortized Cost)		
Investment Type	**At Fair Value**	**Total Amortized Cost**	**A-1+**	**A-1**	**A-2**
Financial Company Commercial Paper	$ 219,914	$ 219,900	$ 112,940	$ 106,960	$ --
Other Commercial Paper	9,498	9,500	--	3,000	6,500
Asset Backed Commercial Paper	95,660	95,660	--	95,660	--
Gov't Agency Repurchase Agreements	57,670	57,670	54,670	3,000	--
Other Repurchase Agreements	33,007	33,000	--	33,000	--
Treasury Debt	51,223	51,216	51,216	--	--
Certificates of Deposit	21,000	21,000	--	21,000	--
Government Agency Debt	15,003	14,997	14,997	--	--
Other Notes	31,000	31,000	21,000	8,000	2,000
Other Instruments	11,000	11,000		11,000	--
Grand Total	$ 544,975	$ 544,943	$ 254,823	$ 281,620	$ 8,500

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

Non-pooled Cash Equivalents and Investments:

Issuer	Fair Value	Type of Investment	Moody's Rating	Average Maturities in Days
Government Agencies				
Federal Home Loan Bank Discount Note	$ 16,686	Government Agency	P-1	Not Applicable
Money market mutual funds				
Fidelity Institutional Money Market Gvt. Port Class III	9,622	Money Market	Aaa-mf	56
Goldman Sachs Treasury Instruments Fund	4	Money Market	Aaa-mf	57
Wells Fargo Advantage 100% Treasury Money Market Fund	1,588	Money Market	Aaa-mf	55
Commercial Paper				
Banco Santander Chile Commercial Paper	52,633	Commercial Paper	P-1	Not Applicable
	$ 80,533			

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

Funds on Deposit with Fiscal Agent

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

The State's funds on deposit with fiscal agent reported in the governmental funds (expressed in thousands) at June 30, 2013 and the breakdown by maturity are as follows:

		Investment Maturities (in Years)			
Investment Type	Fair Value	Less Than 1	1-5	6-10	More Than 10
Money Market Mutual Funds	$ 148,758	$ 148,758	0	0	0
Investment Contracts	5,414	5,414	0	0	0
Investments	$ 154,172	$ 154,172	$ 0	$ 0	$ 0

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

Issuer	Fair Value	Moody's Rating	Average Maturities in Days
Money Market Funds			
Dreyfus Treasury Prime Cash Management Fund	$ 2,902	Aaa-mf	52
Federated Govt. Obligation Tax Managed Fund	12,376	Aaa-mf	50
Fidelity Institutional Money Market Gvt. Port Class III	67,215	Aaa-mf	56
First American Treasury Obligations Fund	39,401	Aaa-mf	54
JP Morgan US Govt. Money Market Fund Agency Class	801	Aaa-mf	52
Wells Fargo Advantage 100% Treasury Money Market Fund	744	Aaa-mf	55
Morgan Stanley Prime Portfolio	4,500	Aaa-mf	26
Ocean State Investment Pool	20,819	N/A	N/A
Investment Contracts			
FSA Capital Management GIC	5,414	N/A	N/A
	$ 154,172		

Funds on deposit with fiscal agent also include approximately $518 thousand held by the Federal Unemployment Insurance Trust Fund.

B. Concentration of Credit Risk

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

Type	Issuer	Amount	Percentage
Money Market Funds	Fidelity Institutional Money Market Gvt. Port Class III	$ 76,837	14.57%
Money Market Funds	First American Treasury Obligations Fund	39,401	7.47%
Commercial Paper	Banco Santander Chile Commercial Paper	52,633	9.98%

C. Pension Trusts

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

Cash Deposits and Cash Equivalents

At June 30, 2013, the carrying amount of the ERS cash deposits was $2,350,000 and the bank balance was $2,688,000. The bank and book balances represent the plans' deposits in short-term trust accounts which include demand deposit accounts and interest-bearing, collateralized bank deposit accounts. The bank balance, $1,904,000, and the remainder representing interest-bearing collateralized bank deposits totaling $784,000, are either federally insured or collateralized (102%) with U.S. Treasury, agencies, and Federal Home Loan Bank letters of credit held by a third party custodian.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. None of the System's deposits were required to be collateralized at June 30, 2013 (excluding the collateralized interest-bearing deposits). However, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the deposit amounts that are not insured by federal depository insurance.

Investments

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

On July 1, 1992, the State Investment Commission pooled the assets of the ERS with the assets of the MERS for investment purposes only, and assigned units to the plans based on their respective share of market value. On September 29, 1994 and November 1, 1995, the assets of the SPRBT and the JRBT, respectively, were added to the pool for investment purposes only. The custodian bank holds assets of the System in a Pooled Trust and each plan holds units in the trust. The number of units held by each plan is a function of each plans' respective contributions to, or withdrawals from, the trust.

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

The following table presents the fair value of investments by type that are held within the Pooled Trust for the defined benefit plans at June 30, 2013 (expressed in thousands):

Pooled Investment Trust - Investment Type	Fair Value
Cash and Cash Equivalents	$ 34,812
Foreign Currencies	6,247
Money Market Mutual Fund	347,748
U.S. Government Securities	485,705
U.S. Government Agency Securities	369,389
Global Inflation Linked Bonds	139,739
Collateralized Mortgage Obligations	23,158
Corporate Bonds	408,309
Term Loans	291,140
Domestic Equity Securities	805
International Equity Securities	194
Commingled Funds - Domestic Equity	1,843,373
Commingled Funds - International Equity	1,736,807
Private Equity	557,190
Real Estate Limited Partnerships and Commingled Funds	241,159
Hedge Funds	1,084,675
Derivative Investments	(894)
Investments at Fair Value	$ 7,569,556
Receivable for investments sold	260,370
Payable for investments purchased	(297,226)
Payable to broker	(1,843)
Total	$ 7,530,857

Consistent with a target asset allocation model adopted by the State Investment Commission (SIC), the ERS directs its separate-account investment managers to maintain, within the mandate specified by the SIC, diversified portfolios by sector, credit rating and issuer using the prudent person standard, which is the standard of care employed solely in the interest of the participants and beneficiaries of the funds and for the exclusive purpose of providing benefits to participants and defraying reasonable expenses of administering the funds.

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

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Duration is a measure of a debt security's sensitivity to fair value changes arising from changes in the level of interest rates. It is the weighted average maturity of a bond's cash flows. The ERS manages its exposure to interest rate risk by comparing each fixed income manager portfolio's effective duration against a predetermined benchmark index based on that manager's mandate. The fixed income indices currently used by the ERS are:

Barclays US Aggregate Index
Barclays World Government Inflation –Linked All Maturities USD Hedge
Custom High Yield and Bank Loan Index – 30% Bank of America Merrill Lynch 1-3 BB-B High Yield and 70% Credit Suisse Institutional Leveraged Loan Index

At June 30, 2013, no fixed income manager was outside of the policy guidelines.

The following table shows the ERS's fixed income investments by type, fair value and the effective duration at June 30, 2013 (expressed in thousands):

Investment Type	Fair Value	Effective Duration
U.S. Government Securities	$ 485,705	5.41
U.S. Government Agency Securities	369,389	3.72
Collateralized Mortgage Obligations	23,158	3.52
Corporate Bonds	408,309	6.21
Global Inflation Linked Bonds	139,739	14.40
Term Loans	291,140	0.60
Total Fixed Income	$ 1,717,440	5.13

The ERS had investments at June 30, 2013 totaling $200,216,449 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The ERS's investment accounted for 37% of the total OSIP at June 30, 2013.

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

The ERS also invested $147,529,772 in a short-term money market mutual fund that held investments with a weighted average maturity of 66 days at June 30, 2013.

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

The ERS may invest in interest-only and principal-only strips in part to hedge against a rise in interest rates. Interest-only strips are based on cash flows from interest payments on underlying mortgages. Therefore, they are sensitive to pre-payments by mortgagees, which may result from a decline in interest rates. Principal-only strips receive principal cash flows from the underlying mortgages. In periods of rising interest rates, homeowners tend to make fewer mortgage prepayments.

Credit Risk

The ERS manages exposure to credit risk generally by instructing fixed income managers to adhere to an overall target weighted average credit quality for their portfolios and by establishing limits on the percentage of the portfolios that are invested in non-investment grade securities. The ERS's exposure to credit risk as of June 30, 2013 is as follows (expressed in thousands):

Quality Rating (1)	Collateralized Mortgage Obligations	U.S. Government Agency Obligations	Corporate Bonds	Gobal Inflation Linked Bonds	Term Loans
Aaa	$ 12,131	$ 369,389	$ 10,451	$ 22,240	$
Aa	6,069		4,603	112,135	
A	3,710		86,513		
Baa	1,248		199,182	5,364	14,611
Ba			42,929		96,356
B			53,323		119,498
Caa			11,259		4,511
Ca					
C					
D					
Not rated			49		56,164
Fair Value	$ 23,158	$ 369,389	$ 408,309	$ 139,739	$ 291,140

Concentration of Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2013, all securities were registered in the name of the ERS (or in the nominee name of its custodial agent) and were held in the possession of the ERS's custodial bank, Bank of New York Mellon.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely impact the fair value of an investment. Portfolios are diversified to limit foreign currency and security risk. The ERS may enter into foreign currency exchange contracts to minimize the short-term impact of foreign currency fluctuations on foreign investments. The ERS's exposure to foreign currency risk at June 30, 2013, was as follows (expressed in thousands):

Currency	Commingled Fund	Foreign Cash	Derivative Contracts	Global Inflation Linked Bonds	Equities	Private Equity	Total
Australian Dollar	$ 95,062	$	$ 5	$ 3,146	$	$	$ 98,213
Austrian Schilling	3,210						3,210
Belgian Franc	13,699						13,699
Brazilian Real	41,249			2,434			43,683
British Pound	256,629		(187)	61,573			318,015
Canadian Dollar	120,814		1	10,004	194	12,507	143,520
Chilean Peso	7,049						7,049
Chinese Yuan Renminbi	49,580						49,580
Colombian Peso	4,461						4,461
Czech Republic Koruna	903						903
Danish Krone	13,363						13,363
Egyptian Pound	914						914
Euro Currency	323,896	6,247	(490)	45,269		85,088	460,010
Hong Kong Dollar	60,920						60,920
Hungarian Forint	980						980
Indian Rupee	27,727						27,727
Indonesia Rupiah	12,495						12,495
Israeli Shekel	6,035						6,035
Japanese Yen	276,406		311	5,258			281,975
Malaysian Ringgit	16,090						16,090
Mauritian Rupee	348						348
Mexican Peso	21,584			2,931			24,515
Moroccan Dirham	295						295
New Zealand Dollar	1,432						1,432
Norwegian Krone	9,426						9,426
Peruvian Nouveau Sol	1,307						1,307
Philippine Peso	4,100						4,100
Polish Zloty	6,087						6,087
Russian Ruble	21,564						21,564
Singapore Dollar	19,479						19,479
South Africa Rand	28,631						28,631
South Korean Won	58,042						58,042
Swedish Krona	37,358		(44)	9,124			46,438
Swiss Franc	113,442						113,442
Taiwan Dollar	47,179						47,179
Thailand Baht	11,103						11,103
Turkish Lira	7,730						7,730
Total	$ 1,720,589	$ 6,247	$ (404)	$ 139,739	$ 194	$ 97,595	$ 1,963,960
US Dollar	16,218						
Commingled Fund	$ 1,736,807						

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

Derivatives and Other Similar Investments

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

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

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

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

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

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

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

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

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

The following summarize the ERS's exposure to specific derivative investments at June 30, 2013 (expressed in thousands).

Investment Derivative Instruments	Change in fair value included in investment income	Fair value at June 30, 2013	Notional amount
Fixed income futures - long	$ (873)	$	$ 40,255
Fixed income futures - short	(7,086)	(615)	
Index futures - long	30,736	378	39,036
Index futures - short	(32)	(721)	(14,562)
Credit default swap		63	2,000
	$ 22,745	$ (895)	
Foreign Currency Forward Contracts:			
Pending payable (liability)		$ (1,357)	

The ERS is exposed to counterparty risk on foreign currency contracts that are in asset positions. The aggregate fair value of derivative instruments in asset positions at June 30, 2013 was $441 thousand.

This represents the maximum loss that would be recognized if all counterparties failed to perform as contracted. Risk is mitigated by using a continuous linked settlement process.

Credit Default Swaps can be used in the portfolio by the credit manager to either obtain exposure to the high yield market efficiently (i.e. by selling protection) at a similar or better price than what can be obtained in cash bonds, or to hedge the credit risk of the portfolio (i.e. buy protection). The actual swap entered into sold protection on an index to effectively and quickly gain long exposure to the high yield markets giving this new manager time to invest in individual cash bonds in line with the mandate.

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

Other Investments –Defined Contribution Plan

The State Investment Commission selected various investment options for defined contribution plan participants with the overall objective of offering low-cost, strategic, and long-term oriented investment products. Plan participants can choose one or more of the various options and can change options at any time. Plan participants who do not elect a specific option default to a target date retirement fund consistent with their anticipated Social Security retirement eligibility date. The plan's holdings at June 30, 2103 are as follows (expressed in thousands):

Investment Type	Fair Value	% of Total	Duration (years)	Weighted Average Maturity (days)
Annuities				
TIAA Stable Value	$ 1,554	1.3%		
TIAA Real Estate-variable annuity	579	0.5%		
Total	$ 2,133	1.8%		
Money Market				
Vanguard Prime Money Market Fund	$ 148	0.1%		59
Fixed Income Funds				
Primco Real Return Institutional Class	1,145	0.9%	6.35	
Vanguard Total Bond Market Index	803	0.7%	5.31	
Total	$ 1,948	1.6%		
Target Retirement Funds				
Vanguard Target Retirement 2010 Investor Class	2,651	2.2%		
Vanguard Target Retirement 2015 Investor Class	10,096	8.2%		
Vanguard Target Retirement 2020 Investor Class	17,484	14.3%		
Vanguard Target Retirement 2025 Investor Class	18,383	14.9%		
Vanguard Target Retirement 2030 Investor Class	17,986	14.7%		
Vanguard Target Retirement 2035 Investor Class	17,060	13.9%		
Vanguard Target Retirement 2040 Investor Class	13,082	10.7%		
Vanguard Target Retirement 2045 Investor Class	9,653	7.9%		
Vanguard Target Retirement 2050 Investor Class	5,103	4.2%		
Vanguard Target Retirement 2055 Investor Class	1,086	0.9%		
Vanguard Target Retirement 2060 Investor Class	105	0.1%		
Vanguard Target Retirement Income Investor Class	813	0.7%		
Total	$ 113,502	92.7%		
Equity Mutual Funds				
TIAA-CREF International Equity Index Fund Institutional	509	0.4%		
Vanguard 500 Index Fund Signal Class	2,085	1.7%		
Vanguard Emerging Markets Stock Index Signal Class	502	0.4%		
Vanguard Mid-Cap Index Fund Signal Class	834	0.7%		
Vanguard Small Cap Index Fund Signal Class	744	0.6%		
Total	$ 4,674	3.8%		
Total	$ 122,405	100.0%		

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the ERS will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2013, all assets and securities were registered in the name of TIAA-CREF as the Defined Contribution Plan's record keeper for the benefit of plan members and were held in the possession of TIAA-CREF's custodian, J.P. Morgan Bank.

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

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

D. OPEB Trust Funds

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

Cash Deposits and Cash Equivalents

At June 30, 2013, the carrying amount of the OPEB System's cash deposits was $313,747 and the bank balance was the same amount. The bank and book balances represent the OPEB System's deposits in short-term trust accounts, which include fully insured demand deposit accounts and interest-bearing, collateralized bank deposit accounts.

In accordance with Rhode Island General Law Chapter 35-10.1, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent of time deposits with maturities greater than sixty days. Any of these institutions that do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent of deposits, regardless of maturity. In addition, the State Investment Commission has adopted a collateralization requirement for institutions holding the State's deposits. Financial institutions are required to pledge collateral equal to 102% of the uninsured deposit amounts. At June 30, 2013, the System's cash deposits were either federally insured or collateralized.

In addition, at June 30, 2013, the System also had cash equivalent investments consisting of $3,265,884 in the Ocean State Investment Pool Trust (OSIP), an investment pool established by the State General Treasurer. The System's investment accounted for .6% of the total investment in OSIP at June 30, 2013. Funds of agencies, authorities, commissions, boards, municipalities, political subdivisions, and other public units of the State are eligible to invest in OSIP. OSIP operates in a manner consistent with a SEC Rule 2a-7 like pool and thus, reports all investments at amortized cost rather than fair value. The OSIP is not rated and the weighted average maturity of investments held in the pool, by policy, is not to exceed 60 days. OSIP issues a publicly available financial report that can be obtained by writing to the Office of the General Treasurer, Finance Department, 50 Service Avenue - 2nd Floor, Warwick, RI 02886.

Investments

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

The assets of each of the plans are pooled for investment purposes only, and units are assigned to the plans based on their respective share of market value. The custodian bank holds assets of the OPEB

System in a Pooled Account and each plan holds units in the account. The number of units held by each plan is a function of each plan's respective contributions to, or withdrawals from, the account. Investment expense is allocated to each plan based on the plan's units in the pooled trust at the end of each month.

The following table presents the fair value of investments by type that are held within the pooled trust at June 30, 2013 (expressed in thousands):

Investment Type		Fair Value
Money Market Mutual Fund	$	2,612
US Government Securities		8,272
US Government Agency Securities		7,998
Collateralized Mortgage Obligations		623
Corporate Bonds		6,167
Commingled Funds - Domestic Equity		44,835
		70,507
Net investment receivable (payable)		(1,919)
Total Investments at Fair Value	$	68,588

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

Interest Rate Risk

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

The following table shows the OPEB System's fixed income investments by type, fair value and the effective duration at June 30, 2013 (expressed in thousands):

Investment Type		Fair Value	Effective Duration
US Government Securities	$	8,272	4.32
US Government Agency Securities		7,998	4.00
Collateralized Mortgage Obligations		623	5.16
Corporate Bonds		6,167	7.87
Total Fixed Income	$	23,060	4.67

The OPEB System's investment in Dreyfus Institutional Cash Advantage Fund, a money market mutual fund, had an average maturity of 41 days at June 30, 2013.

Credit Risk

The OPEB System generally manages exposure to credit risk by adhering to an overall target weighted average credit quality for the portfolio.

The OPEB System's exposure to credit risk on corporate bonds as of June 30, 2013 is as follows (expressed in thousands):

Rating (1)	Collateralized Mortgage Obligations	US Government Agency Obligations	Corporate Bonds
Aaa	$ 623	$ 7,998	$ -
Aa			99
A			1,460
Baa			4,453
Ba			155
Fair Value	$ 623	$ 7,998	$ 6,167

(1) Moody's Investor Service

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

Concentration of Credit Risk

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

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the OPEB System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At June 30, 2013, all securities were registered in the name of the OPEB System (or in the nominee name of its custodial agent) and were held in the possession of its custodial bank, Bank of New York Mellon.

Derivatives and Other Similar Investments

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

E. Private Purpose Trust

The private purpose trust (Touro Jewish Synagogue) had investments of $2,267,000 in the Fidelity Balanced Fund as of June 30, 2013.

F. Agency Funds

As of June 30, 2013, all of the bank balances of Agency Funds were either covered by federal depository insurance or collateralized by securities held by an independent third party in the State's name.

Note 3. Hedging Derivatives

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

One contract, having a notional amount of $51,351,531, with Morgan Stanley & Co. Inc. as provider, generates a fixed annual rate of return of 5.48% through June 1, 2042. As of June 30, 2013 Morgan Stanley & Co. Inc. long-term debt was rated Baa1 by Moody's and A- by Standard & Poor's. At June 30, 2013 Banco Santander Chile Commercial Paper was held pursuant to this contract.

The other contract, the notional amount of which varies based on the TSFC's debt service payment requirements, is with JP Morgan Chase Bank, N.A. as provider and generates a fixed annual rate of return of 4.013% through June 1, 2022 or the date on which the trustee and the TSFC have satisfied all of their obligations under the agreement. As of June 30, 2013 JP Morgan Chase Bank, N.A. long-term debt was rated A2 by Moody's and A- by Standard & Poor's. At June 30, 2013 a Federal Home Loan Bank Discount Note was held pursuant to this contract.

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

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

Note 4. Receivables

Receivables at June 30, 2013 (expressed in thousands) consist of the following:

Primary Government	Taxes Receivable	Accounts Receivable	Notes and Loans Receivable	Total Receivables, Net	Due from Other Governments and Agencies	Due from Component Units
Governmental receivables	$ 446,381	$ 356,944	$ 1,530	$ 804,855	$ 242,265	$ 59,904
Less: Allowance for Uncollectibles	102,118	103,369	464	205,951		
Governmental receivables, net	344,263	253,575	1,066	598,904	242,265	59,904
Business-type receivables	73,687	32,760		106,447	1,565	
Less: Allowance for Uncollectibles	4,668	21,103		25,771		
Business-type receivables, net	69,019	11,657		80,676	1,565	
Receivables, Net of Allowance for Uncollectibles	413,282	265,232	1,066	679,580	243,830	59,904
Less: Current Portion						
Governmental receivables	337,204	239,236	105	576,545	239,585	4,489
Business-type receivables	69,019	11,657		80,676	1,565	
Noncurrent Receivables, Net	$ 7,059	$ 14,339	$ 961	$ 22,359	$ 2,680	$ 55,415

Note 5. Intra-Entity Receivables and Payables

Intra-entity receivables and payables as of June 30, 2013 are the result of ongoing operations and are expected to be reimbursed within the subsequent fiscal year. They are summarized below (expressed in thousands):

	Interfund Receivable	Interfund Payable	Description
Governmental Funds			
Major Funds			
General	$ 283	$	Reimbursement for operating expenses
Intermodal Surface Transportation	9,379		Transportation funding
Non-Major Funds			
RI Temporary Disability Insurance		605	Debt service and administrative costs
Bond Capital		41	State match for transportation
RI Capital Plan		15,068	Primarily for transportation State match
Certificates of Participation	291		Fees restricted for COPS debt service
Total Non-Major Funds	291	15,714	
Total Governmental	9,953	15,714	
Proprietary Funds			
Enterprise			
RI Lottery		1,201	Net income owed to General Fund
RI Convention Center Authority	1,859		Project funding
Employment Security Trust	3,967		Benefit reimbursements
Total Enterprise	5,826	1,201	
Internal Service	1,437	301	Settlement of services rendered
Total Internal Service			
Total primary government	$ 17,216	$ 17,216	

Note 6. Capital Assets

The capital asset activity of the reporting entity for the year ended June 30, 2013 consists of the following (expressed in thousands):

Primary Government

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 358,968	$ 16,657	$ (400)	$ 375,225
Works of Art	1,414	975		2,389
Intangibles	159,093	2,684		161,777
Construction in progress *	450,433	281,824	(137,600)	594,657
Total capital assets not being depreciated or amortized	969,908	302,140	(138,000)	1,134,048
Capital assets being depreciated or amortized:				
Land improvements	3,700			3,700
Buildings *	685,494	27,456	(1,635)	711,315
Building Improvements *	267,714	2,664		270,378
Furniture and equipment *	244,916	17,303	(9,130)	253,089
Intangibles	14,049		(9)	14,040
Infrastructure *	3,193,823	102,024		3,295,847
Total capital assets being depreciated or amortized	4,409,696	149,447	(10,774)	4,548,369
Less accumulated depreciation or amortization for:				
Land improvements	3,389	50		3,439
Buildings *	214,035	13,294	(2,145)	225,184
Building Improvements *	175,130	8,942		184,072
Furniture and equipment	217,398	11,752	(8,972)	220,178
Intangibles	12,270	712	(9)	12,973
Infrastructure *	1,433,110	111,078		1,544,188
Total accumulated depreciation or amortization	2,055,332	145,828	(11,126)	2,190,034
Total capital assets being depreciated or amortized, net	2,354,364	3,619	352	2,358,335
Governmental activities capital assets, net	$ 3,324,272	$ 305,759	$ (137,648)	$ 3,492,383

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

General government	$ 8,289
Human services	6,090
Education	3,512
Public safety	11,075
Natural resources	5,413
Transportation	111,449
Total depreciation or amortization expense - governmental activities	$ 145,828

* Beginning balances have been restated.

Business-type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 45,558	$	$	$ 45,558
Construction in progress	24	446	(24)	446
Total capital assets not being depreciated	45,582	446	(24)	46,004
Capital assets being depreciated:				
Buildings	234,384	33	(33)	234,384
Machinery and equipment	25,646	1,539	(105)	27,080
Intangibles		175		175
Total capital assets being depreciated	260,030	1,747	(138)	261,639
Less accumulated depreciation for:				
Buildings	109,229	8,266	(18)	117,477
Machinery and equipment	18,923	2,057	(99)	20,881
Intangibles		15		15
Total accumulated depreciation	128,152	10,338	(117)	138,373
Total capital assets being depreciated, net	131,878	(8,591)	(21)	123,266
Business-type activities capital assets, net	$ 177,460	$ (8,145)	$ (45)	$ 169,270

Discretely Presented Component Units

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated or amortized:				
Land *	$ 109,115	$ 1,376	$ (125)	$ 110,366
Construction in progress *	186,309	122,592	(188,918)	119,983
Other	250			250
Total capital assets not being depreciated or amortized	295,674	123,968	(189,043)	230,599
Capital assets being depreciated or amortized:				
Buildings *	1,728,139	169,219	(52)	1,897,306
Land improvements	194,237	3,325		197,562
Machinery and equipment *	376,409	47,711	(15,884)	408,236
Infrastructure *	171,290	18,459		189,749
Total capital assets being depreciated or amortized	2,470,075	238,714	(15,936)	2,692,853
Less accumulated depreciation or amortization for:				
Buildings *	621,457	56,942	(23)	678,376
Land improvements *	112,214	6,891		119,105
Machinery and equipment *	224,425	27,929	(15,633)	236,721
Infrastructure *	48,169	7,325		55,494
Total accumulated depreciation or amortization	1,006,265	99,087	(15,656)	1,089,696
Total capital assets being depreciated or amortized, net	1,463,810	139,627	(280)	1,603,157
Total capital assets, net	$ 1,759,484	$ 263,595	$ (189,323)	$ 1,833,756

* Beginning balances have been restated.

Note 7. Long-Term Liabilities

A. Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2013 are presented in the following table:

Long-term Liabilities
(Expressed in Thousands)

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental Activities						
Bonds Payable						
General obligation bonds (see section B)	$ 1,110,585	$ 81,400	$ (88,040)	$ 1,103,945	$ 76,825	$ 1,027,120
RIEDC Grant Anticipation Revenue Bonds	342,720		(31,075)	311,645	32,615	279,030
RIEDC Rhode Island Motor Fuel Tax Revenue Bonds	70,350		(3,840)	66,510	3,985	62,525
Tobacco Settlement Asset-Backed Bonds	779,426		(14,265)	765,161		765,161
Accreted interest on TSFC bonds	66,901	16,150		83,051		83,051
RIEDC Historic Tax Credit Bonds	105,990		(15,415)	90,575	16,175	74,400
Net unamortized premium/discount	59,870	10,410	(11,661)	58,619		58,619
Deferred amount on refunding	(16,839)		1,064	(15,775)		(15,775)
Bonds Payable, net	2,519,003	107,960	(163,232)	2,463,731	129,600	2,334,131
Obligation under capital leases (see section E)	233,800	114,865	(115,690)	232,975	22,835	210,140
Net unamortized premium/discount	4,622	17,097	(3,278)	18,441		18,441
Deferred amount on refunding	(958)	(5,523)	215	(6,266)		(6,266)
Obligation under capital leases, net	237,464	126,439	(118,753)	245,150	22,835	222,315
Compensated absences	81,063	64,138	(64,903)	80,298	65,911	14,387
Net pension obligation		1,816		1,816		1,816
Net OPEB Obligation (see note 15 C)	11,248	93		11,341		11,341
Special obligation notes	8,175		(1,500)	6,675	1,565	5,110
Other Long-term Liabilities						
Pollution remediation	11,515	2,962	(4,970)	9,507	2,307	7,200
Other	46,178	1,583	(21,319)	26,442	1,509	24,933
Total Governmental Long-term Liabilities	$ 2,914,646	$ 304,991	$ (374,677)	$ 2,844,960	$ 223,727	$ 2,621,233
Business-type Activities						
Revenue bonds (see section B)	$ 250,510	$ 37,335	$ (50,885)	$ 236,960	$ 10,060	$ 226,900
Net unamortized premium/discount	825	5,823	(1,549)	5,099		5,099
Deferred amount on refunding	(9,800)	976	1,086	(7,738)		(7,738)
Revenue bonds, net	241,535	44,134	(51,348)	234,321	10,060	224,261
Notes payable	419		(188)	231	188	43
Unearned Revenue	7,645	2,911	(1,133)	9,423	3,118	6,305
Compensated absences	400	246	(256)	390	167	223
Due to Other Governments and Agencies (see Section J)	224,646		(69,370)	155,276		155,276
Total Business-type Long-term Liabilities	$ 474,645	$ 47,291	$ (122,295)	$ 399,641	$ 13,533	$ 386,108
Component Units						
Bonds payable (see section B)	$ 2,191,735	$ 435,518	$ (422,808)	$ 2,204,445	$ 73,985	$ 2,130,460
Net unamortized premium/discount	9,385	7,479	(1,053)	15,811	864	14,947
Deferred amount on refunding	(6,355)		638	(5,717)		(5,717)
Bonds Payable, net	2,194,765	442,997	(423,223)	2,214,539	74,849	2,139,690
Notes payable (see section C)	95,761	324,000	(321,785)	97,976	77,799	20,177
Loans payable (see section D)	42,476	173	(672)	41,977	602	41,375
Obligations under capital leases	9,629		(1,603)	8,026	1,095	6,931
Net OPEB obligation	38,466	8,425	(13)	46,878		46,878
Compensated absences	33,601	1,024	(2,002)	32,623	9,348	23,275
Due to primary government	60,508	4,954	(5,558)	59,904	4,489	55,415
Due to Other Governments and Agencies	165		(51)	114	114	
Unearned Revenue	37,543	17,149	(19,331)	35,361	22,445	12,916
Due to Component Units	1,858	337	(249)	1,946	552	1,394
Other Long-term liabilities						
Arbitrage rebate	3,814		(2,114)	1,700		1,700
Pollution remediation	25,502		(8,598)	16,904	987	15,917
Other liabilities	256,557	54,321	(15,846)	295,032	7,321	287,711
Total Component Units Long-term Liabilities	$ 2,800,645	$ 853,380	$ (801,045)	$ 2,852,980	$ 199,601	$ 2,653,379

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

B. Bonds Payable

At June 30, 2013, future debt service requirements were as follows (expressed in thousands):

Fiscal Year Ending June 30	Primary Government: Governmental Activities Principal	Governmental Activities Interest	Business Type Activities Principal	Business Type Activities Interest	Component Units Principal	Component Units Interest
2014	$ 129,600	$ 111,198	$ 10,060	$ 12,970	$ 73,985	$ 88,505
2015	141,060	105,085	10,750	12,229	77,741	86,146
2016	147,095	98,331	11,300	11,673	73,196	83,420
2017	154,725	90,900	11,285	11,182	73,681	80,656
2018	147,310	83,500	10,955	10,620	80,094	77,763
2019 - 2023	518,340	327,393	68,355	43,884	420,200	301,133
2024 - 2028	269,115	226,823	75,785	23,147	422,468	245,930
2029 - 2033	261,885	167,141	25,820	8,711	407,440	154,243
2034 - 2038		116,156	12,650	1,161	287,045	75,894
2039 - 2043	371,700	92,925			204,015	30,483
2044 - 2048					61,270	10,756
2049 - 2053	197,006	2,637,174 *			23,310	1,295
	$ 2,337,836	$ 4,056,626	$ 236,960	$ 135,577	$ 2,204,445	$ 1,236,224

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

Primary Government - *Governmental Activities*

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

During the year ended June 30, 2013 the State issued $81,400,000 of general obligations bonds with interest rates ranging from 2.00% to 5.00%, maturing from 2014 through 2033.

At June 30, 2013, general obligation bonds authorized by the voters and unissued amounted to $244,600,000. In accordance with the General Laws, unissued bonds are subject to extinguishment seven years after the debt authorization was approved, unless extended by the General Assembly.

In addition to the debt authorized by the voters for which the full faith and credit is pledged, the General Assembly has authorized the issuance of other debt that is subject to annual appropriation. The following authorizations have been enacted and the State plans to issue the debt over the next several years: (1) Energy Conservation Certificates of Participation - $109,240,000, and (2) Information Technology Improvements Certificates of Participation - $45,300,000. The unissued balances are $35,200,000 and $36,130,000 respectively.

Historic Tax Credit Bonds - In FY2009 the RIEDC, on behalf of the State, issued $150,000,000 of revenue bonds under the Historic Structures Tax Credit Financing Program. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The RIEDC has no taxing power. The State is obligated under a Payment Agreement to make payments to the trustee. This obligation is subject to annual appropriation by the General Assembly. The proceeds of the bonds are being used to provide funds for redemption of Historic Structures Tax Credits. There is remaining authorization to issue up to $206,200,000 of Historic Tax Credit Bonds.

RIEDC Grant Anticipation Bonds and Rhode Island Motor Fuel Tax Revenue Bonds - The R.I. Economic Development Corporation (RIEDC), on behalf of the State, issues special obligation debt. Grant Anticipation Revenue Vehicle Bonds are payable solely from future federal aid revenues to be received by the State in reimbursement of federally eligible costs of specific transportation construction projects. Rhode Island Motor Fuel Tax Revenue Bonds are payable solely from certain pledged revenues derived from two cents ($.02) per gallon of the thirty-two cents ($.32) per gallon Motor Fuel Tax. The bonds provide the State matching funds for the Grant Anticipation Revenue Vehicle Bonds. The bonds do not constitute a debt, liability, or obligation of the State or any political subdivision thereof. The 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. Pledged revenues were sufficient to fund fiscal 2013 debt service payments for Grant Anticipation and Motor Fuel Tax Revenue Bonds. These revenues have been pledged for the term of the Grant Anticipation and Motor Fuel Tax Revenue Bonds through fiscal 2021 and 2027, respectively.

Tobacco Settlement Asset-Backed Bonds and Accreted Interest - The Tobacco Settlement Financing Corporation (TSFC), a blended component unit, has issued $882,395,742 of Tobacco Asset-Backed Bonds that were used to purchase the State's future rights in the Tobacco Settlement Revenues under the Master Settlement Agreement and the Consent Decree and Final Judgment. The bonds are secured solely by and are payable solely from the tobacco receipts sold to the TSFC and other monies of the TSFC and do not constitute a general, legal, or moral obligation of the State or any political subdivision thereof, and the State has no obligation or intention to satisfy any deficiency or default of any payment of the bonds. The TSFC has no taxing power. Certain of the TSFC bonds are capital appreciation bonds on which no periodic interest payments are made, but which were issued at a deep discount from par and accrete to full value at maturity in the year 2052. The bond indenture contains "Turbo Maturity" provisions, whereby the TSFC is required to apply 100% of all collections that are in excess of the current funding requirements of the indenture to the early redemption of the bonds. During the year ended June 30, 2013, TSFC utilized $14,265,000 of excess collections to early redeem an equal amount of outstanding bonds. Pledged tobacco revenues were sufficient to fund fiscal 2013 debt service payments for Tobacco Settlement Asset-Backed bonds. These revenues have been pledged for the term of the underlying debt through fiscal 2052.

Primary Government - *Business-Type Activities*

R.I. Convention Center Authority

The R.I. Convention Center Authority (RICCA) is limited to the issuance of bonds or notes in an aggregate principal amount of $305,000,000. At June 30, 2013, outstanding bond and note indebtedness totaled $237,191,000.

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

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

During March 2013, RICCA issued Refunding Revenue Bonds, 2013 Series A, in an aggregate principal amount of $37,335,000 for the purpose of refunding RICCA's outstanding Refunding Revenue Bonds, 2003 Series A, refunding a portion of RICCA's Refunding Revenue Bonds, 1993 Series B, and to pay costs of issuance. The bonds bear interest at rates ranging from 2% to 5% and mature in varying installments beginning May 15, 2015 through May 15, 2020. The debt service prior to refunding was $53,325,950 while the debt service subsequent to the refunding is $46,426,283; therefore, the refunding resulted in savings of $6,899,667, the present value of which is $6,444,627.

Each of the RICCA's Bond Resolutions contains certain restrictive covenants. During fiscal year 2013, the RICCA was unable to fund the Operating Reserve and Debt Service Reserve requirements.

Subsequent to June 30, 2013, RICCA and the Rhode Island Department of Administration (DOA) entered into two grant agreements that provide for total appropriations of $6,475,000 for the purpose of funding the renewal and replacement requirement included in the 2006 Series A Bonds (DDC) and $5,500,000 for the purpose of funding renovations and repairs to the RICCA through June 30, 2018. Under the grant agreement for the DDC, RICCA will receive funding of $925,000 in fiscal year 2014 and will receive annual appropriations of $1,387,500 through fiscal year 2018. Under the grant agreement for the RICCA, they received funding of $500,000 in fiscal year 2013 and will receive annual appropriations of $1,000,000 through fiscal year 2018. Any unexpended funds from one fiscal year will be recommended to be re-appropriated to the subsequent fiscal year.

Discretely Presented Component Units

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

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

At June 30, 2013 revenue bonds outstanding were as follows: URI - $235,502,000, RIC - $18,447,000 and CCRI - $3,117,000.

R.I. Airport Corporation

Per its Master Indenture of Trust and Supplemental Indentures, the R.I. Airport Corporation (RIAC) has pledged net revenues derived from the operation by RIAC of the Airport and certain outlying airports to repay $244,967,000 in airport revenue bonds issued on their behalf by RIEDC. Proceeds from the bonds were used for various airport improvement projects. The amount available to pay debt service per the Master Indenture, including pledged passenger facility charges, was approximately $38,691,000 for the year ended June 30, 2013. Principal and interest payments for the year ended June 30, 2013 were approximately $22,521,000.

RIAC has pledged facility revenues related to the InterLink Facility, net of specified operating expenses, to repay $47,570,000 in First Lien Special Facility Bonds. Proceeds from the bonds were used for the construction of the InterLink Facility. Facility revenues, including interest income, were $7,419,000 for the year ended June 30, 2013. Principal and interest paid for the year ended June 30, 2013 was approximately $3,005,000. Principal payments commenced on July 1, 2011. The InterLink Facility includes consolidated facilities for Airport rental car operations; a train platform to provide access for commuter rail service south to Wickford, Rhode Island and north to both Providence and Boston; and a parking garage for rental car operators and rail commuters.

I-195 Redevelopment District Commission

In April 2013, RIEDC issued Economic Development Revenue Bonds, 2013 Series A, in the aggregate principal amount of $37,440,000, for which the I-195 Redevelopment District Commission (I-195 RDC) is the obligor. The 2013 Series A Bonds mature in April 2033. Through April 30, 2013, the 2013 Series A Bonds bore interest at 1.1717%; thereafter, the bonds bear interest at the lesser of the 30-Day London InterBank Offered Rate (LIBOR) (0.20% at June 30, 2013) plus applicable margin, or 7.75 %.

Concurrent with the issuance of the 2013 Series A Bonds, RIEDC issued Economic Development Bonds, 2013 Series B (federally taxable), in the aggregate principal amount of $960,000, for which the RI-195 RDC is the obligor. The 2013 Series B Bonds mature in April 2019. Through April 30, 2013, the 2013 Series B Bonds bore interest at 1.3217%; thereafter, the 2013 bonds bear interest at the lesser of the 30-Day LIBOR (0.20% at June 30, 2013) plus applicable taxable margin, or 7.75%.

Applicable margin and applicable taxable margin is the rate that corresponds to the lesser of the two long-term bond ratings of the State from Moody's Investors Service (Moody's) and Standard & Poor's (S&P) in the following table:

State Bond Rating (S & P/Moody's):	AA/Aa2 or Higher	AA-/Aa3	A+/A1	A/A2	A-/A3
Applicable Margin, 2013 Series A	1.00%	1.17%	1.37%	1.57%	1.82%
Applicable Taxable Margin, 2013 Series B	1.15%	1.32%	1.52%	1.72%	1.97%

The State's bonds were rated AA- and Aa3 by S&P and Moody's, respectively, as of March 2013, which is the most recent date for which bond rating information is available. As such, at June 30, 2013, the 2013 Series A bonds bore interest at 1.37%, and the 2013 Series B bonds bore interest at 1.52%.

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

Concurrent with the issuance of the 2013 Series A and B Bonds, the State entered into separate rate cap transaction agreements with the Bank for each bond series (the 2013 Series A and B Rate Cap Agreements). Under the terms of the 2013 Series A Rate Cap Agreement, the State paid the Bank $658,500. In exchange, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.20% at June 30, 2013), to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series A Bonds through April 1, 2023. The interest rate under the 2013 Series A Rate Cap Agreement is capped at 6.75%.

Under the terms of the 2013 Series B Rate Cap Agreement, the Bank agreed to pay the State interest on a monthly basis at 30-Day LIBOR (0.20% at June 30, 2013), to the extent 30-Day LIBOR exceeds the interest rate cap, on the notional amount, which mirrors the scheduled principal balance of the 2013 Series B Bonds, through April 1, 2019. The State made no payment to the Bank under the terms of that agreement. The interest rate under the 2013 Series B Rate Cap Agreement is capped at 6.85%.

At June 30, 2013, the fair value of the 2013 Series A and B Rate Cap Agreements was $635,834 and is estimated as the amount the Bank would receive to terminate the Rate Cap Agreement at that date, taking into account current interest rates and the current credit worthiness of the counterparties.

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

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

Proceeds from the 2013 Series A and B Bonds were transferred by the Commission to the State's Intermodal Surface Transportation Fund. As required by federal regulations, the State must utilize the proceeds for infrastructure projects consistent with those eligible for federal funding under the Highway Planning and Construction Program.

R.I. Industrial-Recreational Building Authority

The $60,000,000 of authorized bonds that may be issued by the R.I. Industrial-Recreational Building Authority (RIIRBA) are limited by mortgage balances that it has insured which are guaranteed by the State. See Note 12 for details of specific commitments relating to a defaulted project guaranteed by RIIRBA.

R.I. Resource Recovery Corporation

The R.I. Resource Recovery Corporation (RIRRC) issued bonds in 2002 known as Resource Recovery System Revenue Bonds, 2002 Series A, which bore interest at rates ranging from 3.5% to 5% and matured in varying installments through March 2022. In May 2013, RIRRC redeemed the outstanding balance of its 2002 Series A revenue bonds, in the amount of $11,185,000. At the same time, the unamortized bond discount and unamortized bond issuance costs of approximately $180,000 and $144,000, respectively, were fully expensed. In conjunction with the redemption, RIRRC terminated a debt service forward delivery agreement which guaranteed interest of 5% per year on the balance of the debt service fund, and received a payment of $390,000 as the termination payment. In addition, RIRRC was required to pay an arbitrage rebate to the Internal Revenue Service of approximately $220,000.

In May 2013, RIRRC issued Resource Recovery System Revenue Bonds, Leachate Pretreatment Facility Project, Series 2013, in the amount of $40,000,000. These bonds bear interest at 2.78% and mature on May 31, 2023. A prepayment option was included in the bond issue which allows prepayment in whole or in part, at a price equal to the principal amount plus accrued interest, plus a yield maintenance fee. This fee is calculated as the difference between the rate on US Treasury securities with a maturity date of May 31, 2023, and the Cost of Funds component of the interest rate on the Series 2013 bonds.

Outstanding indebtedness is collateralized by all net revenues of the RIRRC, certain restricted funds created pursuant to the bonds' issuance, and any revenues and property specifically conveyed, pledged, assigned, or transferred by the RIRRC as additional security for the bonds.

R.I. Turnpike and Bridge Authority

At June 30, 2013, the R. I. Turnpike and Bridge Authority (RITBA) had revenue bonds outstanding with principal amounts totaling $64,330,000. These bonds are from the 2003 Series A Taxable Refunding Revenue Bonds and from the 2010 Series A Revenue Bonds, maturing in 2017 and 2039, respectively. The bond proceeds are used to finance the repair, rehabilitation, upgrading, and improvement of the Claiborne Pell Bridge, the Mount Hope Bridge, and other such activities as stated in the Authority Acts which authorized the issuance of the bonds. The State has authorized RITBA to issue approximately $68 million of additional revenue bonds. The terms and expected date for such issuance have not yet been determined.

Other Component Units

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

C. Notes Payable

Primary Government

Special Obligation Notes (expressed in thousands) at June 30, 2013 are as follows*:*

Note payable to a financial institution - to finance the design, development and implementation of a motor vehicles information management system for the Division of Motor Vehicles – the note is payable with interest of 4.2137% due semi-annually and principal due April 1, 2014-2017	$ 6,675

The special obligation note is subject to annual appropriation by the General Assembly. The note payable to a financial institution will be repaid from a $1.50 surcharge on every transaction processed at the Division of Motor Vehicles. This surcharge is pledged to fund debt service on the note. Pledged revenues were sufficient to fund fiscal 2013 debt service payments for this special obligation note. These revenues have been pledged for the term of the note through fiscal 2017.

Discretely Presented Component Units

Notes payable (expressed in thousands) at June 30, 2013 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	$	1,432
R.I. Housing and Mortgage Finance Corporation bank notes and lines of credit, 0.24% to 6.25% interest, payable through 2030.		91,291
R.I. Turnpike and Bridge Authority Bond Anticipation Note maturing on February 7, 2015 at interest at the thirty-day London InterBank Offered Rate (LIBOR) plus an applicable margin rate based on RITBA's debt rating payable monthly.		5,000
R.I. Airport Corporation note payable at 4.15% interest, payable through 2015		253
		97,976
Less: current portion		(77,799)
	$	20,177

D. Loans Payable

Discretely Presented Component Units

In June 2006, the R.I. Airport Corporation (RIAC), RIEDC and the R.I. Department of Transportation (RIDOT) executed a Secured Loan Agreement (Agreement) which provides for borrowings of up to $42,000,000 with the United States Department of Transportation under the Transportation Infrastructure Finance and Innovation Act of 1998 (TIFIA). 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 InterLink Facility Project. RIAC is permitted under the Agreement to make requisitions of funds for eligible project costs, and it is anticipated that such requisitions will occur through fiscal year 2013. Upon completion of the project, RIAC began making monthly payments of principal and interest, with interest at a rate of 5.26%. Payments are made on behalf of RIEDC (the borrower per the Agreement), and debt service payments commenced in fiscal year 2013 with a final maturity in fiscal year 2042. Such repayments are payable solely from the net revenues derived from the InterLink Facility. As of June 30, 2013, RIAC had $40,059,000 in borrowings under this agreement.

The remaining balance consists of loans payable by the University of Rhode Island and the Quonset Development Corporation of approximately $1,071,000 and $847,000, respectively.

E. Obligations Under Capital Leases

Primary Government

The State has entered into capital lease agreements, Certificates of Participation (COPS), with financial institutions. These financing arrangements have been used by the State to acquire, construct or renovate facilities and acquire other capital assets. The State's obligation under capital leases at June 30, 2013 consists of the present value of future minimum lease payments less any funds available in debt service reserve funds. Obligation of the State to make payments under lease agreements is subject to and dependent upon annual appropriations being made by the General Assembly.

During the year ended June 30, 2013 the State issued the following Certificates of Participation:

- $36,310,000 of Lease Participation Certificates (Kent County Courthouse Project – 2013 Refunding Series A), with interest rates ranging from 2.00% to 5.00%, maturing from 2014 through 2024. The proceeds were used to affect an advance refunding of $39,410,000 of Kent County Courthouse Project lease participation certificates. The net proceeds from the sale of the refunding certificates were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded certificates. The refunding met the requirements of an in-substance debt defeasance and the refunded certificates were removed from the Statement of Net Position. The refunding decreases total debt service payments over the next 11 years by $3,517,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $3,380,000.

- $36,575,000 of Lease Participation Certificates (Training School Project – 2013 Refunding Series B), with interest rates ranging from 2.00% to 5.00%, maturing from 2014 through 2025. The proceeds were used to affect an advance refunding of $38,030,000 of Training School Project lease participation certificates. The net proceeds from the sale of the refunding certificates were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded certificates. The refunding met the requirements of an in-substance debt defeasance and the refunded certificates were removed from the Statement of Net Position. The refunding decreases total debt service payments over the next 12 years by $2,267,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $2,176,000

- $17,520,000 of Lease Participation Certificates (Energy Conservation Project – 2013 Series C) with interest rates from 2.00% to 5.00%. The proceeds will be used for a number of energy conservation projects at State facilities. The certificates mature in 2014 through 2023.

- $9,170,000 of Lease Participation Certificates (Information Technology Project – 2013 Series D) with interest rates from 2.00% to 5.00%. The proceeds will be used for a number of information technology projects to benefit the State as well as municipalities. The certificates mature in 2014 through 2023.

- $15,290,000 of Lease Participation Certificates (Traffic Tribunal Project – 2013 Refunding Series E), with interest rates ranging from 2.00% to 5.00%, maturing from 2014 through 2025. The proceeds were used to affect an advance refunding of $15,415,000 of Traffic Tribunal Project lease participation certificates. The net proceeds from the sale of the refunding certificates were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service of the refunded certificates. The refunding met the requirements of an in-substance debt defeasance and the refunded certificates were removed from the Statement of Net Position. The refunding decreases total debt service payments over the next 12 years by $743,000 and resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of $710,000.

The following is a summary of material future minimum lease payments (expressed in thousands) required under capital leases that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2013:

Fiscal Year Ending June 30	Total
2014	$ 34,942
2015	31,078
2016	30,638
2017	30,735
2018	25,219
2019 - 2023	109,202
2024 - 2028	30,968
2029 - 2033	2,482
Total future minimum lease payments	295,264
Amount representing interest	(62,289)
Present value of future minimum lease payments	$ 232,975

Each COPS transaction generally covers multiple capital projects supporting multiple functions of the primary government. In general, the amount of capital asset additions funded through COPS is equivalent to the amount of the issuance. The State reports the amortization charge on assets acquired through COPS with depreciation expense on the government-wide financial statements and discloses the amounts in Note 6, Capital Assets.

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

F. Defeased Debt

In prior years, the State and its component units defeased certain general obligation bonds and revenue bonds by placing the proceeds of the new bonds or other sources in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the basic financial statements. At June 30, 2013, the following bonds outstanding (expressed in thousands) are considered defeased:

	Amount
Primary government:	
General Obligation Bonds	$ 122,545
R.I. Convention Center Authority	6,035
Component Units:	
R.I. Depositors Economic Protection Corporation (ceased operations during FY04)	148,410
R.I. Economic Development Corporation	10,765
R.I. Turnpike and Bridge Authority	32,300

G. Conduit Debt

The R.I. Industrial Facilities 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, 2013 was $80,000,000 and $903,500,000 respectively, for these component units. Certain issues of conduit debt are moral obligations of the State, and the current amounts outstanding are disclosed in Note 13.

H. Short-Term Borrowing

The R.I. Housing & Mortgage Corporation had outstanding balances of $68,000,000 at June 30, 2013 on two lines of credit that are payable on demand and accrue interest at rates ranging from 1.22% to 1.95%.

I. Pollution Remediation Liabilities

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

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

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

The remediation obligation estimates presented are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes in laws or regulations, and other factors that could result in revision to the estimates. Recoveries from responsible parties may reduce the State's obligation. As of June 30, 2013, no reasonable estimates of those recoveries can be made. Capital assets may be created when pollution remediation outlays are made under specific circumstances.

J. Due to Other Governments and Agencies

The State has borrowed amounts from the federal government (Unemployment Insurance Trust Fund) to fund employment insurance benefits paid from the Employment Security Fund to eligible unemployed individuals. The amount outstanding was $155,276,000 on June 30, 2013. Interest accrued beginning January 1, 2011 and is payable on October 1 of each year.

The interest due on federal loans cannot be paid from employer taxes and federal revenue received by the State to pay unemployment benefits. In recent years, the General Assembly passed legislation increasing the Job Development Fund Assessment on employers by 0.3%, dedicating the additional assessment to pay the principal and interest on the federal loans. Other legislative changes, effective in fiscal year 2012 and 2013, included adjusting the unemployment insurance taxable wage base and reducing individual unemployment benefit amounts. Estimated savings from these changes are designed to reduce the amount owed to the federal government in future years.

The State projects that it will need to continue to borrow in fiscal year 2014 as authorized by Federal law in order to meet its cash flow needs to finance the cost of unemployment benefit payments.

K. Compensated Absences

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

L. Arbitrage Rebate

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

M. Due to the Primary Government

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

N. Other Long-Term Liabilities

Governmental Activities - the liabilities consist primarily of:

- *Retainage related to infrastructure construction projects* - these amounts are considered long-term liabilities since the related construction projects are not expected to be completed in the subsequent fiscal period.
- *Tax refunds payable* – these amounts are tax carry-forward credits for taxpayers that are not expected to be paid in the subsequent fiscal period

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

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

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

Note 8. Net Position/Fund Balances

Governmental Activities

Restricted Net Position

The Statement of Net Position reflects $657,545,000 of restricted net position, of which $264,180,000 is restricted by enabling legislation. The net position that is restricted by enabling legislation is included in the Temporary Disability Insurance Program and Other categories on the Statement of Net Position. The principal components of the remaining balance of the restricted net position relate to the Budget Reserve and Cash Stabilization Account and unexpended bond proceeds.

Governmental Funds – Fund Balances

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

	Major Funds			
	General Fund	IST Fund	Other Funds	Total
Fund Balances:				
Nonspendable:				
Permanent Fund Principal	$	$	$ 174	$ 174
Restricted for:				
Budget Reserve and Cash Stabilization	171,959			171,959
Purposes specified by enabling legislation	110,177			110,177
Debt Service		18,598	94,113	112,711
Capital Projects			252,776	252,776
Temporary Disability Insurance			154,004	154,004
Historic Tax Credit Redemption			11,285	11,285
Transportation		126,875		126,875
Education			1,865	1,865
Other			682	682
Committed to:				
Transportation		95		95
Employees' Retirement System Transfer	168			168
Other	3,867			3,867
Assigned to:				
Subsequent Years Expenditures	101,942			101,942
Other	3,698	255	68	4,021
Unassigned:	9,323	(4,113)		5,210
Totals	$ 401,134	$ 141,710	$ 514,967	$ 1,057,811

Article IX of the State Constitution requires the maintenance of a State Budget Reserve and Cash Stabilization Account ("Reserve") within the State's General Fund. Section 35-3 of the General Laws specifically establishes the annual minimum balance requirements for the account. For fiscal year 2013, 3.0% of total general revenues and opening surplus are transferred to the Reserve. Amounts in excess of 5.0% of total general revenues and opening surplus are transferred to the RI Capital Plan Fund to be used for capital projects. The Reserve, 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 non-routine deficit in any given year. Such appropriations must be approved by a majority of each chamber of the General Assembly. Since its inception the Reserve has been accessed once in fiscal year 2009 to address an unexpected severe revenue shortfall. At that time the General Assembly appropriated $22 million from the Reserve.

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

Pursuant to the General Laws upon issuance of the audited financial statements, the State Controller is required to transfer all general revenues received in the fiscal year (net of the transfer to the State Budget Reserve and Cash Stabilization Account) in excess of those estimates adopted for that fiscal year as contained in the final enacted budget, to the Employees' Retirement System. The amount of such transfer is $169 thousand which is reflected in the committed category of fund balance in the table above. The transfer will be made in fiscal year 2014 upon issuance of the audited financial statements.

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

Note 9. Taxes

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

	Governmental Funds	Statement of Activities
General Fund		
Personal Income	$ 1,083,011	$ 1,082,035
General Business Taxes:		
Business Corporations	131,828	131,897
Public Utilities Gross Earnings	99,641	99,454
Financial Institutions	7,500	13,866
Insurance Companies	91,599	91,589
Bank Deposits	2,877	2,877
Health Care Provider Assessment	41,569	41,569
Sub-total - General Business Taxes	375,014	381,252
Sales and Use Taxes:		
Sales and Use	878,867	876,152
Motor Vehicle	49,431	49,429
Motor Fuel	438	401
Cigarettes	132,516	132,490
Alcoholic	12,176	12,176
Sub-total - Sales and Use Taxes	1,073,428	1,070,648
Other Taxes:		
Inheritance and Gift	28,490	28,474
Racing and Athletics	1,171	1,171
Realty Transfer	7,399	7,399
Sub-total - Other Taxes	37,060	37,044
Total - General Fund	2,568,513	2,570,979
Intermodal Surface Transportation Fund		
Gasoline	134,465	134,465
Other Governmental Funds	165,525	165,525
Total Taxes	$ 2,868,503	$ 2,870,969

Note 10. Operating Transfers

Operating transfers for the fiscal year ended June 30, 2013 are presented below (expressed in thousands):

	Transfers	Description
Governmental Activities		
Major Funds		
General		
Major Funds		
Intermodal Surface Transportation	$ 46,029	Debt service and operating assistance
Nonmajor Funds		
RI Temporary Disability Insurance	1,769	Administrative cost reimbursement
Historic Tax Credit	8,995	Reimbursement for tax credits claimed
Bond Capital	188	Interest earnings transfer
Business-Type Activities		
Lottery	379,225	Net income transfer
Employment Security	806	Administrative cost reimbursement
Intermodal Surface Transportation		
General Fund	1,000	Infrastructure funding
Bond Capital	23,115	Infrastructure funding
RI Capital Plan	33,398	Infrastructure funding
Nonmajor Funds		
COPs		
General	1,874	Debt service
RI Capital Plan		
General	84,624	Transfer statutory excess in budget reserve
Bond Capital	9,993	Premium on new bonds
RI Public Rail Corporation		
Intermodal Surface Transportation	1,788	Operating assistance
Total Governmental Activities	592,804	
Business-Type Activities		
Lottery Fund		
RI Capital Plan	272	Capital Improvement
Convention Center		
General	23,136	Debt service
RI Capital Plan	287	Capital Improvement
Employment Security		
General	20,704	Administrative cost reimbursement
Assessed Fringe Benefits	1,828	Reimbursement for State employees' unemployment compensation
Internal Service Funds		
Central Mail	50	Capital assistance
Vehicle Replacement Revolving Loan	7,350	Allocation of prior year ending balance
Total operating transfers primary government	$ 646,431	

Note 11. Operating Lease Commitments

The primary government is committed under numerous operating leases covering real property. Operating lease expenditures totaled approximately $11,825,000 for the fiscal year ended June 30, 2013.

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, 2013:

Fiscal Year Ending June 30		
2014	$	12,945
2015		11,024
2016		8,025
2017		3,719
2018		3,426
2019 - 2023		8,479
Total	$	47,618

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

Note 12. Commitments

Primary Government

Commitments arising from encumbrances are listed below (expressed in thousands):

Major funds		
General	$	12,624
IST		484,734
Total major funds		497,358
Other governmental funds		6,389
Total encumbrances outstanding	$	503,747

The primary government is committed at June 30, 2013 under various contractual obligations for infrastructure construction and other capital projects, which will be principally financed with debt proceeds and federal grants. Encumbrances within the General Fund will be principally financed through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years. The primary government is also committed at June 30, 2013 under contractual obligations with various service providers, which will be funded through appropriations of general revenue and federal and restricted revenue in succeeding fiscal years.

Performance-based Agreements

The R.I. Economic Development Corporation (RIEDC), on behalf of the State, entered into several agreements with the developer of the Providence Place Mall. The agreements state the terms by which the State shall perform with regard to a shopping mall, parking garage and related offsite improvements. The authority to enter into these agreements was provided in legislation passed by the General Assembly and signed by the Governor. This legislation further provided for payments to the developer through fiscal year 2021 of an amount equal to the lesser of (a) two-thirds of the amount of sales tax generated from retail transactions occurring at or within the mall or (b) $3,680,000 in the first five years and $3,560,000 in years 6 through 20. In the year ended June 30, 2013, $3,560,000 was paid to the developer.

The RIEDC has issued economic development revenue bonds whereby the State will assume the debt if the employer reaches and maintains a specified level of full-time equivalent employees. The participating employers have certified that the employment level has been exceeded, thereby triggering credits toward the debt. As a result, the State paid $3,081,000 of the debt on the related economic development revenue bonds in fiscal year 2013. The State has commitments relating to this debt through fiscal year 2027.

Rhode Island Lottery – Master Contract Agreements

Gaming Systems Provider - GTECH

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

Video Lottery Facilities – UTGR, Inc.

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

The Master Contract has been amended in recent years to reflect the statutory authorization of the operation of a promotional points program at Twin River. In fiscal year 2013, Twin River was authorized and issued approximately $31.8 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Twin River's promotional play program effective July 1, 2013.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse UTGR for allowable marketing expenses at an amount not to exceed $6 million multiplied by the Lottery's percentage of net terminal income (61.12% for fiscal year 2013). The reimbursement of marketing expenses by the Lottery occurs only after UTGR has incurred $4 million in qualified marketing expenses (with marketing expenses defined by the Lottery).

Video Lottery Facilities – Newport Grand

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

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

The Master Contract has been amended in recent years to reflect the statutory authorization of a promotional points program at Newport Grand. In fiscal year 2013, Newport Grand was authorized and issued approximately $5.8 million in promotional points to facility patrons. Recently enacted legislation has authorized an additional expansion of Newport Grand's promotional play program effective July 1, 2013.

The Master Contract has also been amended to reflect the statutory requirement that the Lottery reimburse Newport Grand for allowable marketing expenses at an amount not to exceed $840,000 multiplied by the Lottery's percentage of net terminal income (61.67% for fiscal year 2013). The reimbursement of marketing expenses by the State occurs only after Newport Grand has incurred $560,000 in qualified marketing expenses (with marketing expenses to be defined by the Lottery).

R. I. Public Rail Corporation

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

Discretely Presented Component Units

R.I. Airport Corporation

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

In addition, RIAC is constructing a Deicer Management System which will collect glycol impacted stormwater resulting from de-icing aircraft at T.F. Green Airport, and treat the collected material prior to discharging it into storm drains. As of June 30, 2013, field construction is underway with anticipated completion by April 2014, and the system is scheduled to be fully operational by March 2015. RIAC will begin construction on safety improvements on the end of Runway 16 in July 2013, and on the end of Runway 34 in the summer of 2014. Improvements include the construction of EMAS arrestor beds, blast fencing, drainage improvements, and reconstruction of segments of runway and taxi lanes.

As of June 30, 2013 RIAC is obligated for the completion of certain airport improvements under commitments of approximately $6 million, which are expected to be funded from current available resources and future operations.

R.I. Turnpike and Bridge Authority

The R.I. Turnpike and Bridge Authority (RITBA) has entered into contracts for the maintenance of, and improvements to, its bridges and property. In connection with its Series 2010A Bond Issue, RITBA has a contract with a remaining commitment of approximately $1.8 million as of June 30, 2013. In 2013 RITBA entered into contracts for Phase II of steel repairs and painting on the Claiborne Pell Bridge. The total contract value is $40.8 million and will take several years to complete. At June 30, 2013, the remaining commitments on the contracts total approximately $39.3 million. In addition, RITBA has various other maintenance contracts with remaining commitments of approximately $3 million as of June 30, 2013.

R.I. Resource Recovery Corporation

Landfill closure and post-closure:

The EPA established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the RIRRC has been segregated into five distinct phases. Phases I, II and III were closed by the RIRRC in prior years. While Phase IV reached capacity during fiscal year 2013, portions of Phase IV have been capped, with final capping expected during fiscal year 2014. In 2005, the RIRRC began landfilling in Phase V. As of June 30, 2013 the RIRRC has not begun landfilling in phase VI.

A liability for closure and post-closure care of $53,190,729 as of June 30, 2013 has been recorded in the accompanying statement of net position, as summarized by Phases below:

	Year ended June 30, 2013
Phase I	$ 8,357,552
Phase II and III	4,095,437
Phase IV	9,874,448
Phase V	30,863,292
	$ 53,190,729

The RIRRC has received site approval for Phase VI from the State Planning Council and has been licensed by RIDEM.

As of June 30, 2013, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used and the estimated remaining years for accepting waste are as follows:

	Estimated remaining costs to be recognized	Estimated capacity used	Estimated remaining years for accepting waste
Phase V	$ 7,345,813	80.8%	2.5 years

As of June 30, 2013 the RIRRC revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a $5,582,821 reduction of the corresponding liability from $75,962,402 at June 30, 2012 to $70,379,581 at June 30, 2013 and was primarily attributable to improved leachate flow data and revised capping costs based on pricing from a recently executed contract.

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

Included in restricted position held in trust in the accompanying statements of net position as of June 30, 2013 is $41,454,829 placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV and V. The RIRRC plans to make additional trust fund contributions each year to enable it to satisfy these and future costs.

Pollution remediation obligations:

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material. Future recoveries from responsible parties which may reduce the remediation obligation, while possible, cannot be reasonably estimated.

The pollution remediation obligation for the year ended June 30, 2013 is as follows:

Balance, June 30, 2012	Additions	Reductions	Balance, June 30, 2013	Current Portion
$ 25,501,843	$ 0	$ (8,597,749)	$ 16,904,094	$ 986,985

Superfund site:

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

During 1996, the RIRRC entered into a Consent Decree with the EPA concerning remedial actions taken by the RIRRC for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of $27,000,000 for remedial purposes. The balance of the trust fund totaled $42,292,593 as of June 30, 2013 and has been included in restricted position held in trust in the accompanying statement of net position.

In 2004, the RIRRC began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The RIRRC has recorded a liability for future remediation costs of approximately $16,904,000 as of June 30, 2013.

Other pollution remediation obligations:

The RIRRC is the owner of several properties adjacent to its landfill operations. The RIRRC is obligated to remediate one of these parcels. The RIRRC has recorded a liability for future remediation costs of approximately $285,000 as of June 30, 2013.

Environmental concerns:

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

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

R.I. Public Transit Authority

The R.I. Public Transit Authority is committed under construction contracts in the amount of $7,220,480 at June 30, 2013.

R.I. Industrial-Recreational Building Authority

At June 30, 2013, the Authority had insured contractual principal and interest payments required under first mortgages and first security agreements principally for land and buildings of manufacturing and distribution entities located throughout Rhode Island. Principal balances outstanding under first mortgages and first security agreements insured by the Authority at June 30, 2013 are $16,105,000.

The Authority insured a bond issued by Rhode Island Industrial Facilities Corporation (RIIFC) on behalf of a private sector entity. During the year ended June 30, 2013 the private sector entity was in default on its payments to the bond holder and the Authority has assumed responsibility for making the debt payments. These payments will be made by first exhausting the Authority's available financial resources. The Authority must then request appropriations from the Rhode Island General Assembly for any loss in excess of the insured amount. At June 30, 2013, the Authority has determined that it is likely that it will incur a loss under the insured commitment. The Authority has estimated the range of potential loss to be between $1,749,000 and $6,413,000 and has determined the best estimate within this range to be $2,006,810. Accordingly, the Authority has accrued an insured commitment payable of $2,006,810 equal to the estimated loss at June 30, 2013. The current portion of the insured commitments payable was calculated by estimating the monthly payments due within one year on this bond.

Other Component Units

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

Note 13. Contingencies

Primary Government

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

Challenges to the 2009 and 2010 Pension Reform - A number of unions representing state employees and teachers filed a lawsuit in State court in May 2010 initially challenging and attempting to block the 2009 pension reforms enacted by the General Assembly and later amended the suit to include 2010 reforms. The 2005 reforms were not challenged. The State intends to vigorously contest the lawsuit. The defendant State officials filed a Motion for Summary Judgment on the claims set forth in the Amended Complaint, which was heard on July 18, 2011. Prior to the hearing, the parties stipulated that the only issue that would be presented to the Court during the hearing on the Motion would concern whether the statute created a contract between the state and its participants. The parties agreed that in the event that the Court concluded that the statute did create a contract, the remaining issues of whether the contract had been impaired and whether any such impairment was legally justified would be briefed and argued at a later date. On September 13, 2011, the Superior Court issued its decision in which it ruled that pension plan participants have a contractual right based on an implied-in-fact contract theory. Consistent with the parties' stipulation, the Court did not decide whether that contract had been impaired or whether any such impairment was legally justified. The defendant State officials believe the Superior Court's ruling was legally wrong. On October 3, 2011, Defendants filed a Petition for Issuance of a Writ of Certiorari and Supporting Memorandum of Law with the Rhode Island Supreme Court. Defendants also filed a motion through which they requested that the Supreme Court expedite its review of the Petition for Issuance of a Writ of Certiorari. On November 22, 2011, the Supreme Court denied the petition for Writ of Certiorari. The litigation is proceeding through discovery at this time.

Challenges to the 2011 Pension Reform - In June 2012, certain retiree groups and unions representing state and municipal employees who maintain they are current beneficiaries of ERSRI commenced five separate lawsuits in State court challenging the Rhode Island Retirement Security Act of 2011 (“RIRSA”) enacted by the General Assembly. In each of the five cases, the plaintiffs alleged that RIRSA violates the Contract Clause, the Takings Clause and the Due Process Clause of the Rhode Island Constitution. In addition, in the Rhode Island Public Employees’ Retirement Coalition v. Chafee, C.A. No. 12-3166 case, the plaintiffs also allege counts for promissory estoppel and breach of contract. The State intends to vigorously contest the lawsuit.

On August 17, 2012, the defendants filed a motion to dismiss the Rhode Island Public Employees’ Retirement Coalition v. Chafee, C.A. No. 12-3166 case on the ground that Rhode Island’s pension legislation does not create a contract with ERSRI participants and that general contract principles, such as implied contracts, cannot be used to determine whether a state statute creates a contract. In the remaining four cases, the defendants filed motions for more definite statements in which they argued that it is not clear from the plaintiffs’ pleadings what purported contract or contract(s) plaintiffs allege have been impaired. The defendants also moved in the alternative and asked the Court to dismiss the remaining four cases if the Court concluded that the plaintiffs’ purported contracts derive from Rhode Island’s pension legislation. A hearing on the defendants’ motions was held in December 2012. The parties have not yet received a decision on those motions.

On January 2, 2013 Superior Court judge presiding over the cases involving challenges to enacted pension reforms ordered the parties to participate in mediation, which is ongoing. The parties are scheduled to report back to the Court again on January 3, 2014.

An adverse judgment to the State rendered in the pension litigation could significantly increase both the unfunded liability under the plans within the ERSRI and the State’s actuarially determined annual required contribution.

Other

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

Tobacco Settlement Financing Corporation

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

From April 2005 through April 2013, many of the tobacco manufacturers participating in the MSA either withheld all or portions of their payments due or remitted their payments to an escrow account, disputing the calculations of amounts due under the agreement. These manufacturers assert that the calculations of the amounts due failed to apply the NPM Adjustment. The TSFC's share of these disputed payments is approximately $37.7 million.

There has been a long-standing dispute between the PMs and the MSA Settling States relating to NPM Adjustment Disputes, and up until December 2012, all MSA Settling States and the PMs were engaged in an arbitration proceeding regarding the issue of Diligent Enforcement for the calendar year 2003 ("2003 Dispute") (Rhode Island's Diligent Enforcement is no longer being challenged for 2003). In December 2012, the PMs reached a settlement agreement with certain MSA States & Territories ("Term Sheet States") in connection with certain claims relating to NPM Adjustment Disputes, including the 2003 Dispute. The general terms thereof were memorialized in a Term Sheet ("Term Sheet") with the PMs. In March of 2013, the Panel, which was convened for the 2003 Dispute, issued a Stipulated Partial Settlement and Award ("Award") that incorporated certain provisions of the Term Sheet. Also, the award included specific instructions to the Independent Auditor directing it to implement the provisions provided therein, which it did in preparing final calculations for the 2013 MSA payments.

Thirty (30) MSA States and Territories ("NSS") have not accepted the terms of the Term Sheet, so the NPM Adjustment disputes between the NSS and PMs remain unresolved. Future NPM Adjustments could be as large as or exceed the reported potential $1.2 billion calendar year 2003 NPM adjustment. The resolution of the substance of such disputes could take years. Moreover, there is no assurance that these funds will be collected by the TSFC in the future. Due to these uncertainties regarding the ultimate realization of the remaining amount of these disputed payments, they have not been recognized as revenue in the financial statements. The TSFC and the other affected parties are taking actions prescribed in the MSA to arrive at a resolution of these matters.

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

Lottery

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

The Lottery's video lottery operations could be adversely impacted by enacted legislation in Massachusetts allowing three casinos and one slot parlor in that State. Massachusetts has developed a two-phase application process for potential operators and developers. The Massachusetts Gaming Commission could award casino licenses during fiscal 2014 based on their current timeline. Depending on the resulting location of the facilities within Massachusetts, video lottery revenues in Rhode Island could decrease.

The Narragansett Indian Tribe filed a complaint against the State of Rhode Island in the Superior Court on or about September 28, 2011, inter alia, challenging the constitutionality of the casino gaming act on the grounds that it would not be "state-operated" and the act "delegates unconstitutional authority to a private corporation." On or about June 29, 2012, the Superior Court found that the Narragansett Indian Tribe had not sustained their burden of proof that the act violates the State or United States constitution. The Narragansett Indian Tribe filed a notice of appeal of that decision. The remaining issues in the case which are still pending in the Superior Court relate to whether the state "operates" Twin River and Newport Grand.

A significant portion of the Lottery's revenues are derived from video lottery gaming at two licensed video lottery facilities. Newport Grand, one of those video lottery facilities, is subject to certain financing agreement restrictions. In 2008, Newport Grand entered into a $25,000,000 financing agreement with two banks for expansion and renovation of its video lottery terminal facility. Prior events of default relative to failing to meet earnings levels amended the loan agreement, which required additional partner contributions, quarterly deposits and restricted dividend distributions. During fiscal year 2013, a subsequent loan amendment required continued deposits and a new loan covenant requirement.

Federal Grants

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

The Single Audit for the State of Rhode Island for the fiscal year ended June 30, 2012 was issued in March 2013. That report identified approximately $2.3 million in questioned costs relating to the primary government. In addition, a number of findings had potentially significant but unknown or unquantifiable questioned costs. The ultimate disposition of these findings rests with the federal grantor agencies, and, in most cases, resolution is still in progress. Adjustments are made to the financial statements when costs have been specifically disallowed by the federal government or sanctions have been imposed upon the State and the issue is not being appealed or the right of appeal has been exhausted. The fiscal 2013 Single Audit is in progress. It is anticipated that there will be additional questioned costs identified in that audit. The State's management believes that any disallowances of federal funding received by the State will not have a material impact on the State's financial statements.

Moral Obligation Bonds

Some component units issue bonds with bond indentures requiring capital reserve funds. Monies in a capital reserve fund are to be utilized by the trustee in the event scheduled payments of principal and interest by the component unit are insufficient to pay the bondholders. These bonds are considered "moral obligations" of the State when the General Laws require the executive director 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, 2013, the following debt was morally obligated by the State:

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

The R.I. Housing and Mortgage Finance Corporation (RIHMFC) had $164,230,211 outstanding in bonds, which are secured in part by capital reserve funds which have aggregated to $32,206,624 on June 30, 2013. Under the moral obligation provisions detailed in the preceding paragraph, upon request by the Governor, the General Assembly may, but is not obligated to, provide appropriations for any deficiency in such reserve funds. The RIHMFC has never been required to request such appropriations. Such reserve funds relate solely to select multi-family issues of the RIHMFC.

R.I. Economic Development Corporation (RIEDC)

In November 2010, the RIEDC issued $75 million of taxable revenue bonds under the Job Creation Guaranty Program. The bond proceeds were loaned to 38 Studios, LLC (38 Studios) and provided funding for the relocation of the company's corporate headquarters to the State and establishment and operation of a video gaming studio in the City of Providence. Proceeds also were used to fund a Capital Reserve Fund and Capitalized Interest Fund. Amounts in the Capital Reserve Fund are to be used in the event that 38 Studios fails to make any required loan payments. In accordance with the enabling legislation and the agreement between the RIEDC, the trustee and 38 Studios, should amounts in the Capital Reserve Fund fall below minimum requirements, the RIEDC has agreed to present the Governor with a certificate stating the amounts required to restore any shortfall and the Governor is required to include such amounts in his or her budget request for appropriation by the General Assembly. The General Assembly may, but is not required to, appropriate such amounts.

38 Studios filed for Chapter 7 bankruptcy protection on June 7, 2012 and the RIEDC and the trustee for the bonds have obtained court approval to take custody of the assets pledged by 38 Studios to secure the payment of the bonds. The value of the assets pledged is not certain at this time. It is estimated that the total debt service on the bonds after considering any existing reserves with the trustee may be in the range of $89 million. The maturity dates on the bonds range from 2015 to 2020 with maximum annual debt service of approximately $12.75 million. The FY2014 enacted budget includes an appropriation of $2.5 million, which together with remaining amounts available in the capital reserve fund, will be used to pay principal and interest on the bonds due in fiscal 2014.

The State has recorded a liability of $2.5 million relating to the default by 38 Studios at June 30, 2013. This amount represents a current estimate of the amount of probable loss by the State. It is reasonably possible that the State's loss relating to this contingency could range as high as the remaining debt service principal of $68,000,000 owed to bondholders at June 30, 2014 less amounts potentially recovered through the sale of assets. The General Assembly is expected to reconsider the issue during the 2014 legislative session when $12.75 million in debt service will be requested for appropriation as part of the FY2015 budget request submitted by the Governor.

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

An additional $6,500,000 in guarantees was issued under the Job Creation Guaranty Program for notes through June 30, 2013. The General Assembly repealed the authority for the RIEDC to guarantee further loans under this program during the 2013 legislative session.

Component Units

R.I. Higher Education Assistance Authority (RIHEAA)

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

The Authority will continue to provide services for loans currently in its portfolio, including claims payments and reinsurance transactions, default prevention and aversion activities, and collections of defaulted student loans. It is difficult, however, to predict the period over which such services would be required, and to what extent those responsibilities will continue to constitute a substantive activity for the Authority. RIHEAA's senior management believes that a reasonable estimate of that period is in the range of two to four years. RIHEAA's senior management, in conjunction with its Board, has already taken steps necessary to respond to the changes resulting from the Act, and will continue to closely monitor all aspects of the operating environment.

In June 2013, the Rhode Island General Assembly passed and the Governor signed into law added language to RIHEAA's enabling legislation, titled – Reserve Funds: "To assure continued solvency of the authority, the authority's operating fund shall be used solely for the ordinary operating expenses of the authority. Furthermore, it is the intent of the General Assembly that these funds eventually be used to increase financial assistance to Rhode Island students in the form of scholarships and grants." The RIHEAA Board has had discussions about the new legislative language and is in the process of developing proposals and programs that are consistent with the legislature's intent.

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

As of June 30, 2013, the RIHMFC may borrow up to a maximum of $85,000,000 under various revolving loan agreements expiring between August 2013 and December 2014. Borrowings under the lines of credit are payable on demand and are unsecured.

The RIHMFC is a party to financial instruments with off-balance sheet risk in connection with its commitments to provide financing. Such commitments expose the RIHMFC to credit risk in excess of the amounts recognized in the statements of net position. The RIHMFC's exposure to credit loss in the event of nonperformance by the borrowers is represented by the contractual amount of such instruments. Total credit exposure as a result of loan commitments at June 30, 2013 is $33,386,881.

Other Component Units

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

Note 14. Employer Pension Plans

Defined Benefit Plans

Plan Descriptions

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

Summary of Significant Accounting Policies

Basis of Accounting

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

Methods Used to Value Investments

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

Investments are recorded in the financial statements at fair value. Fair value is the amount that a plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller - that is, other than a forced liquidation sale. Short-term investments are generally carried at cost, which approximates fair value.

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

Commingled funds consist of institutional domestic equity index and international equity index funds. The fair value of these commingled funds is based on the reported net asset value (NAV) of the respective fund based upon the fair value of the underlying securities or assets held in the fund. The determination of fair value for other commingled funds, which include hedge, private equity, and real estate funds is described in the succeeding paragraphs.

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

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

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

Private equity and real estate investments represented 7.4% and 3.2%, respectively, of the total reported fair value of all ERS investments at June 30, 2013. Of the underlying holdings within private equity investments, approximately 19% were valued based on quoted market prices. The remaining underlying assets were valued generally following the objectives outlined above. Because these fair values were not determined based on quoted market prices, the fair values may differ from the values that would have been determined had a ready market for these investments existed.

Hedge funds are valued based on information provided by the fund manager and as verified by their respective third party administrator. Of the underlying holdings within the hedge funds approximately 66% were valued based on Tier 1 inputs (unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted investments) and 28% as Tier 2 inputs (other significant inputs, either directly or indirectly, at the measurement date such as a) quoted prices for similar assets or liabilities in active markets; b) quoted prices for identical or similar assets and liabilities in markets that are not active; c) observable inputs, other than quoted prices, for assets and liabilities; or

d) inputs that are derived from or corroborated by observable market data by correlation or other means. The remaining underlying holdings within the hedge funds approximating 6% were valued based on Tier 3 inputs (unobservable inputs which are developed based on the best information available in the circumstances which might include the fund's own data).

Investment Expenses

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

Funding Policy and Annual Pension Cost

The fiscal 2013 contribution rates for the Employees' Retirement System, the State Police Retirement Benefits Trust, and the Judicial Retirement Benefits Trust were based on the actuarial valuation of those plans performed as of June 30, 2010. The fiscal 2013 contribution rate for the Judicial Retirement Fund Trust, effective July 1, 2012 was based on the actuarial valuation of that plan performed as of June 30, 2012.

A summary of the State's annual pension cost (expressed in thousands) for the fiscal year ended June 30, 2013 and the actuarial assumptions and methods used in the June 30, 2010 valuation of the plans is provided in the table below:

	Employees' Retirement System	State Police Retirement Benefits Trust	Judicial Retirement Benefits Trust	RI Judicial Retirement Fund Trust
Contribution rate:				
State	21.18%	11.07%	19.69%	$1,816
Plan members - state employees	3.75%	8.75%	8.75% and 12.00%	8.75% and 12.00%
State contribution for teachers	7.15% and 7.88%			
Annual pension cost	$207,319	$2,103	$1,752	$1,816
Contributions made - state employees	$136,615	$2,103	$1,752	
Contribution made - teachers	$70,704			
Actuarial valuation date	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2012
Actuarial cost method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method	Entry Age Normal-Individual Entry Age Actuarial Cost Method
Amortization method	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Percent of Payroll - Closed	Level Dollar
Equivalent Single Remaining Amortization Period	25 years	25 years	25 years	16 Years
Asset valuation method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions:				
Investment rate of return	7.50%	7.50%	7.50%	4.00%
Projected salary increases	4.00% to 7.00%	4.00% to 12.00%	4.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%

Cost-of-living adjustments

The COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time.
The COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or 3 years after retirement.

A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 15 years.

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	8-3-16

The assumptions used in the Rhode Island Judicial Retirement Fund Trust are consistent with those used for the Judicial Retirement Benefits Trust except that since the plan is not currently advance funded, a 4% investment return assumption was utilized. This plan is for a closed group of individuals and the amortization payment has been calculated based on level-dollar amortization over 16 years from June 30, 2012.

Annual Pension Cost and Net Pension Assets and Obligations

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

Annual Required Contribution	$1,816
Interest on net pension obligation	-
Adjustment to annual required contribution	-
Annual pension cost	1,816
Contributions made	-
Increase in net pension obligation	1,816
Net pension obligation, beginning of year	-
Net pension obligation, end of year	$1,816

Three-Year Trend Information

	Year Ending	Annual Pension Cost (APC) (In Thousands)	Percentage of APC Contributed	Net Pension Obligation (In Thousands)
Employees' Retirement System	6/30/11	$ 196,847	100%	$ -
	6/30/12	233,834	100%	-
	6/30/13	207,319	100%	-
State Police Retirement Benefits Trust	6/30/11	3,787	100%	-
	6/30/12	5,333	100%	-
	6/30/13	2,103	100%	-
Judicial Retirement Benefits Trust	6/30/11	1,298	100%	-
	6/30/12	1,718	100%	-
	6/30/13	1,752	100%	-
RI Judicial Retirement Fund Trust	6/30/13	1,816	0%	1,816

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

Funded Status and Funding Progress

The table below displays the funded status of each plan as of June 30, 2012, the most recent actuarial valuation date (See Note 19 – Subsequent Events):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
ERS						
State Employees	$ 2,421,191,542	$ 4,297,261,311	$ 1,876,069,769	56.30%	$ 669,477,539	280.20%
Teachers	3,746,299,871	6,373,081,344	2,626,781,473	58.80%	971,904,991	270.30%
SPRBT	84,293,968	94,031,687	9,737,719	89.60%	23,669,619	41.10%
JRBT	43,428,646	52,085,154	8,656,508	83.40%	8,822,823	98.10%
RIJRFT	-	16,387,206	16,387,206	0.00%	1,230,644	1331.60%

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

Additional information as of the June 30, 2012 actuarial valuation follows:

	ERS				
	State Employees	Teachers	SPRBT	JRBT	RIJRFT
Valuation Date	6/30/2012	6/30/2012	6/30/2012	6/30/2012	6/30/2012
Actuarial Cost Method	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Percent of Payroll-Closed	Level Dollar
Equivalent Single Remaining Amortization Period	23 years	23 years	23 years	23 years	16 years
Asset Valuation Method	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market	5 Year Smoothed Market
Actuarial Assumptions Investment Rate of Return	7.50%	7.50%	7.50%	7.50%	4.00%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	4.00% to 12.00%	4.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%
Cost of Living Adjustments	The COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - The COLA is to be applied to the first $25,000 of benefits, indexed over time. The COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police for which the COLA is delayed until the later of age 55 or three years after retirement. A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 15 years.				

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

Supplemental Contributions

The General Laws (Section 36-10-2(a) 1 and 2) also require, in addition to the contributions provided for by the funding policy, for each fiscal year in which the actuarially determined state contribution rate for state employees and teachers is lower than that for the prior fiscal year, the governor shall include an appropriation to that system equivalent to twenty percent (20%) of the rate reduction to be applied to the actuarial accrued liability. The amounts to be appropriated shall be included in the annual appropriation bill and shall be paid by the general treasurer into the retirement system. The retirement system's actuary shall not adjust the computation of the annual required contribution for the year in which supplemental contributions are received; such contributions once made may be treated as reducing the actuarial liability remaining for amortization in the next following actuarial valuation to be performed. For fiscal year 2013, $2,312,058 was contributed to the System in accordance with this provision of the General Laws.

The General Laws also require that for any fiscal year in which the State's actual general revenues exceed estimated amounts, the difference shall be paid to the ERS plan upon completion and release of the State's audited financial statements. The amount paid to the System in fiscal year 2013 related to the State's fiscal year 2012 actual general revenues exceeding budgeted amounts by $12,943,629.

Beginning in fiscal year 2013, the Retirement Security Act provides for additional contributions to the System based on 5.5% of the value of contracts where the services performed by the contractor were previously performed by state employees. A supplemental contribution of $434,677 was paid to the System pursuant to Section 42-149-3.1 of the General Laws.

For fiscal year 2013, the General Laws required various supplemental contributions to the ERS defined benefit pension plan as described above. These supplemental contributions are in addition to the annual required contribution amounts to ERS as determined by the actuary. Because ERS is a cost-sharing plan, fiduciary net position, including the effects of the supplemental contributions, is allocated between both state employee and teacher covered groups. Accordingly, no net pension asset has been reflected on the State's Statement of Net Position as it is not directly attributable to any one participating employer.

Defined Contribution Plan

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

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

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

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

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

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

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

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

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

Retirement benefits – Benefits may be paid to a member after severance from employment, death, Plan termination, or upon a deemed severance from employment for participants performing qualified military service. At a minimum, retirement benefits must begin no later than April 1 of the calendar year following the year in which you attain age 70 ½ or terminate employment, if later. Members have the option to receive benefit payments in the form of a Single Life Annuity, Two Life Annuity, Lump Sum Benefit, or Installments. These payments are subject to any restrictions in the investment vehicles.

Other

Certain employees of the University of Rhode Island, Rhode Island College and the Community College of Rhode Island (principally faculty and administrative personnel) are covered by individual annuity contracts under a defined contribution retirement plan. Eligible employees who have reached the age of 30, and who have two (2) years of service are required to participate in either the Teachers Insurance and Annuity Association, the Metropolitan Life Insurance Company, or Variable Annuity Life Insurance Company retirement plan. Eligible employees must contribute at least 5% of their gross biweekly earnings. The University and Colleges contribute 9% of the employees' gross biweekly earnings. Total expenses by the institutions for such annuity contracts amounted to approximately $16,136,000 during the year ended June 30, 2013.

The Rhode Island Public Transit Authority has a defined benefit pension plan for all employees, for which eligibility to participate begins immediately upon employment. Benefits vest upon completion of ten years of service. Authority employees are eligible to retire upon attainment of age 62 and 5 years of 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. At January 1, 2013, the most recent valuation date, the total actuarial accrued liability was $121,499,238 and the actuarial value of assets was $84,503,097. The Authority contributed 100% of its annual pension cost, totaling $7,772,257, for fiscal year 2013 and had a net pension obligation of $1,726,343 at June 30, 2013.

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

Note 15. Other Post-Employment Benefits

A. Plan Descriptions

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

- Certain state employees and employees of the following component units or related organizations: Narragansett Bay Commission, RI Airport Corporation and RI Economic Development Corporation
- Certain certified public school teachers
- Judges
- State police officers

- Legislators
- Certain employees of the Board of Education (BOE)

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

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

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

The System issues a publicly available financial report that includes financial statements and required supplementary information for the plans and a description of the benefit structures. The report may be obtained by writing to the State Controller's Office, 1 Capitol Hill Providence, RI 02903.

A summary of the principal provisions of the plans follow:

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

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

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

B. Funding Policy, Funding Status and Funding Progress

The contribution requirements of plan members, the State, and other participating employers are established and may be amended by the General Assembly. Beginning in fiscal year 2011, the State and other participating employers were required by law to fund the plans on an actuarially determined basis. For the fiscal year ended June 30, 2013, the State and other participating employers paid $58,223,000 into the plans.

C. Annual OPEB Cost and Net OPEB Obligation

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

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

	State Employees	Teachers	Judicial	State Police	Legislators	BOE
Date of Actuarial Valuation	06/30/09	06/30/09	06/30/09	06/30/09	06/30/09	06/30/09
Annual required contribution as a percent of payroll	6.86%	N/A	7.19%	33.18%	0.00%	2.69%
Annual required contribution	$ 45,800	$ 2,321	$ 778	$ 6,218	$ 0	$ 3,106
Plus: Interest on net OPEB obligation at beginning of year	0	N/A	144	419	0	0
Less: Adjustment to ARC	0	N/A	120	350	0	0
Annual OPEB cost	45,800	2,321	802	6,287	0	3,106
Participating State and/or other employer contributions	45,800	2,321	778	6,218	0	3,106
Increase in OPEB obligation	0	0	24	69	0	0
Net OPEB obligation at beginning of year, as restated	0	0	2,867	8,381	0	0
Net OPEB obligation at end of year	$ 0	$ 0	$ 2,891	$ 8,450	$ 0	$ 0

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

Plan	Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
State Employees	2011	41,120	100.00%	-
	2012	44,235	100.00%	-
	2013	45,800	100.00%	-
Teachers	2011	2,333	100.00%	-
	2012	2,321	100.00%	-
	2013	2,321	100.00%	-
Judicial	2011	1,014	97.23%	2,839
	2012	810	96.53%	2,867
	2013	802	97.01%	2,891
State Police	2011	4,295	98.13%	8,302
	2012	5,920	98.66%	8,381
	2013	6,287	98.91%	8,450
Legislators	2011	1,541	98.62%	*
	2012	799	97.34%	*
	2013	0	NA	-
BOE	2011	2,869	100.00%	-
	2012	2,884	100.00%	-
	2013	3,106	100.00%	-

* - Restated, see Note 18F.

The table below displays the funded status of each plan at June 30, 2011, the most recent actuarial valuation date (dollar amounts expressed in thousands):

	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
State Employees	$ 11,545	$ 728,207	$ 716,662	1.6%	$ 600,273	119.4%
Teachers	2,040	11,512	9,472	17.7%	n/a	n/a
Judicial	841	2,610	1,769	32.2%	10,813	16.4%
State Police	1,488	81,759	80,271	1.8%	17,384	461.8%
Legislators	1,442	1,443	1	99.9%	1,615	0.1%
BOE	3,189	53,751	50,562	5.9%	125,340	40.3%

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

D. Actuarial Methods and Assumptions

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

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

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

The Annual Required Contributions for fiscal year 2013 were determined based on the June 30, 2009 valuations for all plans.

As of the June 30, 2009 actuarial valuation, the Unfunded Actuarial Accrued Liability (UAAL) was amortized by a level (principal and interest combined) percent of payroll contribution for each component unit employer. The UAAL was determined using the actuarial value of assets and actuarial accrued liability calculated as of the valuation date. The UAAL for all plans, except teachers, is being amortized over the remainder of a closed 30-year (or shorter) period from June 30, 2006. The remaining amortization period at June 30, 2009 is 27 years. The UAAL for teachers is being amortized as a level dollar amount over an 8-year period from June 30, 2007.

For the June 30, 2009 valuation the actuarial assumptions include a 5.0% discount rate, a health care cost trend assumption of 9% progressively declining to 4.5% after 10 years, and salary growth assumption rates ranging between 4.5% and 13.25%. Other assumptions, including those relating to rates of termination, rates of retirement, percent married, and retiree health care election rates, were based on the most recent experience study for the Employees' Retirement System of Rhode Island as well as on anticipated experience changes in conjunction with the adopted retirement plan changes enacted through legislation.

The most recent actuarial valuations of the plans were performed as of June 30, 2011.

A number of changes in OPEB specific actuarial assumptions were made between the June 30, 2009 and June 30, 2011 valuations. These changes include reflecting new assumptions adopted by the Employees Retirement System of Rhode Island (ERSRI), and the State Police Retirement Benefits Trust of Rhode Island (SPRBT), changes to the OPEB specific assumptions, and changes to reflect the potential excise tax under the Patient Protection and Affordable Care Act.

Changes from the ERSRI and SPRBT experience studies include changes to the retirement and disability rates for ERSRI and changes to salary expectations and mortality for both ERSRI and SPRBT.

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

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

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. During fiscal year 2014, the State will establish a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The System's actuary has updated the June 30, 2011 actuarial valuation to reflect the effect on the Actuarial Accrued Liability resulting from this change and the updated amounts are reflected in the valuation table on the preceding page.

The following table summarizes the actuarial methods and assumptions used in the most recent actuarial valuation:

Summary of Actuarial Methods and Assumptions as of June 30, 2011 valuation

	Plan					
	State Employees	**Teachers**	**Judicial**	**State Police**	**Legislators**	**Board of Education**
Valuation Date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	Level Dollar	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	25 years	4 years	25 years	25 years	25 years	25 years
Asset Valuation Method	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market	Four year smoothed market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	4.00% to 7.0%	N/A	4.00%	4.00% to 12.0%	4.25% to 8.50%	4.00% to 7.00%
Valuation Health Care Cost Trend Rate	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021

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

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

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

Note 16. Deferred Compensation

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

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

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

Note 17. Risk Management

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

The State has entered into agreements with commercial insurance companies for comprehensive insurance coverage on State property to protect the State against loss from fire and other risks. Furthermore, the State is required by the General Laws to provide insurance coverage on all motor vehicles owned by the State and operated by State employees in the sum of $100,000 per person and $300,000 per accident for personal injury and $20,000 for property damage. During fiscal year 2013, and the two preceding fiscal years, no settlements exceeded insured coverage limits.

The State also has a contract with an insurance company to provide health care benefits to active and retired employees. For coverage provided to active employees, the State retains the risk of loss. Retirees that are Medicare eligible may choose Medicare supplement coverage that is either premium based (State retains no risk of loss) or a self-insured plan option. Except for the premium based coverage provided to certain Medicare eligible retirees, the State reimburses the company for the costs of all claims paid plus administrative fees. The estimated liability for incurred but not reported (IBNR) claims at June 30, 2013 was calculated based on historical claims data. The change in claims liability (expressed in thousands) is as follows:

	Liability at July 1	Current Year Claims and IBNR Estimate	Claim Payments	Liability at June 30
Health Insurance Funds				
Unpaid claims	$ 13,780	$ 204,161	$ 202,505	$ 15,436

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

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

Note 18. Other Information

A. Elimination Entries

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

	Total Governmental Funds	Internal Service Funds	Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 9,953	$ 1,437	$ 11,390	$ (16,015)	$ (4,625)
Loans to other funds	100,114		100,114	(100,114)	
Total assets	$ 110,067	$ 1,437	$ 111,504	$ (116,129)	$ (4,625)
Liabilities					
Due to other funds	$ 15,714	$ 301	$ 16,015	$ (16,015)	$
Loans from other funds	94,153	5,961	100,114	(100,114)	
Total liabilities	$ 109,867	$ 6,262	$ 116,129	$ (116,129)	$
Program revenue					
General government	$	$ 273,183	$ 273,183	$ (273,183)	
Public safety		11,264	11,264	(11,264)	
Expenses					
General government		(273,012)	(273,012)	273,012	
Public safety		(11,435)	(11,435)	11,435	
Net revenue (expenses)	$	$	$	$	$
Transfers					
Operating transfers in	$ 592,804	$ 7,400	$ 600,204	$ (266,400)	$ 333,804
Operating transfers out	(264,571)	(1,829)	(266,400)	266,400	
Net transfers	$ 328,233	$ 5,571	$ 333,804	$	$ 333,804

	Total Business-type Activities		Total	Eliminations	Internal Balances
Assets					
Due from other funds	$ 5,826	$	$ 5,826	$ (1,201)	$ 4,625
Total assets	$ 5,826	$	$ 5,826	$ (1,201)	$ 4,625
Liabilities					
Due to other funds	$ 1,201	$	$ 1,201	$ (1,201)	$
Total liabilities	$ 1,201	$	$ 1,201	$ (1,201)	$
Transfers					
Operating transfers in	$ 46,227	$	$ 46,227	$ (46,227)	$
Operating transfers out	(380,031)		(380,031)	46,227	(333,804)
Net transfers	$ (333,804)	$	$ (333,804)	$	$ (333,804)

B. Related Party Transactions

On April 25, 2013, the State transferred custody, control and supervision of the Jamestown and the Sakonnet River Bridges and related land and improvements from the Department of Transportation to the R.I. Turnpike and Bridge Authority. Ownership and title of the two bridges remains with the State.

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

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

During fiscal year 2013, the State transferred land reclaimed from the Interstate 195 relocation project and the Washington Bridge project to the I-195 Redevelopment District Commission (I-195 RDC). The value of the land was reported in the State's financial statements as a capital contribution at the historical cost of $343 per acre, for a total of $7,203. Significant improvements to the land are being funded by the state to complete redevelopment of the land for sale. In April 2013, the R.I. Economic Development Corporation (RIEDC) issued conduit debt obligations on behalf of the I-195 RDC totaling $38,400,000. In connection with this issuance there were financing fees of approximately $1.494 million, which were paid principally by the State. This payment is reported as a transfer out to the I-195 RDC in the State's financial statements.

In November 2004, the voters of Rhode Island authorized the issuance of $30 million in general obligation debt for the construction of a new residence hall at Rhode Island College (RIC). Of this amount, $20 million will be repaid to the State. The residence hall was finished and in service by September 2007, at which time RIC began collecting revenues to pay for its share of the debt service. Debt service obligation is to be split two-thirds to RIC and one-third to the State for all payments after September 2007. RIC will repay the State for the debt service paid on its behalf on a straight-line basis, amortized over the remaining life of the bonds, which carry rates ranging from 3-5% and a life of nineteen years beginning in fiscal year 2009.

C. Budgeting, Budgetary Control, and Legal Compliance

Budget Preparation

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

As required by the Constitution and the Rhode Island General Laws, annual appropriations are limited to 97.0 percent of estimated general revenues. The remaining 3.0 percent is contributed to the Budget Reserve Account until such account equals 5.0 percent of total general revenues and opening surplus. Excess contributions to the Budget Reserve Account are transferred to the Rhode Island Capital Plan Fund to be used for capital projects.

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

Budgetary Controls

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

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

D. Significant Transactions with Component Units

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

Significant transactions between primary government and component units

	(Revenue) Expense	Description
Governmental activities		
General		
R.I. Higher Education Assistance Authority	$ 5,693	Operating assistance
R.I. Economic Development Corporation	15,075	Operating and capital assistance
University of Rhode Island	58,186	Operating assistance
Rhode Island College	38,541	Operating assistance
Community College of Rhode Island	44,517	Operating assistance
Central Falls School District	46,399	Operating assistance
R.I. Public Transit Authority	5,442	Operating assistance
IST		
R.I. Public Transit Authority	40,860	Operating assistance
I-195 Redistricting Commision	(38,400)	Purchase of land
Bond Capital		
Rhode Island College	10,159	Construction, improvement or purchase of assets
R. I. Capital Plan		
University of Rhode Island	11,666	Construction, improvement or purchase of assets
Total Governmental Activities	$ 238,138	

E. Individual Fund Deficits

The following Internal Service Funds had cumulative fund deficits at June 30, 2013:

- Assessed Fringe Benefits ($3,163,000)
- Central Utilities ($250,000)
- State Telecommunications ($148,000)
- Records Center ($111,000)
- Capitol Police ($88,000)

The deficits will be eliminated through charges for services in fiscal year 2014.

F. Restatements – Net Position and Fund Balances

Restatements of June 30, 2012 net position/fund balances (expressed in thousands) are in the table below:

	Governmental Activities	Discretely Presented Component Units	Governmental Funds
Balances previously reported at June 30, 2012			
Net position	$ 1,418,495	$ 2,811,840	
Fund balance			$ 966,946
Restatement due to:			
(1) *GASB 61 implementation - changes in financial reporting entity*		(975,699)	
(2) *Correction of errors*	26,545	(17,804)	
(3) *Restatement of Net OPEB Obligation*	2,137		
(4) *Recognition of Tobacco Settlement Revenues (TSRs)*	23,524		23,524
(5) *Adjustments to Carrying Value of Capital Assets*	70,247		
June 30, 2012 net position/fund balance, as restated	$ 1,540,948	$ 1,818,337	$ 990,470

(1) *GASB 61 implementation - changes in financial reporting entity* - As discussed in Note 1 in fiscal year 2013 the State implemented GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*. The following entities are no

longer considered component units as they do not present the potential to provide a financial benefit or impose a financial burden on the State:

- Rhode Island Student Loan Authority
- Narragansett Bay Commission
- Rhode Island Health and Educational Building Corporation
- Rhode Island Clean Water Finance Agency
- The College Crusade of Rhode Island

In addition, the Rhode Island Public Telecommunications Authority is no longer a component unit as its operations have been assumed by the Rhode Island PBS Foundation.

(2) *Correction of errors* - The State issued certain capital lease obligations for energy conservation projects on behalf of the University of Rhode Island (URI) and the Community College of Rhode Island (CCRI). URI and CCRI are required to repay the State for debt service from the energy cost savings related to the projects. The State did not recognize the asset in its financial statements until fiscal year 2013. The beginning net position of the discretely presented component units was restated by ($17,804,000). URI did not recognize the liability in its financial statements until fiscal year 2013.

(3) Restatement of Net OPEB Obligation – The beginning net position of the governmental activities was increased by $2,137,000 due to the elimination of the net OPEB obligation reported for legislators' OPEB plan at June 30, 2012. The obligation was eliminated after corrections and changes in assumptions by the actuary in a more current valuation showed the plan to be fully funded with no annual required contribution amount.

(4) *Recognition of Tobacco Settlement Revenues (TSRs)* - The Tobacco Settlement Financing Corporation revised its recognition of amounts due for TSRs based on the shipment of cigarettes instead when cash was received. The TSFC's beginning net position was restated for this change.

(5) Adjustments to Carrying Value of Capital Assets - During fiscal year 2013, $70,247,000 was recorded as a prior period adjustment related to capital assets. Approximately $185,000 was attributable to the cost of software development projects that was not recorded in prior fiscal years. $1,374,000 was adjusted due to construction in progress projects that, upon completion, fell below the State's capitalization threshold. The balance of $71,436,000 represents additions to infrastructure assets for elements of project costs that were not previously recognized.

Note 19. Subsequent Events

Primary Government

In October 2013 the State issued $53,150,000 of General Obligation Bonds. The bonds mature in 2014 through 2033 and will be used for a variety of purposes including transportation infrastructure projects and affordable housing initiatives.

On December 17, 2013, the ERSRI Board approved actuarial valuations as of June 30, 2013 for the ERS plan. The valuations develop the employer contribution rates for fiscal year 2016. The funded status of the ERS plan as of June 30, 2013 compared to June 30, 2012 valuations is detailed in the table below:

	Funded ratios based on actuarial valuation performed as of:	
	June 30, 2012	June 30, 2013
ERS - state employees	56.3%	56.2%
ERS - teachers	58.8%	58.1%

The actuary made no significant changes in actuarial assumptions for the 2013 valuation.

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. During fiscal 2014, the State will establish a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The System's actuary has modified the actuarially required contributions for fiscal 2014 developed as of the June 30, 2011 valuation to reflect these changes.

Component Units

On July 18, 2013, R. I. Resource Recovery Corporation (RIRRC) received notification from a third-party of its intent to sue for alleged violations of the Clean Air Act ("CAA"). The notification alleges, inter alia, that quantities of landfill gas have been escaping from the Central Landfill for years and also names the owner/operator of the gas collection system as part of the intended suit. Under the CAA citizens can bring suit to enjoin violations of the emissions standards and can seek redress and civil penalties for such violations. On December 16, 2013, the complaint was filed in U.S. District Court. The complaint requests that the Court order the defendants to comply with the Clean Air Act, remedy the alleged violations and pay civil penalties. RIRRC has notified its pollution liability insurance carrier of the potential for the lawsuit; RIRRC, as named additional insured, has also notified the owner/operator of the gas collection system's pollution liability insurance carrier of the potential for a claim.

On August 19, 2013, the R.I. Turnpike and Bridge Authority began collecting tolls on the Sakonnet River Bridge in accordance with the FY2014 Rhode Island State Budget, which includes an article that states the toll will be temporarily set at $0.10 through April 1, 2014. The status of tolling on the Sakonnet River Bridge will be finalized in fiscal year 2014 by the General Assembly.

On October 1, 2013, the R.I. Housing and Mortgage Finance Corporation redeemed or refunded the following bonds: Homeownership Opportunity Bonds in the amount of $42,560,000 and Home Funding Bonds in the amount of $5,660,000.

Subsequent to June 30, 2013 legislation was enacted that increased the percentage of net terminal income payable to Newport Grand LLC under the Newport Grand Master Contract. The commission payable to Newport Grand was increased by 2.25% for the period July 1, 2013 through June 30, 2015.

On November 19, 2013, the R.I. Economic Development Corporation (RIEDC) issued bonds in the amount of $32,755,000 with maturity dates of July 1, 2014 through July 1, 2028 with various interest rates. These consist of Airport Revenue Refunding Bonds, 2013 Series B (Non-AMT) in the amount of $30,700,000, and Airport Revenue Refunding Bonds, 2013 Series C (AMT) in the amount of $2,055,000.

Also on November 19, 2013, the RIEDC refunded the following bonds: Airport Revenue Bonds, 1998 Series B in the amount of $32,060,000 and Airport Revenue Bonds, 2003 Series A in the amount of $6,020,000.

Required Supplementary Information

State of Rhode Island

Fiscal Year Ended June 30, 2013

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, 2013
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues:				
General Revenues:				
Personal Income Tax	$ 1,080,857	$ 1,075,300	$ 1,085,765	$ 10,465
General Business Taxes:				
Business Corporations	133,251	137,000	131,828	(5,172)
Public Utilities Gross Earnings	100,100	98,300	99,641	1,341
Financial Institutions	1,700	12,800	12,595	(205)
Insurance Companies	89,825	93,600	92,745	(855)
Bank Deposits	2,100	2,500	2,877	377
Health Care Provider Assessment	42,207	41,400	41,569	169
Sales and Use Taxes:				
Sales and Use	886,720	872,500	878,866	6,366
Motor Vehicle	47,759	51,100	49,431	(1,669)
Motor Fuel	1,100	800	438	(362)
Cigarettes	138,054	131,800	132,516	716
Alcohol	12,200	12,000	12,176	176
Other Taxes:				
Inheritance and Gift	35,149	30,200	28,489	(1,711)
Racing and Athletics	1,200	1,200	1,171	(29)
Realty Transfer Tax	5,900	7,100	7,399	299
Total Taxes *(1)*	2,578,122	2,567,600	2,577,506	9,906
Departmental Revenue	342,874	363,400	356,832	(6,568)
Total Taxes and Departmental Revenue	2,920,996	2,931,000	2,934,338	3,338
Other Sources:				
Other Miscellaneous	4,440	5,665	4,166	(1,499)
Lottery	387,553	380,160	379,225	(935)
Unclaimed Property	7,900	7,000	6,269	(731)
Total Other Sources	399,893	392,825	389,660	(3,165)
Total General Revenues	3,320,889	3,323,825	3,323,998	173
Federal Revenues	2,228,396	2,280,602	2,129,847	(150,755)
Restricted Revenues	230,810	267,604	220,983	(46,621)
Other Revenues	67,431	70,531	62,372	(8,159)
Total Revenues *(2)*	5,847,526	5,942,562	5,737,200	(205,362)
Expenditures *(4)*:				
General government	685,522	748,219	667,461	80,758
Human services	3,172,288	3,106,870	3,042,755	64,115
Education	1,387,751	1,390,392	1,360,183	30,209
Public safety	484,846	509,058	463,758	45,300
Natural resources	92,067	98,009	70,145	27,864
Total Expenditures *(2)*	5,822,474	5,852,548	5,604,302	$ 248,246
Transfer to Vehicle Replacement Revolving Fund			7,350	
Transfer of Excess Budget Reserve to RI Capital Fund			84,624	
Transfer of Excess Revenue to Employees' Retirement System			12,944	
Total Expenditures and Transfers	$ 5,822,474	$ 5,852,548	5,709,220	
Change in Fund Balance			27,980	
Fund balance - beginning			373,154	
Fund balance - ending			$ 401,134	

(continued)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

	Original Budget	Final Budget	Actual	Variance with Final Budget
Expenditures by Source:				
General Revenues	$ 3,295,836	$ 3,233,811	$ 3,216,046	$ 17,765
Federal Funds	2,228,395	2,280,602	2,132,188	148,414
Restricted Receipts	230,812	267,604	196,799	70,805
Other Funds	67,431	70,531	59,269	11,262
	$ 5,822,474	$ 5,852,548	$ 5,604,302	$ 248,246

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

Budgeted Surplus:

Total Revenue - Final Budget	$ 5,942,562	
Total Expenditures - Final Budget	5,852,548	
Final Budget - Projected Surplus (3)		$ 90,014
Final Budget and Actual - Results		
Total Revenues - Variance (Actual Revenue less than Budget)	$ (205,362)	
Total Expenditures - Variance (Actual Expenditures less than Budget)	248,246	
Surplus resulting from operations compared to final budget		$ 42,884
Total General Fund Surplus - Fiscal Year Ended June 30, 2013		$ 132,898
Transfer to Vehicle Replacement Revolving Fund		(7,350)
Transfer of Excess Revenue to Employees' Retirement System		(12,944)
Transfer of Excess Budget Reserve to RICAP Fund		(84,624)
Net Change in General Fund - Fund Balance		$ 27,980
Fund Balance, Beginning		373,154
Fund Balance, Ending		$ 401,134

Notes:

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

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

(3) RI General Law section 35-3-20.1, titled "Limitation on state spending", mandates that expenditure appropriations shall not be greater than 97.0% of estimated general revenue for the fiscal year ending June 30, 2013.

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

General government	$ 163,365
Education	30,054
Public safety	24
	$ 193,443

(continued)

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2013
(Expressed in Thousands)

Reconciliation of Fund Balance - Financial Reporting Perspective to Budgetary Perspective

			Budgetary Perspective			
	Fund Balance Reported in the Financial Statements		Fund Balance Not Available for Appropriation in Fiscal 2014		Fund Balance Available for Appropriation in Fiscal 2014	
Restricted	$ 282,137		$ 282,137		$	
Committed	4,035		4,035			
Assigned	105,639		10,842	*(a)*	94,797	*(b)*
Unassigned	9,323				9,323	*(c)*
Total Fund Balance	$ 401,134		$ 297,014		$ 104,120	

(a) Assigned fund balance not available for appropriation in fiscal 2014 includes (1) centralized cost allocation surplus that requires offset through fiscal 2014 centralized charges and (2) general revenue appropriations carried forward by the Governor, Judiciary, and Legislature.

(b) Assigned fund balance available for appropriation in fiscal 2014 includes fiscal 2013 ending surplus amounts of $93.4 million appropriated as resources in the 2014 enacted budget, and fund balance amounts encumbered at June 30, 2013.

(c) Remaining fund balance available for appropriation.

(concluded)

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual (Expressed in Thousands)
Intermodal Surface Transportation Fund
For the Fiscal Year Ended June 30, 2013

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget
Revenues:				
Taxes	$ 137,286	$ 135,038	$ 134,465	$ (573)
Departmental restricted revenue	999	1,010	1,044	34
Federal grants	362,341	316,970	272,597	(44,373)
Other revenues	110	175	174	(1)
Total revenues	500,736	453,193	408,280	(44,913)
Revenues and other Financing Sources (unbudgeted):				
Miscellaneous revenue			5,476	
Transfer from I-195 Redevelopment Commission			38,400	
Total revenues			452,156	
Other Financing Sources:				
Transfers from RI Capital Plan and Bond Capital Funds (State FHWA Match)			56,513	
Other transfers			1,000	
Total Other Financing Sources			57,513	
Total Revenues and Other Financing Sources			509,669	
Expenditures (budgeted):				
Central Management				
Federal Funds	10,515	12,008	5,305	6,703
Gasoline Tax	1,353	1,501	1,605	(104)
Total - Central Management	11,868	13,509	6,910	6,599
Management and Budget				
Gasoline Tax	1,938	1,439	1,662	(223)
Total - Management and Budget	1,938	1,439	1,662	(223)
Infrastructure-Engineering-GARVEE/ Motor Fuel Tax Bonds				
Federal Funds	342,945	297,440	263,891	33,549
Federal Funds-Stimulus	8,881	7,522	3,311	4,211
Restricted Receipts	999	1,010	973	37
Gasoline Tax	54,201	52,725	53,655	(930)
Motor Fuel Tax Residuals	4,076	2,659		2,659
Land Sale Revenue	22,354	24,224	5,039	19,185
Total - Infrastructure - Engineering	433,456	385,580	326,869	58,711
Infrastructure - Maintenance				
Gasoline Tax	39,567	40,354	38,340	2,014
Non-Land Surplus Property	10	50		50
Outdoor Advertising	100	125		125
Total - Infrastructure - Maintenance	39,677	40,529	38,340	2,189
Total Expenditures (budgeted)	$ 486,939	$ 441,057	$ 373,781	$ 67,276
Expenditures and Financing Uses (unbudgeted):				
Infrastructure Expenditures - State Match funded by RI Capital Plan and Bond Capital Funds			56,513	
Infrastructure Expenditures - GARVEE			5,527	
Transfers to General Fund - Gas Tax			40,817	
Total Expenditures and Financing Uses (unbudgeted)			102,857	
Total Expenditures and Other Financing Uses			476,638	
Net change in fund balance			33,031	
Fund balance, beginning			108,679	
Fund balance, ending			$ 141,710	

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
Required Supplementary Information
Schedules of Funding Progress
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June 30, 2013
(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)
06/30/2012		$ 6,167,491	$ 10,670,343	$ 4,502,851	57.8%	$ 1,641,383	274.3%
06/30/2011		6,220,099	10,581,304	4,361,206	58.8%	1,635,802	266.6%
06/30/2010	*	6,405,209	10,499,318	4,094,109	61.0%	1,619,484	252.8%

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)
06/30/2012		$ 84,294	$ 94,032	$ 9,738	89.6%	$ 23,670	41.1%
06/30/2011		73,152	74,186	1,034	98.6%	19,712	5.2%
06/30/2010	*	65,760	73,049	7,288	90.0%	19,715	37.0%

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)
06/30/2012		$ 43,429	$ 52,085	$ 8,657	83.4%	$ 8,823	98.1%
06/30/2011		40,106	46,594	6,488	86.1%	8,475	76.6%
06/30/2010	*	38,074	46,642	8,567	81.6%	7,461	114.8%

* Restated to reflect pension reform legislation enacted on November 18, 2011.

Rhode Island Judicial Retirement Fund Trust

Actuarial Valuation Date		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2012	**	$ -	$ 16,387	$ 16,387	0.0%	$ 1,231	1331.6%

** Plan was effective July 1, 2012.

See Notes to Required Supplementary Information.

State of Rhode Island and Providence Plantations
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Other Postemployment Benefits
June 30, 2013
(Expressed in Thousands)

State Employees Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 11,545	$ 728,207	$ 716,662	1.6%	$ 600,273	119.4%
06/30/2009	0	673,640	673,640	0.0%	574,569	117.2%
06/30/2007	0	679,538	679,538	0.0%	626,145	108.5%

Teachers Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 2,040	$ 11,512	$ 9,472	17.7%	NA	NA
06/30/2009	0	13,529	13,529	0.0%	NA	NA
06/30/2007	0	10,243	10,243	0.0%	NA	NA

Judicial Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 841	$ 2,610	$ 1,769	32.2%	$ 10,813	16.4%
06/30/2009	0	8,665	8,665	0.0%	9,395	92.2%
06/30/2007	0	14,024	14,024	0.0%	9,888	141.8%

State Police Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 1,488	$ 81,759	$ 80,271	1.8%	$ 17,384	461.8%
06/30/2009	0	67,079	67,079	0.0%	16,725	401.1%
06/30/2007	0	54,620	54,620	0.0%	15,977	341.9%

Legislators Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 1,442	$ 1,443	$ 1	99.9%	$ 1,615	0.1%
06/30/2009	0	11,752	11,752	0.0%	1,612	729.0%
06/30/2007	0	29,764	29,764	0.0%	1,592	1869.6%

Board of Education Health Care Insurance Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
06/30/2011	$ 3,189	$ 53,751	$ 50,562	5.9%	$ 125,340	40.3%
06/30/2009	0	58,476	58,476	0.0%	106,665	54.8%
06/30/2007	0	57,881	57,881	0.0%	110,092	52.6%

See Notes to Required Supplementary Information.

Budget and Actual

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

The budget to actual comparison for the General Fund on pages 122 through 124 is summarized and does not present budget and actual amounts detailed at the legal level of budgetary control. The legal level of budgetary control, i.e., the lowest level at which management (executive branch) may not reassign resources without special approval (legislative branch) is the line item within the appropriation act. Management cannot reallocate any appropriations without special approval from the legislative branch. A separate schedule presenting such amounts at the detailed legal level of budgetary control is available on the State Controller's website, http://controller.admin.ri.gov/index.php.

The comprehensive annual budget includes transportation function expenditures, the majority of which are reflected in the IST Fund for financial reporting purposes. The IST Fund major fund financial statements include transportation related activity of the various transportation funding sources including gas tax revenues, federal funds, GARVEE and Motor Fuel Bonds, and the proceeds of bonds issued by the I-195 Redevelopment District which were transferred to the IST fund to be utilized for infrastructure projects. The budget to actual comparison schedule for the IST fund on page 125 is presented at the legal level of budgetary control consistent with the legally adopted budget. Not all the activity reported within the IST fund financial statements is budgeted. Unbudgeted activity has been separately identified in the budget to actual comparison schedule to facilitate reconciliation to the IST fund financial statements.

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

Schedules of Funding Progress - Pensions

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2012 follows (Also, see Note 19 – Subsequent Events):

Summary of Actuarial Assumptions Used in the June 30, 2012 Valuations

	ERS		SPRBT	JRBT	RIJRFT
	State Employees	***Teachers***			
Actuarial Cost Method	Entry Age Normal - the Individual Entry Age Actuarial Cost methodology is used.				
Amortization Method	Level Percent of Payroll – Closed				Level Dollar
Equivalent Single Remaining Amortization Period	23 years				16 years
Asset Valuation Method	5 Year Smoothed Market				
Actuarial Assumptions					
Investment Rate of Return	7.50%	7.50%	7.50%	7.50%	4.00%
Projected Salary Increases	4.00% to 7.00%	4.00% to 12.75%	4.00% to 12.00%	4.00%	4.00%
Inflation	2.75%	2.75%	2.75%	2.75%	2.75%

Cost of Living Adjustments: COLA is equal to the average five-year fund asset performance (percent) greater than 5.5% up to a maximum of 4% - the COLA is to be applied to the first $25,000 of benefits, indexed over time. COLA is delayed until the later of Social Security eligibility age or 3 years after retirement except for State Police, for which, the COLA is delayed until the later of age 55 or 3 years after retirement. A COLA of 2% is assumed only every five years until the plans achieve an 80% collective funded status in accordance with the law. It is assumed that the plans will not achieve the targeted 80% funded status for 15 years.

2. Schedules of Funding Progress

Changes affecting the June 30, 2012 actuarial valuation:

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

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

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

Changes affecting the June 30, 2011 actuarial valuation:

The retirement rates were modified to be consistent with the retirement eligibility changes instituted by the Rhode Island Retirement Security Act of 2011. Members that were assumed to retire prior to the Act, but before the earliest allowable age under the Act, are assumed to retire once eligible.

For future cost of living benefit adjustments, the benefit adjustments are assumed to be suspended for approximately 16 years, except for the intermittent adjustment every fifth year.

Changes affecting the June 30, 2010 actuarial valuation *(as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011)****:***

The June 30, 2010 valuations (as restated to reflect the provisions of pension reform legislation enacted on November 18, 2011) reflect comprehensive changes to plan member benefit provisions which are effective beginning July 1, 2012. The June 30, 2010 valuations also reflect material changes to certain actuarial assumptions.

The revised member benefit provisions become effective on July 1, 2012. These include changes in service period accrual rates, retirement eligibility age, and future cost of living adjustments. Additionally, the unfunded accrued liability is now amortized over a twenty-five year period from June 30, 2010 compared to the 30 year period from June 30, 1999 employed in prior actuarial valuations.

The Individual Entry Age Cost Method is used in the June 30, 2010 actuarial valuations. Prior valuations utilized the Ultimate Normal Cost methodology where normal cost was determined based on the benefits applicable to new hires under the replacement benefit structure resulting from prior pension reform measures. The annual investment rate of return was lowered from 8.25% to 7.5%.

The post-termination mortality rates for non-disabled state employees and members of the MERS, State Police and Judicial plans were previously based on the 1994 Group Annuity Mortality Tables. New mortality tables have been constructed and adopted with adjustments for these employees using the RP-2000 Combined Healthy for Males and Females with White Collar adjustments, projected with Scale AA from 2000 for non-disabled individuals.

The post-termination mortality rates used for non-disabled teachers in the June 30, 2009 and June 30, 2010 valuations were both based on tables developed by ERSRI's actuary based on teacher experience. The rates used in the June 30, 2010 valuation for male teachers were lowered to 97% of the rates in these tables based on male teacher experience, projected with Scale AA from 2000 from 100% of the actuary's table based on male teacher experience used in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for female teachers were lowered to 92% of the rates used in the actuary's tables based on female teacher experience, projected with Scale AA from 2000 from 95% of the actuary's table based on female teacher experience used in the June 30, 2009 valuation.

The post-termination mortality rates for disabled members of all ERSRI plans are based on the PBGC table Va for males and table VIa for females. The rates used in the June 30, 2010 valuation for disabled males eligible for social security disability benefits were lowered to 60% of PBGC table Va from 65% of this table in the June 30, 2009 valuation. The rates used in the June 30, 2010 valuation for disabled females eligible for social security disability benefits were lowered to 60% of PBGC table VIa from 100% of this table in the June 30, 2009 valuation.

The pre-retirement mortality rates for all members of the ERSRI plans were previously based on the 1994 Group Annuity Mortality Tables. The rates used in the June 30, 2010 valuation for these employees were based on the RP-2000 Combined Tables with white collar adjustment for males and females. The tables were adjusted for each individual plan.

The inflation assumption rate was decreased from 3% to 2.75% and the projected salary increase assumptions were also decreased compared to the prior valuation. The assumption for cost of living adjustments subject to the Consumer Price Index (for those not eligible to retire on September 30, 2009) was decreased from 2.5% to 2.35%.

Schedules of Funding Progress - Other Postemployment Benefits

1. Actuarial Assumptions and Methods

The information presented in the required supplementary information schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation, June 30, 2011, follows (Also, see Note 19 – Subsequent Events):

Summary of Actuarial Methods and Assumptions as of June 30, 2011 Valuations

	Plan					
	State Employees	**Teachers**	**Judicial**	**State Police**	**Legislators**	**Board of Education**
Valuation Date	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011	June 30, 2011
Plan Type	Cost sharing multiple employer	Single Employer (1)	Single Employer	Single Employer	Single Employer	Cost sharing multiple employer
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age	Individual Entry Age
Amortization Method	Level Percent of Payroll – Closed	Level Dollar	Level Dollar	Level Percent of Payroll – Closed	Level Dollar	Level Percent of Payroll – Closed
Equivalent Single Remaining Amortization Period	25 years	4 years	25 years	25 years	25 years	25 years
Asset Valuation Method	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market	4 Year Smoothed Market
Actuarial Assumptions						
Investment Rate of Return	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Projected Salary Increases	4.00% To 7.00%	N/A	4.00%	4.00% To 12.00%	4.25% To 8.50%	4.00% To 7.00%
Valuation Health Care Cost Trend Rate	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021	9% in 2012, grading to 4.0% in 2021

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

2. Schedules of Funding Progress

Changes affecting the June 30, 2011 Actuarial Valuation:

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

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

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

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

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

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

The General Laws were amended in the 2013 session of the General Assembly to modify the manner in which health insurance is provided to Medicare eligible retirees covered under the System's plan covering state employees. During fiscal year 2014, the State will establish a health reimbursement account (HRA) for each Medicare eligible retiree who elects to receive health insurance coverage through the state sponsored program. The System's actuary has updated the June 30, 2011 actuarial valuation to reflect the effect on the Actuarial Accrued Liability resulting from this change and the updated amounts are reflected in the table above.

Changes affecting the June 30, 2009 Actuarial Valuation:

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

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

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards

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

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2013

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
U.S. Department of Agriculture			
Plant and Animal Disease, Pest Control, and Animal Care	10.025	$	219,076
Federal - State Marketing Improvement Program	10.156		(7)
Inspection Grading and Standardization	10.162		4,572
Market Protection and Promotion	10.163		5,209
Specialty Crop Block Grant Program	10.169		222,743
Grants for Agricultural Research, Special Research Grants	10.200		114,694
Very Low to Moderate Income Housing Loans (See Note 2)	10.410		2,296,078
Rural Housing Preservation Grants	10.433		104,498
SNAP Cluster:			
Supplemental Nutrition Assistance Program	10.551		300,607,137
ARRA - Supplemental Nutrition Assistance Program	10.551		(229,443)
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561		10,861,203
Child Nutrition Cluster:			
School Breakfast Program	10.553		8,878,817
National School Lunch Program (See Note 2)	10.555		31,975,479
Special Milk Program for Children	10.556		77,729
Summer Food Service Program for Children (See Note 2)	10.559		892,189
Special Supplemental Nutrition Program for Women, Infants, and Children (See Note 4)	10.557		24,869,219
Child and Adult Care Food Program	10.558		7,986,156
State Administrative Expenses for Child Nutrition	10.560		1,131,107
Food Distribution Cluster:			
Emergency Food Assistance Program (Administrative Costs)	10.568		209,203
Emergency Food Assistance Program (Food Commodities) (See Note 2)	10.569		1,839,400
WIC Farmers' Market Nutrition Program (FMNP)	10.572		114,766
Team Nutrition Grants	10.574		12,039
Senior Farmers Market Nutrition Program	10.576		19,436
Child Nutrition Discretionary Grants Limited Availability	10.579		77,833
Fresh Fruit and Vegetable Program	10.582		1,824,295
Cooperative Forestry Assistance	10.664		399,268
Forest Legacy Program	10.676		30,279
Total U.S. Department of Agriculture		$	394,542,975
U.S. Department of Commerce			
Personal Census Search	11.006	$	(11)
Economic Development - Support for Planning Organizations	11.302		27,073
Economic Development Cluster:			
Economic Adjustment Assistance (See Note 2)	11.307		11,024,525
Interjurisdictional Fisheries Act of 1986	11.407		7,555
Coastal Zone Management Administration Awards	11.419		1,332,620
Coastal Zone Management Estuarine Research Reserves	11.420		667,474
Climate and Atmospheric Research	11.431		19,726
Marine Fisheries Initiative	11.433		561,523
Habitat Conservation	11.463		97,714
ARRA - Habitat Conservation	11.463		355,693
Unallied Science Program	11.472		27,610
Coastal Services Center	11.473		81,440
Atlantic Coastal Fisheries Cooperative Management Act	11.474		259,695
ARRA - State Broadband Data and Development Grant Program	11.558		578,875
Total U.S. Department of Commerce		$	15,041,512
U.S. Department of Defense			
Procurement Technical Assistance for Business Firms	12.002	$	352,601
State Memorandum of Agreement Program for the Reimbursement of Technical Services	12.113		454,223
Basic and Applied Scientific Research	12.300		54,251
National Guard Military Operations and Maintenance (O&M) Projects	12.401		11,037,288

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Other Department of Defense Awards (See Note 8)	12.000		132,476
Total U.S. Department of Defense		$	12,030,839
U.S. Department of Housing and Urban Development			
Mortgage Insurance - Homes (See Note 2)	14.117	$	31,885,747
Qualified Participating Entities (QPE) Risk Sharing (See Note 2)	14.189		6,644,102
Section 8 Project-Based Cluster:			
Section 8 Housing Assistance Payments Program	14.195		140,498,644
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856		492,761
CDBG - State-Administered CDBG Cluster:			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228		12,619,955
ARRA - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.255		4,302
Emergency Solutions Grant Program	14.231		665,783
Supportive Housing Program	14.235		3,675,718
Shelter Plus Care	14.238		1,519,908
HOME Investment Partnerships Program	14.239		3,472,248
Housing Opportunities for Persons with AIDS	14.241		686,563
ARRA - Homelessness Prevention and Rapid Re-Housing Program	14.257		54,357
Neighborhood Stabilization Program	14.264		122,428
Fair Housing Assistance Program - State and Local	14.401		175,578
Sustainable Communities Regional Planning Grant Program	14.703		229,179
Housing Voucher Cluster:			
Section 8 Housing Choice Vouchers	14.871		15,885,183
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900		378,366
Total U.S. Department of Housing and Urban Development		$	219,010,822
U.S. Department of the Interior			
Fish and Wildlife Cluster:			
Sport Fish Restoration Program	15.605	$	3,451,873
Wildlife Restoration and Basic Hunter Education	15.611		1,206,203
Fish and Wildlife Management Assistance	15.608		19,742
Cooperative Endangered Species Conservation Fund	15.615		84,599
Clean Vessel Act	15.616		168,251
Sportfishing and Boating Safety Act	15.622		529,083
State Wildlife Grants	15.634		328,763
Endangered Species Conservation – Recovery Implementation Funds	15.657		21,714
Historic Preservation Fund Grants-In-Aid	15.904		538,061
Outdoor Recreation - Acquisition, Development and Planning	15.916		88,541
Save America's Treasures	15.929		564
Total U.S. Department of the Interior		$	6,437,394
U.S. Department of Justice			
Promoting Evidence Integration in Sex Offender Management Discretionary Grant Program	16.203	$	63,098
Juvenile Accountability Block Grants	16.523		138,406
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540		473,750
Missing Children's Assistance	16.543		205,461
State Justice Statistics Program for Statistical Analysis Centers	16.550		50,519
National Criminal History Improvement Program (NCHIP)	16.554		101,098
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560		238,818
Crime Victim Assistance	16.575		1,836,960
Crime Victim Compensation	16.576		761,735
Edward Byrne Memorial Formula Grant Program	16.579		133,757
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580		283,781

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Drug Court Discretionary Grant Program	16.585		124,517
Violence Against Women Formula Grants	16.588		922,392
ARRA - Violence Against Women Formula Grants	16.588		26,646
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590		324,805
Residential Substance Abuse Treatment for State Prisoners	16.593		99,407
State Criminal Alien Assistance Program	16.606		677,789
Enforcing Underage Drinking Laws Program	16.727		221,401
JAG Program Cluster:			
Edward Byrne Memorial Justice Assistance Grant Program	16.738		1,089,343
ARRA - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories	16.803		1,064,958
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742		173,128
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745		55,554
Support for Adam Walsh Act Implementation Grant Program	16.750		1,504
Edward Byrne Memorial Competitive Grant Program	16.751		12,752
Congressionally Recommended Awards	16.753		10,706
Court Appointed Special Advocates	16.756		25,324
ARRA - Recovery Act - Internet Crimes against Children Task Force Program (ICAC)	16.800		17,634
ARRA - Recovery Act - State Victim Assistance Formula Grant Program	16.801		62,710
Second Chance Act Prisoner Reentry Initiative	16.812		199,149
John R. Justice Prosecutors and Defenders Incentive Act	16.816		57,340
Total U.S. Department of Justice		$	9,454,442
U.S. Department of Labor			
Labor Force Statistics	17.002	$	800,333
Compensation and Working Conditions	17.005		10,194
Registered Apprenticeship	17.201		164
Employment Service Cluster:			
Employment Service/Wagner-Peyser Funded Activities	17.207		3,344,619
Disabled Veterans' Outreach Program (DVOP)	17.801		338,040
Local Veterans' Employment Representative Program	17.804		252,804
Unemployment Insurance (See Note 5)	17.225		304,176,582
ARRA - Unemployment Insurance (See Note 5)	17.225		107,517,633
Senior Community Service Employment Program	17.235		447,577
Trade Adjustment Assistance	17.245		2,473,343
WIA Cluster:			
WIA Adult Program	17.258		2,940,195
WIA Youth Activities	17.259		2,938,367
WIA Dislocated Workers	17.260		(199)
WIA Dislocated Worker Formula Grants	17.278		4,861,882
WIA Pilots, Demonstrations, and Research Projects	17.261		130,130
Workforce Investment Act (WIA) National Emergency Grants	17.277		763,139
Workforce Innovation Fund	17.283		316,908
Consultation Agreements	17.504		411,248
Total U.S. Department of Labor		$	431,722,959
U.S. Department of State			
Criminal Justice Systems	19.703	$	17,430
Total U.S. Department of State		$	17,430
U.S. Department of Transportation			
Airport Improvement Program	20.106	$	13,086,435
Highway Planning and Construction Cluster:			
Highway Planning and Construction	20.205		256,926,267
ARRA - Highway Planning and Construction	20.205		1,622,459
National Motor Carrier Safety	20.218		644,795

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Performance and Registration Information Systems Management	20.231		101,371
Commercial Driver's License Program Improvement Grant	20.232		236,319
ARRA - High-Speed Rail Corridors and Intercity Passenger Rail Service – Capital Assistance Grants	20.319		1,232,383
Federal Transit Cluster:			
Federal Transit - Capital Investment Grants	20.500		7,999,421
ARRA - Federal Transit - Capital Investment Grants	20.500		456,371
Federal Transit - Formula Grants	20.507		30,417,054
ARRA - Federal Transit - Formula Grants	20.507		2,269,520
Metropolitan Transportation Planning	20.505		278,712
Formula Grants for Rural Areas	20.509		203,167
Transit Services Programs Cluster:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513		1,271,872
Job Access and Reverse Commute Program	20.516		871,181
New Freedom Program	20.521		305,705
State Planning and Research	20.515		57
Clean Fuels	20.519		11,973,132
Alternatives Analysis	20.522		73,098
Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions	20.523		1,137,069
Public Transportation Emergency Relief Program	20.527		1,179
Highway Safety Cluster:			
State and Community Highway Safety	20.600		2,918,132
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601		430,475
Occupant Protection Incentive Grants	20.602		135,817
Safety Belt Performance Grants	20.609		89,246
State Traffic Safety Information System Improvement Grants	20.610		822,088
Incentive Grant Program to Prohibit Racial Profiling	20.611		115,285
Incentive Grant Program to Increase Motorcyclist Safety	20.612		75,368
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608		1,391,372
National Highway Traffic Safety Administration (NHTSA) Discretionary Safety Grants	20.614		13,507
Pipeline Safety Program State Base Grants	20.700		63,336
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703		16,745
Surface Transportation - Discretionary Grants for Capital Investment	20.932		9,739,230
Total U.S. Department of Transportation		$	346,918,168
Equal Employment Opportunity Commission			
Employment Discrimination - State and Local Fair Employment Practices Agency Contracts	30.002	$	146,725
Total Equal Employment Opportunity Commission		$	146,725
General Services Administration			
Donation of Federal Surplus Personal Property (See Note 2)	39.003	$	151,144
Total General Services Administration		$	151,144
National Foundation on the Arts and the Humanities			
Promotion of the Arts - Partnership Agreements	45.025	$	713,635
Promotion of the Humanities - Federal/State Partnership	45.129		2,793
Museums for America	45.301		973,640
National Leadership Grants	45.312		57,465
Total National Foundation on the Arts and the Humanities		$	1,747,533
National Science Foundation			
Mathematical and Physical Sciences	47.049	$	12,823
Education and Human Resources	47.076		169,329
Office of Experimental Program to Stimulate Competitive Research	47.081		15,227
Total National Science Foundation		$	197,379

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
U.S. Department of Veterans Affairs			
Grants to States for Construction of State Home Facilities	64.005	$	1,000
Veterans Domiciliary Care	64.008		6,270,711
Veterans Housing Guaranteed and Insured Loans	64.114		81,720
All-Volunteer Force Educational Assistance	64.124		48,317
State Cemetery Grants	64.203		593,528
Total U.S. Department of Veterans Affairs		$	6,995,276
Environmental Protection Agency			
Air Pollution Control Program Support	66.001	$	727,948
State Indoor Radon Grants	66.032		357,387
Surveys, Studies, Research, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034		129,109
State Clean Diesel Grant Program	66.040		13,005
State Public Water System Supervision	66.432		425,672
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Water Quality Management Planning	66.454		148,599
National Estuary Program	66.456		146,254
Beach Monitoring and Notification Program Implementation Grants	66.472		283,353
Water Protection Grants to the States	66.474		28,787
Performance Partnership Grants	66.605		4,669,301
Environmental Information Exchange Network Grant Program and Related Assistance	66.608		109,971
Toxic Substances Compliance Monitoring Cooperative Agreements	66.701		172,683
TSCA Title IV State Lead Grants Certification of Lead-Based Paint Professionals	66.707		131,115
Multi-Media Capacity Building Grants for States and Tribes	66.709		18,734
Superfund State, Political Subdivision, and Indian Tribe Site - Specific Cooperative Agreements	66.802		404,020
Underground Storage Tank Prevention, Detection and Compliance Program	66.804		622,415
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805		814,911
Solid Waste Management Assistance Grants	66.808		291,703
Superfund State and Indian Tribe Core Program Cooperative Agreements	66.809		144,531
State and Tribal Response Program Grants	66.817		813,703
Brownfields Assessment and Cleanup Cooperative Agreements	66.818		317,359
ARRA - Brownfields Assessment and Cleanup Cooperative Agreements	66.818		(42)
Environmental Policy and State Sustainability Grants	66.940		12,118
Total Environmental Protection Agency		$	10,782,636
U. S. Nuclear Regulatory Commission			
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	$	1,856
Total U.S. Nuclear Regulatory Commission		$	1,856
U.S. Department of Energy			
State Energy Program	81.041	$	502,088
ARRA - State Energy Program	81.041		1,727,016
Weatherization Assistance for Low-Income Persons	81.042		551,796
ARRA - Weatherization Assistance for Low-Income Persons	81.042		280,988
University Nuclear Science and Reactor Support	81.114		3,236
State Energy Program Special Projects	81.119		48,929
Nuclear Energy Research, Development and Demonstration	81.121		127,360
ARRA - Electricity Delivery and Energy Reliability, Research, Development and Analysis	81.122		604,379
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128		1,141,334
Total U.S. Department of Energy		$	4,987,126
U.S. Department of Education			
Adult Education - Basic Grants to States	84.002	$	2,592,528
Student Financial Assistance Cluster: (See Note 6)			

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Federal Supplemental Educational Opportunity Grants	84.007	2,295,559
Federal Work - Study Program	84.033	2,049,396
Federal Perkins Loan Program - Federal Capital Contributions (See Note 2)	84.038	15,358,286
Federal Pell Grant Program	84.063	54,520,848
Federal Direct Student Loans (See Note 2)	84.268	150,075,376
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	4,000
Title I, Part A Cluster:		
Title I Grants to Local Educational Agencies	84.010	47,118,288
Title 1 State Agency Program for Neglected and Delinquent Children and Youth	84.013	481,401
Special Education Cluster:		
Special Education - Grants to States	84.027	42,716,773
ARRA - Special Education - Grants to States	84.391	(127)
Special Education - Preschool Grants	84.173	1,713,171
Higher Education - Institutional Aid	84.031	4,000
Federal Family Education Loans	84.032	167
Federal Family Education Loans (Guaranty Agency) (See Note 2)	84.032	1,092,555,348
TRIO Cluster:		
TRIO - Student Support Services	84.042	507,520
TRIO-Talent Search	84.044	469,615
TRIO - Upward Bound	84.047	589,518
TRIO-Educational Opportunity Centers	84.066	695,361
Career and Technical Education - Basic Grants to States	84.048	5,751,639
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	12,487,097
National Institute on Disability and Rehabilitation Research	84.133	5,216
Independent Living - State Grants	84.169	293,065
Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind	84.177	153,395
Special Education - Grants for Infants and Families	84.181	2,721,871
Supported Employment Services for Individuals with the Most Significant Disabilities	84.187	318,474
Education for Homeless Children and Youth	84.196	201,146
Even Start - State Educational Agencies	84.213	9
Fund for the Improvement of Education	84.215	20
Assistive Technology	84.224	371,336
Tech-Prep Education	84.243	38,510
Rehabilitation Training - State Vocational Rehabilitation Unit In-Service Training	84.265	22,789
Charter Schools	84.282	844,391
Twenty-First Century Community Learning Centers	84.287	5,913,710
Educational Technology State Grants Cluster:		
Education Technology State Grants	84.318	662,106
Special Education - State Personnel Development	84.323	416,735
Research in Special Education	84.324	54,635
Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	84.326	86,074
Special Education - Educational Technology Media, and Materials for Individuals with Disabilities	84.327	13,245
Advanced Placement Program (Advanced Placement Test Fee; Advanced Placement Incentive Program Grants)	84.330	67,556
Grants to States for Workplace and Community Transition Training for Incarcerated Individuals	84.331	9
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	2,301,030
English Language Acquisition State Grants	84.365	2,571,560
Mathematics and Science Partnerships	84.366	(77,145)
Improving Teacher Quality State Grants	84.367	10,772,854
Grants for State Assessments and Related Activities	84.369	3,859,443
Striving Readers	84.371	7,319
Statewide Data Systems	84.372	1,352,927
School Improvement Grants Cluster:		
School Improvement Grants	84.377	1,637,005
ARRA - School Improvement Grants	84.388	4,276,207

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
College Access Challenge Grant Program	84.378		1,829,682
ARRA - State Fiscal Stabilization Fund (SFSF) - Race-to-the-Top Incentive Grants	84.395		26,869,298
ARRA - Education Jobs Fund	84.410		2,123,741
Investing in Innovation (i3) Fund	84.411		201,054
ARRA - Race to the Top – Early Learning Challenge	84.412		2,899,870
National Writing Project	84.928		12,985
Other Department of Education Awards (See Note 8)	08-0068		107,769
Total U.S. Department of Education		$	1,504,915,655
Elections Assistance Commission			
Help America Vote Act Requirements Payments	90.401	$	2,566
Total Elections Assistance Commission		$	2,566
U.S. Department of Health and Human Services			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	$	109,426
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041		28,493
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042		82,968
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043		87,660
Aging Cluster:			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044		2,674,751
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045		2,539,503
Nutrition Services Incentive Program	93.053		298,749
Special Programs for the Aging-Title IV - and Title II - Discretionary Projects	93.048		713,283
National Family Caregiver Support, Title III, Part E	93.052		786,684
Public Health Emergency Preparedness	93.069		5,300,239
Environmental Public Health and Emergency Response	93.070		230,201
Lifespan Respite Care Program	93.072		176,306
Guardianship Assistance	93.090		133,603
Affordable Care Act (ACA) Personal Responsibility Education Program	93.092		278,342
Food and Drug Administration - Research	93.103		278,731
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104		470,982
Maternal and Child Health Federal Consolidated Programs	93.110		248,663
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116		335,615
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118		15,000
Emergency Medical Services for Children	93.127		98,722
Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices	93.130		128,656
Injury Prevention and Control Research and State and Community Based Programs	93.136		493,461
Projects for Assistance in Transition from Homelessness (PATH)	93.150		296,319
Disabilities Prevention	93.184		265,631
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197		98
Family Planning - Services	93.217		1,351,972
Grants to States to Support Oral Health Workforce Activities	93.236		345,585
Mental Health Research Grants	93.242		40,468
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243		2,413,391
Universal Newborn Hearing Screening	93.251		275,079
Immunization Cooperative Agreements (See Note 2)	93.268		13,911,341
Substance Abuse and Mental Health Services - Access to Recovery	93.275		3,915,723

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	7,742,498
ARRA -Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.712	501,466
Minority Health and Health Disparities Research	93.307	96,295
Student Financial Assistance Cluster: (See Note 6)		
Health Professions Student Loans, Including Primary Care Loans / Loans for Disadvantaged Students (See Note 2)	93.342	1,942,131
Nursing Student Loans (See Note 2)	93.364	1,614,798
Cancer Detection and Diagnosis Research	93.394	29,145
Health Careers Opportunity Program	93.416	292,569
Food Safety and Security Monitoring Project	93.448	269,504
Affordable Care Act (ACA) Nursing Assistant and Home Health Aide Program	93.503	1,823,920
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	45,968
Affordable Care Act (ACA) Grants to States for Health Insurance Premium Review	93.511	1,393,100
Affordable Care Act (ACA) – Consumer Assistance Program Grants	93.519	133,567
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	25,165,698
PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	93.539	246,299
Promoting Safe and Stable Families	93.556	813,755
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	75,331,564
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	920,078
Child Support Enforcement	93.563	9,973,873
Child Support Enforcement Research	93.564	9,728
Refugee and Entrant Assistance - State Administered Programs	93.566	255,449
Low-Income Home Energy Assistance	93.568	20,857,276
Community Services Block Grant	93.569	3,842,313
CCDF Cluster:		
Child Care and Development Block Grant	93.575	15,492,975
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	11,245,602
Refugee and Entrant Assistance - Discretionary Grants	93.576	112,843
State Court Improvement Program	93.586	315,082
Grants to States for Access and Visitation Programs	93.597	71,800
Chafee Education and Training Vouchers Program (ETV)	93.599	419,202
Head Start Cluster:		
Head Start	93.600	135,602
ARRA - Head Start	93.708	474,040
Adoption Incentive Payments	93.603	65,658
Voting Access for Individuals with Disabilities - Grants to States	93.617	96,677
ACA - State Innovation Models: Funding for Model Design and Model Testing Assistance	93.624	180,683
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	562,552
Children's Justice Grants to States	93.643	91,048
Stephanie Tubbs Jones Child Welfare Services Program	93.645	675,045
Adoption Opportunities	93.652	21,236
Foster Care - Title IV-E	93.658	11,942,180
Adoption Assistance	93.659	7,089,508
Social Services Block Grant	93.667	14,578,777
Child Abuse and Neglect State Grants	93.669	305,146
Family Violence Prevention and Services/Grants for Battered Women's Shelters - Grants to States and Indian Tribes	93.671	759,446
Chafee Foster Care Independence Program	93.674	611,860
ARRA - Prevention and Wellness - State, Territories and Pacific Islands	93.723	313,920
ARRA - Prevention and Wellness – Communities Putting Prevention to Work Funding Opportunities Announcement (FOA)	93.724	666,708

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
ARRA - Prevention and Wellness - Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725		(158)
ARRA – Health Information Technology and Public Health	93.729		90,929
Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education Programs – financed by 2012 Prevention and Public Health Funds (PPHF-2012)	93.734		62,664
PPHF 2012: Breast and Cervical Cancer Screening Opportunities for States, Tribes and Territories solely financed by 2012 Prevention and Public Health Funds	93.744		107,906
Children's Health Insurance Program (See Note 4)	93.767		37,994,969
Medicaid Cluster:			
State Medicaid Fraud Control Units	93.775		900,387
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777		2,782,215
Medical Assistance Program (See Note 4)	93.778		1,085,665,568
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779		297,221
Money Follows the Person Rebalancing Demonstration	93.791		1,241,851
Child Health and Human Development Extramural Research	93.865		10,216
National Bioterrorism Hospital Preparedness Program	93.889		1,846,665
Grants to States for Operation of Offices of Rural Health	93.913		178,473
HIV Care Formula Grants (See Note 4)	93.917		9,500,169
Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938		258,151
HIV Prevention Activities - Health Department Based	93.940		1,789,540
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943		675,294
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944		207,221
Assistance Programs for Chronic Disease Prevention and Control	93.945		200,354
Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	93.946		104,676
Block Grants for Community Mental Health Services	93.958		1,779,138
Block Grants for Prevention and Treatment of Substance Abuse	93.959		6,948,727
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977		418,921
Preventive Health and Health Services Block Grant	93.991		120,404
Maternal and Child Health Services Block Grant to the States	93.994		3,038,542
NHSC Search Program	230200432017C		34,020
Total U.S. Department of Health and Human Services		$	1,414,108,292
Corporation for National and Community Service			
Corporation for National and Community Service	94.006	$	1,000
Foster Grandparent/Senior Companion Cluster:			
Senior Companion Program	94.016		358,871
Total Corporation for National and Community Service		$	359,871
Social Security Administration			
Disability Insurance/SSI Cluster:			
Social Security - Disability Insurance	96.001	$	7,993,501
Social Security - Research and Demonstration	96.007		473,113
Total Social Security Administration		$	8,466,614
U.S. Department of Homeland Security			
State and Local Homeland Security National Training Program	97.005	$	807
Non-Profit Security Program	97.008		33,171
Boating Safety Financial Assistance	97.012		1,013,314
Community Assistance Program - State Support Services Element (CAP-SSSE)	97.023		100,663
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036		5,980,654
Hazard Mitigation Grant	97.039		167,770

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

Federal Grantor / Program Title	CFDA or Contract Number		Total Expenditures
National Dam Safety Program	97.041		42,638
Emergency Management Performance Grants	97.042		2,236,131
State Fire Training Systems Grants	97.043		(1,200)
Cooperating Technical Partners	97.045		100,941
Pre-Disaster Mitigation	97.047		32,116
Emergency Operations Center	97.052		1,010,084
Interoperable Emergency Communications	97.055		37,680
Port Security Grant Program	97.056		1,622,560
Port Security Research and Development Grant	97.060		15,608
Homeland Security Advanced Research Projects Agency	97.065		4,280
Homeland Security Grant Program	97.067		8,481,854
National Explosives Detection Canine Team Program	97.072		234,596
Rail and Transit Security Grant Program	97.075		28,843
Buffer Zone Protection Program (BZPP)	97.078		177,347
Disaster Assistance Projects	97.088		4,808,623
Driver's License Security Grant Program	97.089		301,794
Law Enforcement Officer Reimbursement Agreement Program	97.090		169,535
ARRA - Rail and Transit Security Grant Program	97.113		769,409
Advanced Surveillance Program (ASP)	97.118		85,468
Total U.S. Department of Homeland Security		$	27,454,686
Agency for International Development			
Global Development Alliance	98.011	$	3,181
Total for Agency for International Development		$	3,181
Research and Development Cluster:			
U.S. Department of Agriculture			
Agricultural Research - Basic and Applied Research	10.001	$	143,887
Plant and Animal Disease, Pest Control, and Animal Care	10.025		30,834
Grants for Agricultural Research, Special Research Grants	10.200		300,380
Cooperative Forestry Research	10.202		911
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203		1,891,012
Grants for Agricultural Research - Competitive Research Grants	10.206		35,738
Animal Health and Disease Research	10.207		1,850
Higher Education -Graduate Fellowship Grant Program	10.210		1,568
Sustainable Agriculture Research and Education	10.215		81,465
Biotechnology Risk Assessment Research	10.219		57,840
Integrated Programs	10.303		1,252,590
Homeland Security - Agricultural	10.304		19,440
International Science and Education Grants	10.305		7,022
Organic Agriculture Research and Extension Initiative	10.307		10,796
Agriculture and Food Research Initiative (AFRI)	10.310		480,896
Beginning Farmer and Rancher Development Program	10.311		9,881
ARRA- Trade Adjustment Assistance for Farmers Training Coordination Program (TAAF)	10.315		18,095
Crop Insurance Education in Targeted States	10.458		231,508
Cooperative Extension Service	10.500		1,857,725
Forestry Research	10.652		17,411
Forest Health Protection	10.680		1,971
Soil and Water Conservation	10.902		103,294
Soil Survey	10.903		10,716
Environmental Quality Incentives Program	10.912		10,282
Wildlife Habitat Incentive Program	10.914		45,034
Other Research and Development - Department of Agriculture	10.000		38,720
U.S. Department of Commerce			
Ocean Exploration	11.011		193,962
Integrated Ocean Observing System (IOOS)	11.012		139,926

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
Sea Grant Support	11.417	2,500,154
Coastal Zone Management Administration Awards	11.419	11,636
Coastal Zone Management Estuarine Research Reserves	11.420	41,375
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	51,805
Climate and Atmospheric Research	11.431	270,417
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	15,137
Marine Fisheries Initiative	11.433	24,958
Cooperative Fishery Statistics	11.434	14,065
Regional Fishery Management Councils	11.441	51,292
Cooperative Science and Education Program	11.455	76,039
Weather and Air Quality Research	11.459	(3,881)
Special Oceanic and Atmospheric Projects	11.460	343,262
Meteorologic and Hydrologic Modernization Development	11.467	82,071
Applied Meteorological Research	11.468	12,745
Unallied Science Program	11.472	126,715
Coastal Services Center	11.473	1,241
Atlantic Coastal Fisheries Cooperative Management Act	11.474	12,178
Center for Sponsored Coastal Ocean Research - Coastal Ocean Program	11.478	178,177
Congressionally-Identified Projects	11.617	310,646
Other Research and Development - Department of Commerce	11.000	520,345
U.S. Department of Defense		
Collaborative Research and Development	12.114	550,746
Basic and Applied Scientific Research	12.300	3,282,495
Basic Scientific Research -Combating Weapons of Mass Destruction	12.351	35,169
Military Medical Research and Development	12.420	226,094
Basic Scientific Research	12.431	55,990
The Language Flagship Grants to Institutions of Higher Education	12.550	235,035
Air Force Defense Research Sciences Program	12.800	361,989
Research and Technology Development	12.910	276,382
Other Research and Development - Department of Defense	12.000	702,933
U.S. Department of the Interior		
Bureau of Ocean Energy Management (BOEM) Environmental Studies Program	15.423	680,568
Coastal Impact Assistance Program (CIAP)	15.426	96,511
Fish and Wildlife Management Assistance	15.608	25,685
Coastal Program	15.630	38,418
Assistance to State Water Resources Research Institutes	15.805	87,477
U.S. Geological Survey - Research and Data Collection	15.808	22,040
National Land Remote Sensing - Education Outreach and Research	15.815	20,406
Natural Resource Stewardship	15.944	69,200
Cooperative Research and Training Programs – Resources of the National Park System	15.945	151,717
Other Research and Development - Department of the Interior	15.000	590,130
U.S. Department of Justice		
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	246,029
Juvenile Mentoring Program	16.726	24,285
Other Research and Development - Department of Justice	16.000	45,714
U.S. Department of Transportation		
Highway Planning and Construction	20.205	54,579
University Transportation Centers Program	20.701	373,507
University Transportation Centers	20.760	94
General Services Administration		
Other Research and Development	39.000	(184)

Federal Grantor Program Title	CFDA or Contract Number	Total Expenditures
National Aeronautics and Space Administration		
Science	43.001	266,843
Aeronautics	43.002	4,366
Other Research and Development - National Aeronautics and Space Administration	43.000	367,243
National Science Foundation		
Engineering Grants	47.041	1,046,713
Mathematical and Physical Sciences	47.049	109,276
Geosciences	47.050	6,913,067
ARRA - Geosciences	47.050	121,935
Computer and Information Science and Engineering	47.070	429,407
Biological Sciences	47.074	786,931
Social, Behavioral, and Economic Sciences	47.075	38,870
Education and Human Resources	47.076	2,373,185
Polar Programs	47.078	1,124,461
ARRA - Polar Programs	47.078	19,061
Office of International and Integrative Activities	47.079	69,090
Office of Experimental Program to Stimulate Competitive Research	47.081	3,714,221
ARRA - Trans-NSF Recovery Act Research Support	47.082	1,497,615
Other Research and Development - National Science Foundation	47.000	229,305
ARRA - Other Research and Development	47.000	101,589
Department of Veterans Affairs		
Grants to States for Construction of State Home Facilities	64.005	86,785
Veterans Prosthetic Appliances	64.013	15,599
Veterans Rehabilitation - Alcohol and Drug Dependence	64.019	14,665
Environmental Protection Agency		
Climate Showcase Communities Grant Program	66.041	42,830
National Estuary Program	66.456	321,932
Great Lakes Program	66.469	141,813
Science To Achieve Results (STAR) Fellowship Program	66.514	9,990
Environmental Education Grants	66.951	2,426
Other Research and Development - Environmental Protection Agency	66.000	46,353
U. S. Nuclear Regulatory Commission		
U. S. Nuclear Regulatory Commission Nuclear Education Grant Program	77.006	45,029
U.S. Nuclear Regulatory Commission Scholarship and Fellowship Program	77.008	32,500
U.S. Department of Energy		
State Energy Program	81.041	8,756
Office of Science Financial Assistance Program	81.049	929,853
ARRA - Office of Science Financial Assistance Program	81.049	106,080
Conservation Research and Development	81.086	24,179
Renewable Energy Research and Development	81.087	487,752
ARRA - Renewable Energy Research and Development	81.087	59,013
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	123,762
Nuclear Energy Research, Development and Demonstration	81.121	94,673
Advanced Research and Projects Agency – Energy	81.135	61,155
Other Research and Development - Department of Energy	81.000	164,928
U.S. Department of Education		
Undergraduate International Studies and Foreign Language Programs	84.016	82,091
National Institute on Disability and Rehabilitation Research	84.133	27,533
Magnet Schools Assistance	84.165	1,358
Javits Fellowships	84.170	45,147
Safe and Drug-Free Schools and Communities National Programs	84.184	148,173
Education Research, Development and Dissemination	84.305	32,671

Federal Grantor Program Title	CFDA or Contract Number		Total Expenditures
Research in Special Education	84.324		211,555
U.S. Department of Health and Human Services			
Food and Drug Administration - Research	93.103		6,270
Area Health Education Centers Point of Service Maintenance and Enhancement Awards	93.107		16,954
Environmental Health	93.113		730,805
Oral Diseases and Disorders Research	93.121		36,104
ARRA - Grants to Increase Organ Donations	93.134		672
Human Genome Research	93.172		6,645
Mental Health Research Grants	93.242		289,861
Advanced Nursing Education Grant Program	93.247		239,839
Alcohol Research Programs	93.273		160,182
Drug Abuse and Addiction Research Programs	93.279		1,691,153
Advanced Nursing Education Traineeships	93.358		321,312
Nursing Research	93.361		490,594
National Center for Research Resources	93.389		3,179,168
Academic Research Enhancement Award	93.390		139,855
Cancer Cause and Prevention Research	93.393		472,189
Cancer Detection and Diagnosis Research	93.394		418,042
Cancer Biology Research	93.396		391,122
Health Care Innovation Awards (HCIA)	93.610		1,668,489
Developmental Disabilities Basic Support and Advocacy Grants	93.630		445,799
ARRA - Trans - NIH Recovery Act Research Support	93.701		2,321,700
Medicaid Infrastructure Grants to Support the Competitive Employment of People with Disabilities	93.768		184,358
Cardiovascular Diseases Research	93.837		45,335
Blood Diseases and Resources Research	93.839		296,444
Diabetes, Digestive, and Kidney Diseases Extramural Research	93.847		557,089
Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853		94,401
Allergy, Immunology and Transplantation Research	93.855		4,854,398
Microbiology and Infectious Diseases Research	93.856		29,412
Biomedical Research and Research Training	93.859		586,841
Child Health and Human Development Extramural Research	93.865		845,931
Aging Research	93.866		75,839
Research, Prevention, and Education Programs on Lyme Disease in the United States	93.942		261,747
PPHF - 2012 Geriatric Education Centers	93.969		408,524
International Research and Research Training	93.989		55,363
Corporation for National and Community Service			
AmeriCorps	94.006		383
U.S. Department of Homeland Security			
State and Local Homeland Security National Training Program	97.005		6,946
Centers for Homeland Security	97.061		1,815,951
Competitive Training Grants	97.068		421,459
Agency for International Development			
USAID Foreign Assistance for Programs Overseas	98.001		8,914,089
Total Research and Development Cluster		$	74,951,184
Other Expenditures of Federal Awards (See Note 8)	N/A	$	361,496
Total Expenditures of Federal Awards		$	4,490,809,761

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

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

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

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

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

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

NOTE 2. NON-MONETARY ASSISTANCE

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

CFDA Number	Loan, Loan Guarantee and Insurance Programs	Expenditures of Federal Awards Year Ended June 30, 2013	Non-monetary Assistance June 30, 2013
10.410	Very Low to Moderate Income Housing Loans	$ 2,296,078	$ 2,296,078
11.307	Economic Adjustment Assistance	11,024,525	6,169,945
14.117	Mortgage Insurance – Homes	31,885,747	31,885,747
14.189	Qualified Participating Entities (QPE) Risk Sharing	6,644,102	6,644,102
14.228	Community Development Block Grants / State's Program	12,619,955	4,845,779
84.032	Federal Family Education Loans (Guaranty Agency)	1,092,555,348	1,091,197,752
84.038	Federal Perkins Loan Program – Federal Capital Contributions	15,358,286	15,358,286
84.268	Federal Direct Student Loans	150,075,376	150,075,376
93.342	Health Professions Student Loans, Including Primary Care Loans/ Loans for Disadvantaged Students	1,942,131	1,942,131
93.364	Nursing Student Loans	1,614,798	1,614,798
	Other Non-Monetary Assistance		
10.555	National School Lunch Program	31,975,479	3,616,252
10.559	Summer Food Service Program for Children	892,189	4,122
10.569	Emergency Food Assistance Program (Food Commodities)	1,839,400	1,839,400
39.003	Donation of Federal Surplus Personal Property	151,144	151,144
93.268	Immunization Grants (Vaccines)	13,911,341	12,126,261
	Total Non-Cash Assistance		$1,329,767,173

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

Loan, Loan Guarantee and Insurance Programs

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

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

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

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

NOTE 2. NON-MONETARY ASSISTANCE (continued)

- Federal Perkins Loan Program – Federal Capital Contributions (CFDA 84.038), Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students (CFDA 93.342) and Nursing Student Loans (CFDA 93.364) - reported at the balance of loans outstanding at June 30, 2013.

Other Non-Monetary Assistance

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

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

- Immunization Grants (Vaccines) (CFDA 93.268) includes the value of vaccines received at the contracted price (amount paid by the federal Centers for Disease Control to the manufacturer) and cash assistance for administrative costs.

NOTE 3. FEDERAL AWARDS RECEIVED FROM PASS-THROUGH ENTITIES

The majority of expenditures of federal awards reflected in the schedule are from awards made directly by the federal government to the State and its component units. An immaterial amount of funds have been passed-through from other entities to component units of the State totaling approximately $12.1 million. Of this amount, $11.4 million relates to the Research and Development Cluster of which all is unidentified as to the pass-through entity. The remaining amount, approximately $655,000, has not been identified 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 2013:

Program	CFDA Number	Rebate Amount
Medical Assistance Program	93.778	$ 29,804,503
Children's Health Insurance Program (CHIP)	93.767	$ 512,760
HIV Care Formula Grants (Ryan White)	93.917	$ 7,126,710
Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	10.557	$ 5,506,966

Manufacturers of infant formula (WIC) and prescription drugs (Medical Assistance, CHIP, and WIC) remitted the rebates. The Medical Assistance Program and CHIP rebates reduced previously-incurred program expenditures; therefore expenditures of these programs are reported net of the applicable federal share of rebates earned during fiscal year 2013. Rebates received under the HIV Care Grant are considered program income. WIC program expenditures include amounts funded by rebates earned as well as direct federal assistance.

NOTE 5. UNEMPLOYMENT INSURANCE EXPENDITURES

Expenditures of federal awards for Unemployment Insurance (CFDA 17.225) represent $122.2 million funded from the State's account in the federal Unemployment Trust Fund, $155.3 million loaned to the State's account in the federal Unemployment Trust Fund, $26.7 million funded by federal grants, and $107.5 million in ARRA funds for program administration and benefits.

NOTE 6. STUDENT FINANCIAL ASSISTANCE CLUSTER

Expenditures for the Student Financial Assistance Cluster are listed under two separate departments, Department of Education and Department of Health and Human Services. The total expenditures for the cluster are $227.9 million.

NOTE 7. BUILD AMERICA BONDS INTEREST SUBSIDY

In accordance with guidance included in the OMB Compliance Supplement, federal interest subsidies received by the State under the Build America Bonds programs are not included in the Schedule of Expenditures of Federal Awards. The State received $2,015,980 in interest subsidy payments during fiscal year 2013, which were reported as federal revenue in the State's financial statements.

NOTE 8. EXPENDITURES OF OTHER AWARDS

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

- Other Department of Education Awards include $107,769 attributable to Contract ED-08-0068.
- Other Department of Defense Awards include $132,476 attributable to Disaster Relief programs with no CFDA or contract number.
- Other Expenditures of Federal Awards include $344,475 from the primary government and $17,021 from component units.

Certain Research and Development expenditures of federal awards are similarly reflected in the accompanying Schedule when the federal awarding agency is known but not the specific Catalog of Federal Domestic Assistance number.

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Rhode Island and Providence Plantations (the State), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the State's basic financial statements and have issued our report thereon dated December 19, 2013. Our report includes a reference to other auditors who audited the financial statements of:

- the Tobacco Settlement Financing Corporation, a blended component unit which represents 2% of the assets and 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 64% of the assets and 2% of the revenues of the business-type activities;

- the Ocean State Investment Pool, an external investment trust, which represents less than 1% of the assets and revenues of the aggregate remaining fund information; and

- all the component units comprising the aggregate discretely presented component units.

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State's internal control. Accordingly, we do not express an opinion on the effectiveness of the State's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we and the other auditors identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses: Findings 2013-001, 2013-002, 2013-003, 2013-004, 2013-005, 2013-007, 2013-009, 2013-010, 2013-011, 2013-012, and 2013-014. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses: Findings 2013-018, 2013-019, 2013-021, 2013-025, 2013-026, and 2013-027.

A significant deficiency is a deficiency, or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies: Finding 2013-006, 2013-008, 2013-013, 2013-015, 2013-016, 2013-017. Other auditors of the discretely presented component units considered the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies: Findings 2013-022, 2013-023, 2013-024, and 2013-028.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2013-020.

State's Responses to Findings

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

Purpose of this Report

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

Dennis E. Hoyle, CPA
Auditor General

December 19, 2013

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

Report on Compliance for Each Major Federal Program

We have audited the State of Rhode Island and Providence Plantation's (the State) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the State's major federal programs for the year ended June 30, 2013.

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 39% of the reporting entity's total major federal program expenditures of federal awards in fiscal year 2013. Those audits were performed by other auditors whose reports on compliance with requirements applicable to each major federal program were furnished to us, and this report, insofar as it relates to those programs that were audited by other auditors, is based solely on the reports of the other auditors.

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

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Basis for Qualified Opinions on the Highway, Planning and Construction Cluster, Federal Transit Cluster, TANF Cluster, Social Services Block Grant, Children's Health Insurance Program, and Medicaid Cluster

As described in Findings 2013-042, 2013-048, 2013-061, 2013-065, and 2013-069 in the accompanying schedule of findings and questioned costs, the State did not comply with the requirements regarding the following:

Finding #	CFDA #	Program (Cluster) Name	Compliance Requirement
2013-042	20.205	Highway, Planning and Construction Cluster	Special Tests and Provisions – Utility Accommodation Policy
2013-048	20.500 20.507	Federal Transit Cluster	Federal Reporting
2013-061	93.558 93.714	TANF Cluster	Subrecipient Monitoring
2013-061	93.667	Social Services Block Grant	Subrecipient Monitoring
2013-065	93.767	Children's Health Insurance Program	Eligibility
2013-069	93.775 93.777 93.778	Medicaid Cluster	Special Tests and Provisions – Inpatient Hospital and Long-Term Care Facility Audits

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

Qualified Opinion on Highway, Planning and Construction Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Highway, Planning and Construction Cluster for the year ended June 30, 2013.

Qualified Opinion on Federal Transit Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Federal Transit Cluster for the year ended June 30, 2013.

Qualified Opinion on TANF Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the TANF Cluster for the year ended June 30, 2013.

Qualified Opinion on Social Services Block Grant

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Social Services Block Grant for the year ended June 30, 2013.

Qualified Opinion on Children's Health Insurance Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Children's Health Insurance Program for the year ended June 30, 2013.

Qualified Opinion on Medicaid Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinions paragraph, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Medicaid Cluster for the year ended June 30, 2013.

Unmodified Opinion on Each Major of the Other Major Federal Programs

In our opinion, the State complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in Section I - *Summary of Auditor's Results* of the accompanying Schedule of Findings and Questioned Costs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2013-071. Our opinion on each major federal program is not modified with respect to this matter.

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

Report on Internal Control Over Compliance

Management of the State is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we, and the other auditors, considered the State's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State's internal control over compliance.

Our consideration, and the other auditors' consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we, and the other auditors, identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We and the other auditors consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings 2013-039, 2013-041, 2013-042, 2013-045, 2013-046, 2013-048, 2013-054, 2013-056, 2013-057, 2013-059, 2013-060, 2013-061, 2013-062, 2013-065, 2013-067, 2013-068, 2013-069, 2013-070, 2013-074, 2013-075, and 2013-077 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We, and the other auditors, consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings 2013-029, 2013-030, 2013-031, 2013-032, 2013-033, 2013-034, 2013-035, 2013-036, 2013-037, 2013-038, 2013-040, 2013-043, 2013-044, 2013-047, 2013-049, 2013-050, 2013-051, 2013-052, 2013-053, 2013-055, 2013-058, 2013-063, 2013-064, 2013-066, 2013-072, 2013-073, 2013-076 and 2013-078 to be significant deficiencies.

The State's responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs and immediately follow each finding. The State's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Dennis E. Hoyle, CPA
Auditor General

March 28, 2014

Schedule of Findings and Questioned Costs

Schedule of Findings and Questioned Costs

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Basic Financial Statements

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

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

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

3) The audit disclosed an instance of noncompliance, which was material to the basic financial statements, and is required to be reported in accordance with *Government Auditing Standards.*

Federal Awards

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

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

Program	CFDA #
Highway Planning and Construction	20.205
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
TANF Cluster:	
Temporary Assistance for Needy Families	93.558
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families - State Programs	93.714
Social Services Block Grant	93.667
Children's Health Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777
Medical Assistance Program	93.778

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

7) Major programs are listed in the table below.

Major Programs

Program Title	CFDA Number
Supplemental Nutrition Assistance Program (SNAP) Cluster:	
Supplemental Nutrition Assistance Program (SNAP)	10.551
State Administrative Matching Grants for the SNAP Program	10.561
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
Mortgage Insurance – Homes	14.117
Section 8 Project-Based Cluster:	
Section 8 Housing Assistance Payments Program – Special Allocations	14.195
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856
Section 8 Housing Choice Vouchers	14.871
Unemployment Insurance	17.225
Highway Planning and Construction Cluster:	
Highway Planning and Construction	20.205
Federal Transit Cluster:	
Federal Transit – Capital Investment Grants	20.500
Federal Transit – Formula Grants	20.507
Student Financial Assistance Cluster:	
Federal Supplemental Educational Opportunity Grants	84.007
Federal Work-Study Program	84.033
Federal Perkins Loan Program – Federal Capital Contributions	84.038
Federal Pell Grant Program	84.063
Federal Direct Student Loans	84.268
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342
Nursing Student Loans	93.364
Title I, Part A Cluster:	
Title I Grants to Local Educational Agencies	84.010
Special Education Cluster:	
Special Education – Grants to States (IDEA Part B)	84.027
ARRA - Special Education – Grants to States (IDEA Part B)	84.391
Special Education – Preschool Grants (IDEA Preschool)	84.173
Federal Family Education Loans (Guaranty Agency)	84.032

Major Programs (continued)

Program Title	CFDA Number
ARRA - State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants	84.395
Immunization Grants	93.268
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525
TANF Cluster:	
Temporary Assistance for Needy Families	93.558
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families - State Programs	93.714
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
Social Services Block Grant	93.667
Children's Health Insurance Program	93.767
Medicaid Cluster:	
State Medicaid Fraud Control Units	93.775
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777
Medical Assistance Program	93.778
Research and Development Cluster	Various

8) The dollar threshold used to distinguish between Type A and Type B programs was $13,472,429.

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

Finding 2013-001 ***(material weakness - repeat finding)***

COMPLETE IMPLEMENTATION OF A COMPREHENSIVE FULLY-INTEGRATED ENTERPRISE RESOURCE PLANNING (ERP) SYSTEM

The Rhode Island Financial and Accounting Network System (RIFANS) is used to meet the State's accounting and financial reporting responsibilities. RIFANS, utilizing the Oracle E-Business Suite software, was intended as a comprehensive, integrated ERP system for the State. While RIFANS is largely effective and reliable for the functionalities that are operational, there is substantial opportunity for further efficiencies to be accomplished through completion of RIFANS. These functional gaps within RIFANS also result in control deficiencies in specific areas.

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

The specific areas where control deficiencies exist, mostly due to incomplete implementation of the RIFANS ERP system, are detailed in the following sections.

Federal Grants Management and Cost Allocation

As an example of the control deficiencies resulting from the functional gaps, RIFANS does not meet the State's needs in three important and interrelated areas – time reporting/payroll, grants management, and cost allocation. These functionalities are integral to overall State operations particularly those programs supported by federal grants – representing 38% of fiscal 2013 General Fund expenditures. These functions are currently performed independent of RIFANS and generally through multiple systems - most of which are duplicative and utilize old and sometimes unsupported technology. These functions were intended to be included within the RIFANS ERP implementation.

In general, each department within State government captures time and effort information, distributes costs to programs, and manages its federal grants in its own unique way. Almost every major department within State government administers unique time and effort reporting processes in addition to cost allocation systems - none of these processes or systems operate similarly, share a common control structure or are integrated into RIFANS.

The lack of full integration of these system functions results in delays in federal reimbursement as well as potentially impacts the timeliness and accuracy of reporting these program expenditures in RIFANS. The necessary journal entries required by State agencies to adjust indirect costs to federal programs can lag as much as 1 or 2 quarters during the fiscal year while independent time reporting and cost allocation processes get completed.

Segregation of Duties Between Treasury and Accounting Functions

The lack of a revenue and receivables module within RIFANS has resulted in receipts/revenue being recorded via journal entry transactions (directly to the general ledger) instead of through a revenue/receivables module as part of the fully-integrated Oracle accounting system. This weakens controls by providing numerous individuals the access to initiate and approve general ledger transactions that would otherwise not require such access. This further weakens controls over financial reporting because receivables are tracked by numerous departmental accounting systems that cannot be integrated into RIFANS. A revenue/receivables module would improve control over the recording of revenue and receivables and improve information available to management.

This system limitation has also necessitated that the Office of the General Treasurer be provided with certain RIFANS system access that is inconsistent with appropriate segregation of duties. The Office of the General Treasurer's system access allows certain employees to initiate and approve accounting transactions while also having responsibility for performing bank account reconciliations, and initiating transfers from State bank accounts. Such access was deemed necessary to meet stringent timelines for required funds transfer or to ensure that transactions generated by a myriad of subsidiary systems were recorded timely within RIFANS. While the State has implemented various compensating controls to mitigate this risk, optimal financial control would fully segregate an organization's treasury and accounting functions to safeguard against asset misappropriation. Allowing one agency to have responsibility for the State's treasury function while also allowing them significant functionality in the accounting system could allow a misappropriation of assets to not be detected through circumvention of the State's controls.

Accounting Controls over Capital Projects

The largest capital asset additions, from a dollar perspective, are project-based rather than single item acquisitions. The RIFANS capital asset module is programmed to flag expenditures in designated natural account codes as potential capital asset additions. This works well for single capital items but not as effectively for projects that involve multiple categories of expenditures and span more than one fiscal year. Independent processes have been developed which include accumulation of project costs on spreadsheets external to RIFANS. This process is manually intensive and can lead to error or omission of capital projects if system coding or system query is not performed accurately. Implementation of the capital projects module would facilitate accumulation and management of project costs for both financial reporting and project management purposes.

Achieving the Efficiencies and Control Benefits of a Fully-Integrated ERP System

Management has made significant efforts to ensure that internal control over financial reporting is effective in ensuring that the State's financial statements are fairly stated in all material respects. Often, system design deficiencies caused by the lack of a more complete ERP system have resulted in the implementation of manual or unintended processes found to be inefficient and represent risk to the State's ability to promote timely and accurate financial reporting in certain areas.

Because both the financial and technical personnel resources necessary to complete RIFANS as originally envisioned are scarce, the State has been understandably reluctant to proceed. Further, the challenge in attracting qualified technical employees to support or assist in the implementation of new IT projects has the State considering outsourcing to meet these needs. Adequate consideration should be given to the potential loss of integration and additional control considerations that will result if various functionalities are outsourced and are not resident within RIFANS.

Despite the acknowledged challenges in advancing or completing RIFANS, the importance of these functionalities to overall State operations will require continued attention. Significant costs could be incurred replacing or improving the individual departmental systems, many of which are unsupported, utilize outdated legacy structures, and lack the benefits of widely available technology.

We recommend that a comprehensive solution, consistent with the vision of RIFANS as an integrated ERP system, be planned and executed. Many of the functionalities that remain to be implemented are interdependent. Consequently, implementing these functionalities is challenging and requires that a coordinated time sequencing must be established. Further, due to the significant scope of some of the remaining components, adequate resources must be identified and committed to the tasks.

Obtaining authorization and funding commitments for these tasks can be supported by demonstrating the intended efficiencies and enhanced effectiveness as well as addressing the control weaknesses over financial reporting identified above.

RECOMMENDATIONS

2013-001a Develop a strategic plan to either continue the installation of Oracle modules necessary to complete and fully realize the benefits of RIFANS as a comprehensive fully-integrated ERP system or meet those ERP system objectives through other means.

2013-001b Ensure that the plan developed addresses the control deficiencies identified within the current RIFANS system.

2013-001c Ensure that the plan specifically identifies the amount of resources (both State and/or contracted personnel) needed to either a) support a fully-integrated State ERP system or b) transition to and monitor systems or functions outsourced by the State.

Corrective action plan / auditee views:

2013-001a - Over the last few years, the Department of Administration has implemented a new Oracle module, Isupplier, and upgraded the RIFANS Oracle Suite to version 12. This was done with current staff and limited contracting support. In order to implement other RIFANS modules, the department would need to hire additional staff and implementation support staff. The task of hiring qualified Oracle staff has been an ongoing struggle. We have gone to public hearing to create new titles and have posted for these positions. We have not been able to recruit qualified staff. In addition, we have lost staff to retirement and have critical staff that can currently retire. The addition of new Oracle modules without qualified staff to support these modules would not be prudent. In addition, previous funding requests for implementing other modules have not been approved.

The Department of Administration understands the need for updated technology to meet the needs of an integrated ERP system. We are requesting IT COPS infrastructure funds to achieve the goal of acquiring other technology to address an integrated ERP system. We are requesting funds for the following new systems: payroll, HRIS and grants. Our goal is to fund a solution that can be supported and at the same time to integrate with the current system.

2013-001b - The solutions that we would be seeking if the funds are approved are solutions that are industry standard and adhere to best practices. The vendors selected would be working with the state to ensure that such deficiencies are addressed.

2013-001c - The solutions that we are looking to implement are solutions that can be hosted and/or supported by a third party vendor with experience in integrating their solution with our current ERP system.

Anticipated Completion Date: *Dependent on Funding Approval*

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

Finding 2013-002 *(material weakness - repeat finding)*

ACCOUNTING CONTROLS OVER FEDERAL REVENUE AND EXPENDITURES

The State needs to improve controls over recording federal revenue to ensure (1) amounts are consistent with the limitations of grant awards from the federal government and (2) claimed expenditures on federal reports are consistent with amounts recorded in the State's accounting system. Federal revenue within the governmental activities totaled $2.6 billion for fiscal 2013. Financial reporting risks include categorizing expenditures as federally reimbursable when grant funds have either been exhausted or the expenditures do not meet the specific program limitations.

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

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

The Office of Accounts and Control has continued to enhance its required *Federal Grants Information Schedule* (FGIS) which is completed by the administering departments and agencies. The goal of the FGIS is to efficiently reconcile RIFANS program activity with amounts drawn and claimed on federal reports. Timely recording of adjustments is necessary to ensure that federal program expenditures recorded in RIFANS are consistent with amounts reported to the federal government and do not exceed federal grant awards. Segregating prior period adjustments in the accounting system facilitates reconciliation of current period claimed expenditures to RIFANS amounts as well as improves financial reporting by isolating amounts that may warrant consideration of restatement of prior period's financial statements.

While recent enhancements to the schedule and increased frequency of submission for larger programs are appropriate, the FGIS process is ultimately limited in its overall effectiveness to improve controls over federal revenue recognition. One critical component missing from the FGIS process is ensuring that expenditures reported within RIFANS have not exceeded available grant awards. Additionally, the Office of Accounts and Control has limited capabilities to validate information on the FGIS since grant documentation is maintained at the department level. Presently, there is no statewide control measure to ensure that grant expenditures do not exceed available award authority.

In addition, we noted instances where federal accounts in RIFANS were not linked to the proper federal program identification number (CFDA number). This is important in preparing the State's Schedule of Expenditures of Federal Awards, identifying major programs for OMB Circular A-133 audit purposes, and ensuring compliance with federal cash management requirements as well as other compliance provisions.

Due to the limited effectiveness of the FGIS, other comprehensive control procedures should be considered. Additionally, the various factors that cause differences between amounts reported to the federal government and amounts included in the RIFANS accounting system should be addressed. Many departments utilize subsidiary systems, independent of the RIFANS accounting system, to administer federal programs and provide data for federal reporting. Consequently, this presents multiple opportunities for data to be inconsistent with or require reconciliation to financial data included in RIFANS. Improved functionality with the RIFANS accounting system to facilitate federal grant administration (grants management, cash management, and cost allocation functionalities – see Finding 2013-1) could reduce or eliminate such differences and significantly improve statewide controls over federal program administration.

The State's recently formed Office of Management and Budget (OMB) within the Department of Administration has responsibility for oversight of federal program administration. They have begun to implement statewide monitoring processes for federal grants which include accumulating all grant awards received by the various departments and agencies within a comprehensive database. These OMB efforts coupled with enhanced RIFANS federal grant administration functionalities could improve controls over recognition of federal revenue and statewide federal program administration.

RECOMMENDATIONS

2013-002a Improve functionality with the RIFANS accounting system to facilitate federal grant administration (grants management, cash management, and cost allocation).

2013-002b Build statewide processes over federal grant administration within the newly formed Office of Management and Budget to supplement accounting controls within the RIFANS accounting system.

Corrective action plan / auditee views:

2013-002a - The Governor's 2015 Budget includes a Certificate of Participation (COPS) funding request to finance information technology projects for system and application upgrades including a budgeting, forecasting, and grants management module.

Anticipated Completion Date: *COPS decision will be made by June 30, 2014. If funding is approved, implementation target date is December 2016.*

2013-002b - The Governor's 2015 Budget includes a Certificate of Participation (COPS) funding request to finance information technology projects for system and application upgrades including a budgeting, forecasting, and grants management module.

The Grants Management Office will work with the Office of Accounts and Controls and the related agencies to ensure that CFDA numbers are properly coded in RIFANS.

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

Anticipated Completion Date: *CFDA validation complete April 2014. Business process alignment and training is ongoing.*

Contact Person: *Laurie Petrone, Director, Grants Management*
Phone: 401.574.8423

Finding 2013-003 *(material weakness - repeat finding)*

MEDICAL ASSISTANCE PROGRAM – PROGRAM OVERSIGHT AND MONITORING

The Executive Office of Health and Human Services (EOHHS) is responsible for the administration and oversight of the State's Medicaid program and accordingly must have sufficient personnel to meet that responsibility. As departmental resources have declined over time, the State has used its fiscal agent and other contractors to perform various program operations. The State does not have sufficient personnel dedicated to the consideration and documentation of internal controls, including related monitoring procedures performed to ensure the proper administration of significant program areas. Considering the size and complexity of Medicaid, documenting and considering internal controls over program operations should be given more attention by the State. Federal regulations require non-federal entities to establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements.

We noted significant control deficiencies that are, at least in part, caused by insufficient personnel resources allocated to effectively administer and monitor these aspects of the program:

- *Contracted Program Functions* – EOHHS, as the Single State Medicaid agency, uses numerous consultants and contractors within the operation and administration of the Medicaid Program. However, EOHHS's program oversight and monitoring responsibilities remain which require a dedication of personnel resources currently lacking. EOHHS is responsible for the consideration and documentation of internal controls over significant program operations (i.e., program eligibility, contract compliance, and provider payments, as examples). Due to the size and complexity of the Medicaid program, the State should consider additional personnel resources specifically dedicated to this function in addition to EOHHS's other program integrity operations.

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

- *Long-term Care Facility Audits* – EOHHS has not performed nursing home field audits and is significantly behind in conducting required desk audits to ensure timely adjustment of nursing home per diem rates.

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

- *Surveillance Utilization Review Services (SURS)* - In 2013, we observed that inadequate staffing at the fiscal agent's SURS unit had caused many Level III cases, those with the potential to involve fraud and/or abuse, to remain unresolved for extended periods. In addition, fiscal agent personnel dedicated to the State's Medicaid SURS function have been utilized to assist EOHHS with other programmatic responsibilities causing resources specifically dedicated to SURS to be insufficient.

The State must allocate adequate personnel resources to ensure proper oversight and control over program expenditures that approximated $2.1 billion in fiscal 2013. Sustained reductions in personnel resources in key program areas continue to negatively impact control over program expenditures and compliance with federal program requirements.

RECOMMENDATIONS

2013-003a Address personnel resource deficiencies in critical program areas to ensure proper administration of and control over the Medicaid program.

2013-003b Consider dedicating additional personnel resources responsible for the consideration, documentation, and monitoring of significant program operations and related controls to ensure compliance with federal and program regulations.

Corrective action plan / auditee views:

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

- *Contracted Program Functions– The Office of Policy and Innovation has hired an Administrator who has responsibility for the oversight of the fiscal agent contract as well as the systems integrator vendor hired to build and implement the new eligibility system. The Administrator is in the process of hiring two new chiefs and will ultimately have a staff of five FTEs dedicated to oversight of the systems supporting our business.*

- *The Office of Health Care Programs (Medicaid) has traditionally been responsible for the oversight and monitoring of contracts with managed care organizations. While this oversight and monitoring is supported by contracted personnel, ultimate responsibility lies with state staff. State personnel are actively engaged in these monitoring and oversight efforts. Both the Office of Policy and Innovation and Health Care Programs are supported by the efforts of the Office of Program Integrity.*

- *Program operations administered by other State departments and agencies – EOHHS has undertaken a review of the inter-agency Service Agreements with each agency and will use the exercise to strengthen these agreements with other State departments and agencies. The development and work of the EOHHS Office of Program Integrity greatly enhances EOHHS' ability to monitor other Departments' compliance with State and Federal requirements.*

- *Long-term Care Facility Audits –For the following reasons, performing field audits on a sampling of nursing homes for fiscal years 2008, 2009 and 2010 is not considered needed.*

  - *The desk audit process/review is detailed and field audits are unlikely to result in additional findings of a material nature;*
  - *The cost of training personnel, (contractors or State employees) and conducting field audits will further reduce, if any, the net financial benefit;*
  - *Conducting field audits on cost report four to six years old will be difficult and disruptive to the facilities selected; and*
  - *The results of any field audits will have no impact on current payment rates.*

  All desk audits reviews for 2008 have been completed and facilities have been or are being sent out for review. Desk audits for 2009 are being finalized for review by each facility. Completion is expected by the end of FY '14. Additional staff will not alter this time frame. Desk audits for 2010 are underway with the objective of completing them by the end of *calendar 2014. Training additional staff for this purpose will only take away from the time currently being spent on the desk audits.*

- *Controls over Recipient and Provider Eligibility – DHS accepts the recommendations of the report and we will look to add additional staff. We recently hired an MEQC Supervisor. This employee will be working with EOHHS to develop and establish protocols to meet new federal requirements regarding the implementation of the Affordable Care Act as well as federal requirements in place currently. DHS and EOHHS will take steps to determine the federal point of contact for any submission of MEQC data.*

- *Surveillance Utilization Review Services (SURS) - EOHHS' fiscal agent has begun recruitment for a local (on-site) SUR nurse. During this recruitment period, EOHHS will utilize the fiscal agent's medical management capability group to allocate an experienced SUR nurse to review and complete the Level III cases currently pending a "reviewer" assignment. Level III cases will be presented at the newly established Program Integrity bi-monthly meetings. All cases under active review will be discussed at this meeting to agree upon prioritization, ensuring timely action on all Level III cases.*

Anticipated Completion Date: *To be determined*

Contact Person: *Alda Rego, Chief Financial Officer*
Phone: 401.462.1834

Finding 2013-004 ***(material weakness - repeat finding)***

COMPREHENSIVE INFORMATION SYSTEMS SECURITY POLICIES AND PROCEDURES

The Division of Information Technology (DoIT) within the Department of Administration (DOA) has responsibility for the State's varied and complex information systems. This includes ensuring that appropriate security measures are operational over each system and the State's information networks. Information security is critically important to ensure that information technology dependent operations continue uninterrupted and that the sensitive data accumulated within State operations remains safe and secure with access appropriately controlled.

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

The State has still not ensured that all of its critical information systems are compliant with these formalized policies and procedures. Due to the number, type, and complexity of systems within state government, the task is challenging and has not been adequately staffed. Consequently, a risk-based approach should be implemented where those systems deemed most critical or most at risk are prioritized for assessment.

The State may also need to consider contracting for the performance of IT security compliance reviews of its mission critical systems until such time that sufficient internal resources are in place to ensure that the State can conduct such reviews on a periodic basis for all mission critical systems. In addition, new information systems or significant system modifications should be subjected to a formalized systems security certification by DoIT or an external IT security consultant prior to becoming operational.

Lastly, the State should make appropriate use of external system assessments and reviews whenever available. In many instances, State systems are operated by external parties or interface with external processing entities. These entities often provide Service Organization Controls (SOC) reports which typically include identification and testing of key controls within the application or organization. A number of these reports are available and should be accumulated and reviewed within DoIT as part of a risk-based approach to assessing and ensuring IT security compliance. This may assist in broadening the coverage of the State's many systems in light of the minimal resources allocated to this function.

The State must evaluate each mission critical information system's compliance with formalized system security standards. This process will identify those mission critical systems that represent significant information system security risks within its operations. Once completed, the State should prepare a corrective action plan that prioritizes significant security risks identified and ensures that all security deficiencies are addressed in a timely manner.

RECOMMENDATIONS

2013-004a Complete an initial assessment of compliance with systems security standards for the State's mission critical systems.

2013-004b Consider contracting for the performance of IT security compliance reviews and accumulate and make use of available Service Organization Control reports, whenever available, to extend IT security monitoring of critical systems.

2013-004c Prepare a corrective action plan that prioritizes significant system security risks with the goal of achieving compliance of all significant State systems with DoIT's formalized system security standards.

2013-004d Require systems security certification procedures to be performed by DoIT prior to any significantly modified application systems becoming operational.

Corrective action plan / auditee views:

2013-004a - The Department of Administration under the direction of the Chief Information Security Officer (CISO) will continue to work on the initial assessment of compliance with system security standards for the State's mission critical systems. The security group has worked with Departments in addressing auditing needs.

Anticipated Completion Date: Ongoing

2013-004b - DOIT will be adding additional MPA 230 security roles in the next MPA 230 RFP. These roles will allow for DOIT to procure additional security staff and also procure staff on fixed price deliverables to perform such audits. Funding would still have to be secured to proceed with having external organizations perform security audits.

Anticipated Completion Date: TBD

2013-004c - The preparation of a corrective action plan is also resource dependent and funding depending.

Anticipated Completion Date: TBD

2013-004d - Currently, all new projects come through the PRC (Project Review Committee). Any new project that gets approved must provide the Chief Information Security Officer (CISO) a written security plan for review and approval.

DOIT now requires that all new systems and major changes require security plan signoff by the CISO. However, due to limited staff, we are not able to be retroactive in review systems already in place and provide a certification.

Anticipated Completion Date: Ongoing

Contact Person: Kurt Huhn, Chief Information Security Officer
Phone: 401.462.9292

Finding 2013-005 ***(material weakness - repeat finding)***

INFORMATION TECHNOLOGY (IT) SYSTEMS - PROGRAM CHANGE CONTROLS

Procedural Issues

Program change management controls are a critical IT control component used to maintain highly reliable systems that meet the defined service levels of the organization. Almost all custom developed computer applications require changes or updates during their production lifecycle. Users may encounter errors, seek new programmable features, or require adaptations to accommodate changes in operation.

Within the State, there are a number of agencies who have mature, complex application systems that periodically need maintenance and/or code changes made to them. These customized, home-grown applications require a robust formalized change management system in order to properly control changes made to them.

The primary goal of formalized program change management policies and procedures is to accomplish IT application changes in the most efficient manner while minimizing the business impact, costs, and risks. Strong change management controls are needed to ensure that standardized methods and procedures are used for efficient handling of all application specific changes and are a required component within formal departmental level IT policies and procedures.

Program Change Management Control - Policy Directives

The Division of Information Technology (DoIT) has issued two departmental policy statements that deal directly with program change management controls. Policy #01-02, *IT Applications Development Requirements Approval*, states that "programmer managers must ensure any request for application development be documented in writing, tracked, understood and approved prior to putting any new or changes to existing applications into production". In related Policy #01-03, *IT Enhancements Move to Production Approval*, DoIT requires that "programming teams must take care to ensure best practices regarding product quality have been utilized prior to putting any new (or changes to existing) systems into production".

These policy directives are designed to be a component of a high level overall plan that embraces the general goals and directives of DoIT. These directives are general in the description of their subject matter and are designed as a statement of principles. Detailed standards, practices and procedural guides governing the actions of DoIT personnel should be developed from these general policy directives.

Program Change Management – Enterprise-wide

Throughout our review of the various departments and their application systems that are under the control of DoIT, we have found a number of disparate methods used to control program change management. For the most part, these methods rely upon the use of partially implemented change management systems and a series of manual and automated procedural controls that incorporate emails, memorandums and other paper-based forms to document and control application changes. In a number of instances, we found no automated control system that can evidence that only authorized and proper changes have been implemented. Additionally, there is no way of knowing if all elements of a proper change management process have been followed.

A proper change management process should be in place to ensure that authorized, tested and accepted changes be implemented in a timely and efficient manner. The process should be a standardized, repeatable process that documents all movement of code, changes made, testing, acceptance, and implementation and provides management with a tracking history. This standardized repeatable control process insures that enterprise and industry best practices are being followed for all changes made within the enterprise. This leads to consistent outcomes, efficient use of resources and enhanced integrity of the application systems which flow through the process. Automated tools vastly help control this process and make the process consistent, predictable, repeatable and aids in the reduction of "human error" in the process.

Program Change Control – Current Operational Issues

In response to prior audit recommendations regarding this subject dating back to fiscal 2007, DoIT has attempted to implement software designed to better maintain and control application system changes. However, for various reasons, the products selected were never properly configured and implemented to fully utilize their control features. Instead of making the program change process more efficient and productive, the process continued to be a cumbersome and time-consuming process that could circumvent DoIT's change control policy and procedural guidance.

Because these packages were never implemented fully and effectively, they were never rolled out enterprise-wide, thus leaving agencies to develop their own methods and procedures to control application changes. This has led to multiple methods, both manual and partially automated, to be developed and supported by limited DoIT staff.

DoIT should implement a standardized formal enterprise program change control process for the application systems it supports. The program change process should provide a comprehensive, standard method and process-to-process application system changes throughout the enterprise. To assist this process, DoIT should evaluate enterprise software solutions to complement their program change process. The evaluation process should determine the appropriate combination of operational, procedural and/or technical adjustments required to use the package in a manner that results in adequate and repeatable program change control across the entire enterprise.

In addition, once a process and software package have been selected and implemented associated procedural guidance should be developed that provides detailed information pertaining to the specific activities required of DoIT support staff in order to accomplish meaningful and controlled change management. This type of guidance would provide DoIT personnel with detailed instructions pertaining to the development and correct use of change management software and mandated internal control practices and procedures, thus ensuring a documented, monitored, and repeatable process.

RECOMMENDATIONS

2013-005a Reassess the use of a standard software package to determine the appropriate combination of operational, procedural and/or technical adjustments required to use the package in a manner that results in adequate program change control for the entire enterprise.

2013-005b Design, develop, formalize and implement procedural guidance manuals detailing specific requirements for program change control and disseminate and train DoIT support staff in its proper execution.

Corrective action plan / auditee views:

2013-005a - Due to resources leaving DOIT, we have been unable to improve this environment and roll out a better change management processes. We have started the process of reviewing our options with other product lines or upgrading the current product line. We will be submitting a request to get funding for upgrades or migration to another suite through. Funding is available for IT initiatives through a technology fund. Our request will be reviewed by a committee.

The Department of Labor and Training is also addressing issues with change management in their audit finding, 2013-16. We will address this finding jointly and pool resources and available funds that DLT may have to address this finding. By pooling resources and enhancing this environment we can position these tools to server DOIT/DLT and other agencies.

2013-005b - This finding will be addressed when a new product line or upgrade for the current change management is selected.

The completion of this finding is funding dependent for the outside resources.

Anticipated Completion Date: *June 30, 2015*

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

Finding 2013-006 ***(significant deficiency- repeat finding)***

MONITORING RIFANS ACCESS PRIVILEGES AND AGENCY APPROVAL HIERARCHIES

Authorizing and monitoring access to RIFANS, the State's centralized accounting system, is a key control over financial reporting. We observed three distinct but interrelated areas where the State can improve its monitoring of RIFANS access privileges by implementing reporting functionalities that allow for the periodic review of RIFANS user and administrator access. The State's current lack of monitoring of user and administrator access represents a collective weakness in internal control over financial reporting.

RIFANS "Super Users"

Activities of individuals with system administrator or "super user" roles are logged but not reported and reviewed. These individuals have unlimited access to RIFANS functions and data. Consequently, any RIFANS transactions or activity initiated by system administrators should be monitored. The Division of Information Technology's (DoIT) policies and procedures require the activities of privileged users (system administrators) to be logged by the system and reviewed for propriety by assigned personnel.

The State could improve controls over system administrator access by either a) developing reports that specifically report on their system access and daily activities within the system and/or b) developing reports that detail when changes are made to critical data within RIFANS.

Agency Hierarchies

Access roles for all RIFANS users are controlled through unique passwords. These roles, which are assigned based on job functions and responsibilities, permit access to various system capabilities. Agency hierarchies permit specific transaction types and dollar authorization limits. Other transaction-specific authorization controls are managed through workflow directories within RIFANS.

The Office of Accounts and Control (Accounts and Control) is responsible for the design and control of system access by RIFANS users. This "blueprint" of the RIFANS control structure is periodically documented through hierarchies detailing access and approval flows for each department or agency. Maintaining off-line documentation of the hierarchies is manually intensive and only provides limited effectiveness in providing an audit trail of additions, deletions, and changes in authorization that are routinely made to RIFANS system access.

In addition, Accounts and Control authorizes changes to system access but the changes are effected by authorized individuals in the Division of Information Technology that have the system access to modify or expand RIFANS access. The resulting changes are not monitored to ensure they were established consistent with Accounts and Control's approval or that other unauthorized changes were not made.

During fiscal 2013, RIFANS had not activated a "versioning" functionality - the storing of data at a series of snapshots in time, rather than overwriting updates to the previous version. Accordingly, the system could not retroactively access the data tables that existed at a prior point in time, nor log the changes for ease of monitoring. After fiscal year end, the State activated the "versioning" functionality for certain hierarchies within RIFANS; however, this should be expanded along with a reporting and monitoring process.

RIFANS Delegated Authority

RIFANS users may delegate their authority to other users in certain situations (e.g., "vacation rules"). The State implemented a policy that restricts employees from delegating their authority to others with a lower level of authority and requiring notification of the delegation to the Office of Accounts and Control in certain circumstances. The Office of Accounts and Control's monitoring of delegated RIFANS access authority is limited by the lack of a system reporting functionality. Consequently, monitoring is ineffective in determining whether any delegation of authority is consistent with policy or if the delegation is more than temporary.

RECOMMENDATIONS

2013-006a Review activities of privileged users (system administrators) on a scheduled basis to ensure that additions, modifications, and deletions initiated by them are appropriate.

2013-006b Improve controls over RIFANS access by developing the reporting functionality necessary to allow for periodic monitoring of user access for instances of unauthorized changes to user access and/or noncompliance with policies relating to delegated user access.

Corrective action plan / auditee views:

2013-006a - We are currently investigating whether version 12 of our E-Business Suite has any new functionality that will allow us to meet this finding. We have outsourced this finding to an Oracle contractor for investigation and a report will be due by end of this year by the contractor.

2013-006b - DOIT has implemented certain changes to the responsibilities of privileged users in RI-FANS in FY2012. These changes included creating a new responsibility with additional restrictions to limit functions performed.

With the recent upgrade to Oracle E-Business Suite 12, we will explore the new auditing features Oracle has built in this release for auditing. Based on those finding will implement those features to address 2013-6b. We have also assigned this finding to an Oracle contractor for investigation and a report will be due by end of this year by the contractor.

Anticipated Completion Date: *December 31, 2014*

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

Finding 2013-007 ***(material weakness - repeat finding)***

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

Electronic transmission of tax payments and tax information for uploading to the Division of Taxation's (Taxation) systems represents the majority of taxes collected and data received by Taxation. Ensuring the security and integrity of this data from transmission through posting to taxpayer records is critical.

Approximately 92% of the State's tax revenues are received electronically (through either ACH debit/credit or lock-box receipts). Funds are deposited automatically into the State's bank accounts and electronic files, which contain abbreviated tax payment data (taxpayer identification number, payment amount, tax type, tax period), are transmitted by the State's financial institutions. Through a lockbox arrangement with a financial institution, other returns and payments that are mailed to Taxation are processed and converted to electronic data files. Other initiatives have increased the receipt of data in electronic form.

Generally, these electronic files are in an open text format that allows, rather than restricts, manipulation of data prior to recording in Taxation's mainframe systems. Additionally, the files reside in an unprotected network folder prior to and after upload. These electronic files should be in a file format that is secure and configured to facilitate an efficient upload to Taxation's systems without need for manual intervention.

Certain personnel are assigned responsibility for downloading electronic files, reconciling detailed electronic information to the amount recorded in the State's bank accounts, creating manual adjustments, and ensuring that the information is uploaded properly to the mainframe computer systems. While Taxation has taken steps to segregate duties regarding the processing of these files, certain individuals still have access that allows them to perform multiple functions.

To ensure that the proper level of data protection is in place, Taxation, working with the Division of Information Technology (DoIT), should perform a "data classification" review of these files. DoIT has polices requiring that all State data being captured, maintained and reported by any agency or department be "data categorized" based upon three levels of availability and four levels of confidentiality (DoIT policy # *05-02 – Data Categorization).* If the data is considered confidential or sensitive, the data must be protected by an acceptable method of data encryption.

Taxation utilizes two financial institutions for ACH payments. One institution has the primary contractual responsibility for most operations; however, responsibilities handled by the second institution have still not been transitioned to the primary financial institution. Enhanced coordination with the primary financial institution regarding file layouts and unique processing requirements could alleviate the need to modify the tax payment files prior to upload to Taxation's systems.

Electronic data received by Taxation should be encrypted and then be uploaded to Taxation's systems through automated processes which do not require manual intervention or present an opportunity for manipulation. If changes are required to data files, tracking of the specific changes and the individual performing the changes should be controlled and documented.

RECOMMENDATIONS

2013-007a Perform a "data classification" review consistent with DoIT policy to ensure the proper level of data protection (e.g. encryption) is in place.

2013-007b Secure all electronic files containing taxpayer information residing on the Division of Taxation's network to ensure data integrity.

2013-007c Control all electronic files that contain taxpayer information by requiring the file format to be secure and configured to the computer system in order to allow automatic transmission without any manual intervention.

2013-007d Develop monitoring and reporting procedures to ensure the proper upload of data files.

Corrective action plan / auditee views:

2013-007a - The Division of Taxation has performed a preliminary review of the data received based on DoIT's Data Classification Policy (Policy #05-02). It is the Division of Taxation's opinion that this data should be classified as "sensitive" and therefore requires 256 bit or higher encryption.

Anticipated Completion Date: N/A

2013-007b - In the new Division of Taxation system, electronic files will be encrypted and stored on our network and then loaded into an encrypted database where it will reside. Then it will be removed from the network.

Anticipated Completion Date: July 2014

2013-007c - Control all electronic files that contain taxpayer information by requiring the file format to be secure and configured to the computer system in order to allow automatic transmission without any manual intervention.

In the new Division of Taxation system, electronic files will be processed through an encrypted file on our FTP server. Then it will be loaded into STAARS and all adjustment will be made after it is loaded into STAARS.

Anticipated Completion Date: *July 2014*

2013-007d - In the new Division of Taxation system reports will be generated to ensure the files are processed correctly.

Anticipated Completion Date: *July 2014*

Contact Person: *David Sullivan, Tax Administrator*
Phone: 401.574.8922

Finding 2013-008 ***(significant deficiency - repeat finding)***

DEPARTMENT OF REVENUE – PERSONAL INCOME TAX ADMINISTRATION

W-3 Reconciliations

Employers are required to file an annual W-3 reconciliation return comparing withholding payments due to actual amounts paid to the Division of Taxation (Taxation). While some employers file paper W-3 reconciliation returns, in most instances the reconciliation is calculated electronically by Taxation's mainframe system from the W-2 files submitted by employers and the record of employer withholding deposits.

There has been a significant backlog in posting/processing W-3 reconciliation returns. W-3 reconciliation returns for tax year 2012 were due February 28, 2013. During fiscal 2013, W-3 paper returns for tax years through 2012 were posted to the mainframe system. However, as of June 30, 2013, the system-generated W-3 reconciliation returns for tax years 2010, 2011, and 2012 had not yet been posted. The backlog in posting W-3 reconciliation returns delays identifying potential overpayments and underpayments of employer withholding taxes.

RECOMMENDATION

2013-008a Process W-3 reconciliation returns timely to identify any underpayment of employer withholding taxes.

Management Review of Overpayment Carry-forwards

The Division of Taxation's "Management Refund Report" is used to highlight high-dollar tax refunds requiring review prior to payment and to select other refunds for review. When a taxpayer elects to apply the refund to next year's tax liability rather than request a refund, the carry-forward is not subject to the same review procedures. Overpayment carry-forwards should be subject to the same management review procedures as returns requesting immediate refund of overpayments. The lack of such a review could result in an unidentified overstatement of the refund/carry-forward amount.

RECOMMENDATION

2013-008b Include refund carry-forward returns within the management refund review control procedures.

Corrective action plan / auditee views:

2013-008a - The Division of Taxation will look to dedicate additional resources to this project. However, the Division of Taxation's new system will automate this process and allow the

Division to more timely process the W-3s.

Anticipated Completion Date: *September 2014*

2013-008b - The Division of Taxation updated the personal income processing system to include carry-forwards to the management report. This change was implemented in October 2013.

Anticipated Completion Date: *N/A*

Contact Person: *David Sullivan, Tax Administrator*
Phone: 401.574.8922

Finding 2013-009 ***(material weakness - repeat finding)***

DEPARTMENT OF REVENUE – RECONCILIATION OF TAXATION RECEIPTS TO RIFANS

The Division of Taxation (Taxation) does not reconcile receipts posted to its systems with receipts reported in the RIFANS accounting system. Although Taxation reconciles their cash receipts ledger (subsidiary system) to RIFANS, controls would be improved if receipts reported within the mainframe system were reconciled to RIFANS. RIFANS data is the basis for much of the information utilized by the State for financial reporting and the reconciliation of that data with Taxation's systems (the official record for tracking tax payments and refunds) would provide enhanced control over the State's reporting of tax revenue.

RECOMMENDATION

2013-009 Develop the reporting capability to facilitate reconciliation of receipts reported by Taxation's systems with RIFANS.

Corrective action plan / auditee views:

One of the major priorities of the Division of Taxation is the timely depositing of payments received. All payments received by Taxation are posted to various systems subsequent to their deposit. Currently the Division of Taxation has over 70 databases used to record payments and other taxpayer transactions (the mainframe system contains only 15 of these databases). As part of the Fiscal Year 2013 budget request, the Division of Taxation requested funding for an integrated tax system. This system will, among other things, overhaul the front end accounting systems and deposit systems. The system will also allow for real time posting of payments and transactions to taxpayer accounts, therefore any deposit made will be recorded in a more efficient manner.

Anticipated Completion Date: *Release I – July 2014 (fully implemented September 2016)*

Contact Person: *David Sullivan, Tax Administrator*
Phone: 401.574.8922

Finding 2013-010 *(material weakness - repeat finding)*

DEPARTMENT OF REVENUE – PERSONAL INCOME TAX - CONFIDENTIAL COMMUNICATION

A finding concerning the administration of the personal income tax system was communicated confidentially due to the potential impact on taxpayer compliance.

Finding 2013-011 *(material weakness - repeat finding)*

DEPARTMENT OF REVENUE – INFORMATION TECHNOLOGY (IT) GOVERNANCE AND SECURITY - CONFIDENTIAL COMMUNICATION

A finding concerning the IT governance and security of the Division of Taxation's information systems was communicated confidentially due to the potential impact on taxpayer compliance.

Finding 2013-012 *(material weakness - repeat finding)*

FINANCIAL REPORTING – INTERMODAL SURFACE TRANSPORTATION FUND – USE OF RI DEPARTMENT OF TRANSPORTATION (RIDOT) FMS AND RIFANS ACCOUNTING SYSTEMS

Financial statements for the Intermodal Surface Transportation (IST) Fund are prepared primarily from the State's RIFANS accounting system; however, a significant amount of data required for financial reporting is also derived from RIDOT's Financial Management System (FMS). Because these two accounting systems were not designed to easily share data or be compatible, preparation of the annual financial statements for the IST fund is unduly complex.

The RIDOT FMS is an integrated, multi-module system intended to meet RIDOT's comprehensive project accounting needs, including purchasing, billing, construction management and general ledger functions. While the majority of RIDOT financial transactions originate in the FMS, the State's accounting systems are used to process cash disbursements to vendors and employee payroll. A significant interrelationship exists between the two systems requiring each system to generate and transmit data files to complete various processing cycles. By design, all financial transactions (some in summary) are intended to be replicated within the State's RIFANS accounting system. While recording transactions in two accounting systems is inherently duplicative, this would be less problematic if the configuration and accounting conventions were the same. For example:

- RIDOT FMS and RIFANS each utilize separate and distinct account structures, which necessitates mapping to "crosswalk" the two charts of accounts.

- Since no direct interface exists between the two systems, transmission files are utilized to transfer expenditure data between the RIDOT FMS and RIFANS to disburse vendor payments. Timing differences exist and have to be identified as part of the reconciliation process.

- RIDOT establishes and maintains purchase order balances on a detailed line item basis for the entire project duration; purchase order balances in RIFANS are in summary form and only for the amount expected to be expended during that fiscal year.

- Expenditures are recorded in the RIDOT FMS after disbursement in RIFANS; expenditures are recorded in RIFANS when entered and approved for payment.

- RIDOT FMS tracks activity at the project level as this is the level at which funding sources (e.g., federal, state and other) are determined and infrastructure or maintenance categorizations are made. RIFANS accumulates activity at the major program level (e.g., interstate highways).

In essence, the RIDOT FMS contains detailed project-level data which loses its project character when transmitted to RIFANS. However, the project-level data is needed for certain financial reporting purposes. When the project-level RIDOT FMS data is used, it must be reconciled and adjusted to conform to RIFANS accounting conventions. Various supplemental manual and reconciliation processes have been implemented to provide the information needed for financial reporting.

Due to the use of two separate accounting systems, RIDOT has implemented a process of reconciling RIDOT FMS to RIFANS on a monthly basis, as a control, to ensure both systems accurately reflect RIDOT activity. Specific areas of the reconciliation process have been automated but the cause for differences must be manually identified and corrected in the appropriate system. In fiscal 2013, RIDOT did not accurately identify and explain variances between RIDOT FMS and RIFANS on a monthly basis. This is caused by an upgrade to RIFANS in fiscal 2012, which affected the report used in the RIDOT reconciliation process. RIFANS does not currently provide the detail needed to identify variances between the accounting systems.

An analysis should be performed to determine whether continued use of the two accounting systems in the current configuration is the best way to accomplish financial reporting for the IST Fund. Options include better aligning the design and configuration of the two systems or alternatively using the RIDOT FMS for financial reporting purposes rather than RIFANS. Recognizing that a significant investment has already been made and that further integration of the two systems would require additional investment, RIDOT should establish short-term and long-term goals for a more efficient process to yield reliable information in support of timely financial reporting.

RECOMMENDATIONS

2013-012a Reevaluate the continued operation of two separate accounting systems to support financial reporting for the IST Fund. Establish short and long-term goals to ensure reliable information is available to support timely financial reporting.

2013-012b Ensure the reconciliation process includes the reconciliation of fund balance. At a minimum, modify the reconciliation report or process so the department can accurately identify any variances that exist in the two accounting systems.

Corrective action plan / auditee views:

2013-012a - The Department intended to engage a management consultant during FY 2014 to conduct a high level review of the following key issues:

1. *An evaluation of the benefits and risks associated with each potential operational option (i.e., maintaining the status quo; enhancing the design and configuration of the two systems for better efficiency; using FMS for financial reporting purposes; or modifying RIFANS to accommodate RIDOT's project accounting needs, including upgrading the RIFANS*

purchasing module, implementing an integrated timekeeping system, and activating Accounts Receivable and Grants modules.

2. *An analysis of the costs, time frames, technical expertise, and RIDOT staff resources necessary to accomplish each of the options, other than status quo, outlined in #1 above.*

However, budgetary constraints have prevented the Department from engaging a consultant to perform this review.

It must also be emphasized that implementing any of the options, other than status quo, will require an investment of significant State funds, which are also currently unavailable because of the aforementioned budgetary constraints.

Additionally, at such point in the future that monetary resources may become available, the dedication of significant staff resources (i.e., RIDOT Financial Management Office, State Controller's Office, DOIT, etc.) will be required, as well as a commitment that this initiative will be a top priority for the duration of the project.

Anticipated Completion Date: *To be determined*

2013-012b - Financial Management continues to work with MIS to restore the reconciliation report that was affected by the RIFANS upgrade to Oracle version 12. The department has made significant progress in creating a report capable of identifying all material variances that exist between the two accounting systems. It is estimated that this report will be in place by the end of calendar 2014.

Anticipated Completion Date: *December 31, 2014*

Contact Person: *Robert Farley, Chief Financial Officer*
Phone: 401.222.6590

Finding 2013-013 ***(significant deficiency - repeat finding)***

INTERMODAL SURFACE TRANSPORTATION FUND - FINANCIAL REPORTING

The Intermodal Surface Transportation (IST) Fund, a special revenue fund, includes financial reporting for transportation related activities of the State, including highway construction programs, the expenditure of proceeds from the State's Grant Anticipation Revenue Vehicle (GARVEE) bonds and matching Motor Fuel bonds for specific highway construction related projects in addition to the funds received from the sale of excess land to the I-195 Redevelopment District Commission.

Controls over the Preparation of Financial Statements

Controls can be improved over the preparation of financial statements to ensure consistent and accurate reporting of fund activity in accordance with generally accepted accounting principles. Several account balances reflected in the fiscal 2013 draft financial statements required material adjustment due to weaknesses in controls over financial reporting as described below:

- Controls over the reporting of accounts payable, other liabilities and amounts due from the federal government can be improved to ensure all material amounts are included in the financial statements. RIDOT's process to accumulate accounts payable is manually intensive and therefore susceptible to omission, duplication or incorrect posting of payables.

- Controls over estimating and recording the pollution remediation liabilities at fiscal year-end can improve by documenting the estimation process and maintaining support for the resulting liabilities recorded.

- Journal entries were recorded within the IST Fund without review or approval by RIDOT financial managers. The RIFANS approval hierarchy requires RIDOT's supervisory approval of journals prior to posting; however, at least six material journal entries were posted without RIDOT approval. We also found that IST Fund journal entries could be posted by other departments without RIDOT's review and approval. Additionally, we found the dollar threshold triggering review and approval was too high in certain instances.

- The IST Fund financial statements include three separate funds (IST, GARVEE, and I-195 land sale revenue). The operating transfers between the three funds are eliminated for financial statement reporting purposes; however, this adjustment was not made and required audit adjustment.

- Controls over the reporting and accounting for the Mission 360 loan program can be improved by documenting the department policies, procedures and controls. In prior years, this loan program was administered by a consultant on behalf of the department but has been recently taken over by the Department. An audit adjustment was required to record the loan program in the financial statements.

- Multiple activities and funding streams are included within the IST Fund. Although combined for financial reporting purposes, each activity or funding stream requires separate analysis to ensure amounts are accurately reported. Classification of fund balance by category – nonspendable, restricted, committed, assigned, and unassigned - is dependent upon the analysis of each activity and/or funding stream. Our analysis discovered misclassification of various fund balance categories. RIDOT should improve its controls over the reporting of fund balance by analyzing activity and funding stream components periodically throughout the fiscal year.

RECOMMENDATIONS

2013-013a Strengthen control procedures over financial reporting to ensure accurate identification of accounts payable, amounts due from the federal government, and classification of fund balance categories.

2013-013b Improve controls over the Accounts Payable journal entry process by documenting the policies and procedures for estimating and recording the pollution remediation liability at year-end and maintaining documentation supporting the liability.

2013-013c Improve controls over financial reporting by updating the RIFANS hierarchy to include RIDOT in all journals posted to the IST Fund and lower the dollar threshold requiring journal entries to be reviewed and approved to an amount that could not materially misstate the financial statements. Ensure RIFANS is requiring review and approval of journal entries in accordance with established hierarchies.

2013-013d Improve controls over operating transfers by modifying the Oracle financial statement generator to net the operating transfers between the RIFANS funds reported in the IST fund for financial statement purposes.

2013-013e Improve controls over financial reporting by documenting the department's policies, procedures and controls over the Mission 360 loan program.

2013-013f Analyze each activity and/or funding source within the IST Fund to ensure activity is accurately recorded and to improve controls over the categorization and reporting of fund balance components. Perform the analysis periodically throughout the fiscal year.

Corrective action plan / auditee views:

2013-013a - Financial Management will continue to strengthen the control procedures over financial reporting to ensure accurate identification of accounts payable, amounts due from the federal government and classification of fund balance categories.

To better address this financial reporting finding, as well as the infrastructure accounting issues identified in findings 2013-14a through 2013-14f, the RIDOT Financial Management Unit filled a senior-level accounting position in January 2014 to assist in implementing these corrective actions.

Anticipated Completion Date: December 31, 2014

2013-013b - Financial Management will document the policies and procedures for estimating and recording the pollution remediation liability at year-end and maintaining documentation supporting the liability.

Anticipated Completion Date: December 31, 2014

2013-013c - RIDOT will work with the Controller's Office to determine whether the RIFANS hierarchy can be revised to include RIDOT in all journals posted to the IST Fund and lower the dollar threshold requiring journal entries to be reviewed and approved to an amount that could not materially misstate the financial statements.

Anticipated Completion Date: December 31, 2014

2013-013d - Financial Management will better coordinate efforts with the Controller's Office to ensure the appropriate accounting treatment for operating transfers between the RIFANS funds reported in the IST fund for financial statement purposes.

Anticipated Completion Date: December 31, 2014

2013-013e - Financial Management will document the policies, procedures, and controls governing financial reporting related to the Mission 360 program.

Anticipated Completion Date: June 30, 2014

2013-013f - Financial Management will analyze the components of fund balance more frequently during the fiscal year.

To better address this financial reporting finding, as well as the infrastructure accounting issues identified in findings 2013-014a through 2013-014f, the RIDOT Financial Management Unit filled a senior-level accounting position in January 2014 to assist in implementing these corrective actions.

Anticipated Completion Date: December 31, 2014

Contact Person: *Robert Farley, Chief Financial Officer*
Phone: 401.222.6590

Finding 2013-014 ***(material weakness - repeat finding)***

TRANSPORTATION INFRASTRUCTURE REPORTING

Transportation infrastructure is the most material capital asset category reported on the State's financial statements. Controls should be improved over the process used to accumulate reported transportation infrastructure amounts to ensure accurate reporting of such investments.

Process to Accumulate Infrastructure Outlays

The process performed by RIDOT to determine capitalized infrastructure outlays is manually intensive and requires reconciliation to the State's accounting system. Amounts reported as capitalized infrastructure are derived from project-level data contained in the RIDOT Financial Management System (FMS). The project information obtained from the FMS includes large amounts of data that must be sorted, subtotaled, categorized and reconciled. This significant volume of transactions and required data analysis increases the risk of error.

RIDOT's process to accumulate capital outlays utilizes actual construction expenditures but includes estimated amounts for design costs for some projects. Estimates are currently utilized, in certain instances, because RIDOT's system does not report design costs as part of project expenditures. Design expenditures, which are normally contracted separately from project construction, must be manually allocated or estimated. RIDOT should implement more effective systemic controls to accurately account for actual design costs relating to infrastructure projects.

We noted misstatements relating to the infrastructure balances initially reported for fiscal 2013. Certain completed projects totaling $16.8 million were still included in construction in progress and $2 million was excluded from construction in progress at June 30, 2013. Although corrected through audit adjustment, these misstatements indicate that controls should be improved to capitalize all infrastructure expenditures and more accurately identify when infrastructure assets are placed in service.

We also determined that RIDOT had not included internal payroll costs related to construction projects as infrastructure costs since fiscal year 2006. This required material adjustment to the infrastructure balance report for fiscal 2013; payroll cost for fiscal year 2013 totaling $17 million and a prior period adjust for associated payroll costs from fiscal 2006 through 2012 totaled $83 million.

Explore an Automated Approach to the Accumulation of Capitalized Infrastructure Outlays

The control deficiencies noted here are significantly interrelated to the issues detailed in Finding 2013-012 which describes the use of two incompatible accounting systems to prepare financial statements for the IST Fund. Due to the use of the two systems, accumulation of infrastructure outlays meeting the State's capitalization criteria is performed independent of either system. Data is drawn from both systems into massive spreadsheets which eventually yield the amounts needed for financial reporting purposes. The design of RIDOT's FMS envisioned that system providing capital asset (infrastructure) financial reporting information; however, the use of the two systems in the current configuration leads to the inefficient and error-prone spreadsheet approach.

The Department of Transportation and the Office of Accounts and Control should explore whether there may be a less cumbersome and more efficient means, ideally through an automated systems approach, to accumulate infrastructure investments for inclusion in the financial statements.

Asset Impairments

Generally accepted accounting principles for governmental entities require that capital assets be evaluated for impairment when events or changes in circumstances suggest that the service utility of a capital asset may have significantly and unexpectedly declined. These standards also require adjustment of the carrying value of capital assets that meet certain impairment criteria. RIDOT was unable to document its consideration of transportation infrastructure assets that may meet the impairment criteria and provide such documentation to the Office of Accounts and Control for the purpose of preparing the State's financial statements.

RECOMMENDATIONS

2013-014a Develop controls over the identification of project expenditures (to include construction costs, design costs, internal payroll, subtotaling of project expenditures, categorization of projects and reconciling between RIDOT FMS and RIFANS) to be recorded as infrastructure investment in the State's financial statements.

2013-014b Improve controls and the methodology for determining when infrastructure assets are placed in service.

2013-014c Explore ways that capitalized infrastructure outlays could be accumulated through an automated systems approach rather than the inefficient and error-prone spreadsheet approach currently used.

2013-014d Develop and document controls, policies and procedures to ensure inclusion of internal construction payroll costs in infrastructure investment in the State's financial statements.

2013-014e Evaluate and document the consideration of whether any of the State's transportation infrastructure has been impaired consistent with the criteria outlined in generally accepted accounting principles applicable to governmental entities.

Corrective action plan / auditee views:

2013-014a - Financial Management will continue to improve controls over the identification of project expenditures to be recorded as infrastructure investment in the State's financial statements.

Anticipated Completion Date: December 31, 2014

2013-014b - For FY 2013, Financial Management utilized the date of substantial completion identified on RIDOT's "Substantial Completion and Request for Partial Acceptance / Final Inspection" form as the basis of determining when infrastructure assets are placed into service. This methodology has been agreed upon by both RIDOT and the Auditor General's Office.

RIDOT recognizes that, from time to time, traffic can already be utilizing infrastructure assets prior to the date of substantial completion identified on RIDOT's "Substantial Completion and Request for Partial Acceptance / Final Inspection" form. However, the department believes that utilizing this form provides both consistency and documentation of the date that infrastructure assets are substantially complete, as opposed to a more manually-intensive, and potentially more *subjective, approach that would require tracking the date that the motoring public was first able to utilize the asset.*

2013-014c - The Department does not dispute the auditors' contention that a properly-aligned, automated systems approach would be a more efficient way to account for infrastructure assets. An internal RIDOT Asset Management Council meets regularly to continue implementing the department's comprehensive Asset Management initiative, including assessing information technology needs.

One of the Council's standing subcommittees is charged with evaluating infrastructure accounting issues, and will evaluate an automated systems approach.

Anticipated Completion Date: To be determined.

2013-014d - Financial Management will develop and document controls, policies and procedures to ensure inclusion of internal construction payroll costs in infrastructure investment in the State's financial statements.

Anticipated Completion Date: August 31, 2014

2013-014e - The RIDOT Financial Management Unit intended to establish, on or before June 30, 2013, an impairment policy that conforms with the criteria outlined in generally accepted accounting principles applicable to governmental entities; however, the RIDOT Financial Management Unit was only recently (i.e., January 2014) able to fill a senior-level accounting position to assist in implementing corrective actions.

Anticipated Completion Date: June 30, 2014

Contact Person: Robert Farley, Chief Financial Officer
Phone: 401.222.6590

Finding 2013-015 ***(significant deficiency - repeat finding)***

INTERMODAL SURFACE TRANSPORTATION (IST) – CONTROLS OVER KEY DATA FILES

Controls should be enhanced to ensure that data integrity is maintained over key data files used to process vendor payments and to draw federal funds for the IST Fund.

Progress Payment Data Files

Progress payment data moves from the Project Management Portal (PMP) to RIDOT's Financial Management System (FMS) and ultimately RIFANS (the State's accounting system) for vendor payments. Data elements are sometimes manually altered after being transmitted from the PMP but prior to posting to the FMS accounting system.

While the need to manually verify and modify data was explained, the lack of adequate compensating controls increases the risk of inaccurate payments and unauthorized changes. In addition, RIDOT has a policy prohibiting certain actions (e.g., approving and releasing holds of self-initiated progress payments); however, the system does not prevent such actions.

A review of the entire file transfer process, from progress payment file creation in PMP to invoice creation in FMS to vendor disbursement in RIFANS, should be performed to identify critical points where automated controls should be implemented to eliminate all manual involvement.

Intermodal Surface Transportation Fund – Federal Billing

There are instances where the Highway Planning and Construction draw down file is modified prior to submission to the Federal Management Information System (FMIS). RIDOTs FMS does not fully provide the level of data required to draw federal funds as required by the Federal Highway Administration which necessitates the file modifications. We observed the following weaknesses:

- The FMS does not have the capability to link multiple funding sources award numbers (FSAN) to one Federal Aid Project (FAP). The Federal Highway Administration links many FSANs to one FAP and requires RIDOT to draw down funds by the FSAN. Consequently, RIDOT after creating the drawdown file, manually splits draw requests between multiple FSANs.

- The file is in an open text format with no encryption. This open text format allows anyone who has access to the server directory to modify the file.

- There is no change management system in place tracking changes to the file, documenting who made the change, or requiring management approval of changes.

RIDOT should improve its controls and processes over the FMS and the drawdown file to ensure accuracy and completeness of data transmitted to the FMIS.

RECOMMENDATIONS

2013-015a Review the progress payment file transfer process to identify critical points where automated controls could be implemented to eliminate the need for manual intervention.

2013-015b Create and implement appropriate approval hierarchies. Automatically identify RIFANS/FMS payment discrepancies for review.

2013-015c Improve controls over the RIDOT federal billing process to include transferring files without modification.

2013-015d Modify the Financial Management System to allow for multiple funding source award numbers (FSAN) to be linked to one Federal Aid Project.

Corrective action plan / auditee views:

2013-015a - Discussions and analysis will continue regarding the potential implementation of automated controls in lieu of the manual intervention currently required in certain situations. Manual intervention can occur for a variety of reasons, and budgetary constraints are a limiting factor for the Department's ability to automate the process.

Since September 2011, as a compensating control, the Financial Management Office's Accounts Payable Unit has kept a log, including (a) "before and after" screen shots showing the change that was made; (b) sign-offs from both the processer and supervisor; and (c) a notation on the log indicating why the file needed to be changed.

Anticipated Completion Date: *To be determined*

Contact Person: *Loren Doyle, Administrator for Financial Management*
Phone: 401.222.6590

2013-015b - Approval Hierarchies will need to be reviewed during the FMS system upgrade to Oracle Release 12. Accounts Payable workflows will be implemented during the Release 12 upgrade. Also, existing reports have been modified to determine discrepancies in invoice payment amounts between FMS and RIFANS. Budgetary constraints have delayed the upgrade to Oracle Release 12, but RIDOT is hopeful that funding will be identified in the near future. It is currently estimated that the Oracle Release 12 upgrade will cost approximately $1.3 million.

Should the funding be found, the upgrade will consume considerable staff resources and time, and will need to be a top priority. As a result, there will be an impact on operations during the time period that the Oracle Release 12 upgrade is implemented.

Anticipated Completion Date: *December 31, 2015*

Contact Person: *Thomas Lewandowski, Agency IT Manager*
Phone: 401.222.6935

2013-015c - It is currently not possible to modify FMS to accommodate 'no changes" to the text file. Federal Highway is aware that manual file modification is necessary to change the program codes on occasion in order to bill the proper code. To be able to effect such a change to FMS would require a major modification to the program. This issue has been discussed at length with Tom Lewandowski of RIDOT's IT section and he has cautioned that this type of customization would likely void the support received from ORACLE.

Anticipated Completion Date: *To be determined*

Contact Person: *John Megrdichian*
Administrator for Financial Management
Phone: 401.222.2496

2013-015d - To be able to effect such a change to FMS would require a major modification to the program. We have discussed this at length with Tom Lewandowski of our IT section and he informs us that any such customization would void the support received from ORACLE.

Anticipated Completion Date: *To be determined*

Contact Person: *John Megrdichian*
Administrator for Financial Management
Phone: 401.222.2496

Finding 2013-016 ***(significant deficiency - repeat finding)***

EMPLOYMENT SECURITY FUND - PROGRAM CHANGE CONTROL PROCESS WITHIN THE DEPARTMENT OF LABOR AND TRAINING

Program change management controls are intended to mitigate known risks associated with making changes to large complex IT applications. The Department of Labor and Training (DLT) has a number of large automated applications operating on DLT's internal computer systems.

Program change management controls generally utilize a mix of automated and manual procedural controls. The application change management process established within DLT is a manual process that primarily utilizes e-mails, memoranda, and paper-based forms to document and control the program change process. There is no automated control system that can be queried to report pertinent information regarding changes made to the various applications. An automated system could improve controls over the change management process by providing:

- Change request initiation, documentation, authorization, and acceptance status;
- Tracking of change request status and authorizations;
- Approvals required for change package;
- Program check-in/check-out information;
- Release management information;
- Program documentation;
- Program change history;
- Audit trails/standard audit reports;
- Emergency change process; and
- Review and acceptance of test results.

DLT's lack of an automated system to control, track, and report on all application program changes made by the DLT programming staff is a control weakness in financial reporting for the Employment Security Fund.

RECOMMENDATION

2013-016 Implement an automated program change management process over DLT computer applications. Coordinate with DoIT to implement the approved and supported State Enterprise Change Management solution.

Corrective action plan / auditee views:

DLT's DoIT staff along with the DoIT Enterprise Staff realizes that improvements need to be made to the current software to improve functionality and usability. DLT's DoIT staff will have to develop knowledge and expertise of these products and have the necessary staff to implement and manage these programs. DOIT will work with DLT to identify the required funding to identify new tools and implement these tools to meet the requirements. This finding will be addressed with finding 2013-5a

Anticipated Completion Date: *June 30, 2015*

Contact Person: *Robert M. Genest*
Administrator, MIS
Phone: 401.462.8012

Finding 2013-017 ***(significant deficiency – new finding)***

EMPLOYEES' RETIREMENT SYSTEM - INVESTMENT ACCOUNTING

The Employees' Retirement System's (System's) investments are held by an independent custodian who also maintains all the accounting records related to those investments including the reporting of investment income and expenses. For financial reporting purposes, summarized information is recorded at the close of the fiscal year based on information provided by the custodian. Due to this arrangement, the System is reliant on the controls and accounting records maintained by the custodian.

Understanding and monitoring the activities of the investment custodian is a critical control area, particularly when the custodian's records are the only accounting records maintained. We found that the System can improve its understanding and oversight of the custodian's accounting policies, controls, and procedures to ensure investment transactions are reported on the System's financial statements consistent with its accounting policies.

The System transferred its investments to a new custodian effective November 1, 2012. We found that the new custodian (1) recorded certain transactions differently than the prior custodian and (2) certain other transactions required reclassification. The System accepted our proposed audit adjustments, which reclassified $3.1 million to the financial statement line item "investment expense" from "net appreciation in fair value of investments". While these situations are partly attributable to transitioning to a new investment custodian, we believe the System should enhance its monitoring controls over the custodian's accounting and reporting of transactions to allow timely identification and correction of variances or errors.

There is a substantial volume of information provided on the System's investments by each of the various investment managers engaged by the State Investment Commission as well as the System's investment custodian. We observed that the review and reconciliation of such information to the custodian's records could be improved with the goal, among others, of providing enhanced documentation for financial reporting purposes.

Additionally, investment staff overseeing the System's investment portfolio is organizationally separate from the Retirement Division and consequently independent from the accounting and financial reporting processes of the Division. This contributes to a split responsibility for (1) information included within the System's financial statements and (2) the design and operation of key controls over financial reporting.

These organizational areas should be better integrated to enhance controls over financial reporting with regard to investments and related disclosures. This includes ensuring that those individuals responsible for preparing the System's financial statements in accordance with generally accepted accounting principles include important investment activities within that scope of work.

RECOMMENDATIONS

2013-017a Enhance the understanding and monitoring of the accounting and reporting activities performed by the System's investment custodian.

2013-017b Enhance controls over financial reporting by better integrating responsibility for the investment cycle with all other System activities.

Corrective action plan / auditee views:

During Fiscal 2013 Treasury converted to a new custodian on November 1, 2012, saving the system more than $300,000 annually. We had maintained a relationship with our prior custodian for 25 years, and mechanical and accounting processes had been worked out and refined over time.

Our custodian provides the accounting function for our investments. To supplement the custodian, staff has a thorough process to review activity on a monthly basis. Further, in the case of private equity and real estate transactions, we reconcile transactions with the custodian *bank (Bank of New York Mellon) and the consultants (Cliffwater for private equity and Pension Consulting Alliance for real estate) in a three-way reconciliation.*

During the set-up process with Bank of New York Mellon (BNY), we reviewed the methods of recording and valuation of our investment partnerships. There are three widely accepted methods for accounting: cost method, equity method, and hybrid method. With the previous custodian, we had used a hybrid method. At inception with BNY, we elected to use the cost method. This method is used by 65% of BNY's clients because it allows BNY to reconcile with the consultant and partnerships in the most efficient way. The cost method is the accounting method used by both the partnerships and consultant; it is fully GAAP compliant.

At no time was the bottom-line valuation of the partnerships different from that of the hybrid method, meaning that the pension fund's balance and performance were always properly recorded. There was no change to the bottom line. As is the case with the cost method, those expenses are realized as a component of the realized and unrealized losses of the partnership (It is considered a loss because at the time of payment these transactions are recorded as purchases and later reclassified).

Based on the concerns of the Auditor General, we have switched to the hybrid method, an accounting treatment used by only 4% of BNY clients. Under the hybrid method, the custodian will post management fees and partnership expenses in the "fees and expenses" category on a quarterly basis when they reconcile valuations. Remaining valuation adjustments, including indirect fees, will be posted to unrealized gains and losses. For the January 2014 statements, the first quarter of fy14 will be reconciled and expensed accordingly. Due to timing of quarterly reconciliations, the fees for fiscal fourth quarter will be accrued and subsequently reversed.

Staff continues to enhance its understanding and monitoring of the accounting and reporting activities of the System's investment custodian. We also continue to work closely with the Retirement accounting department and its additional staff to ensure the most accurate representation and categorization on the financial statements.

Anticipated Completion Date: *Ongoing*

Contact Persons: *Anne-Marie Fink, CIO*
Zachary Saul, Director of Finance
Phone: 401.462.7650

Finding 2013-018 ***(material weakness – new finding)***

CENTRAL FALLS SCHOOL DISTRICT – SEGREGATION OF DUTIES

The School District's current internal control procedures over financial reporting has resulted in the lack of segregation of duties in certain areas, which is a weakness in internal controls.

The Staff Accountant has the responsibility for maintaining the general ledger for all funds, including reconciling all cash accounts, the authorization and posting of bi-weekly payroll, recording all cash receipts, preparing and posting journal entries and preparing all the trial balances for the year-end audit. The Staff Accountant also assumed additional authorization and approval responsibilities at times during the fiscal year when the Finance Director's position was vacant. The internal control system does not include formal procedures that require the Finance Director's review and approval of journal entries, reconciliations and financial reports.

The Staff Accountant's responsibilities should not include the initiating, authorization and recording of transactions. The current responsibilities of the Staff Accountant and the lack of a formal policy requiring approval of all reconciliations, journal entries and the review of all financial reports results in a lack of segregation of duties and as a result a weakness in internal control.

RECOMMENDATION

2013-018 We recommend that the School District review the current job responsibilities of the Staff Accountant and reassign those responsibilities that result in a lack of segregation of duties. We also recommend that the School District implement formal procedures that require the Finance Director to approve all journal entries and review on a periodic basis all reconciliations and financial reports

Corrective action plan / auditee views:

The District has begun the process of reviewing the duties of all finance staff inclusive of the Finance Director. Once completed, duties will be reassigned amongst staff members as necessary to better segregate duties. Additionally, staffing changes may occur based on internal control requirements and District needs. An internal control policy will be drafted to include the following duties of the Finance Director: The Finance Director will have final approval on all journal entries, approve all reconciliations performed by staff members, and review and approve financial reports on a monthly basis.

Anticipated Completion Date: *June 2014*

Contact Person: *Brad Peryea, Central Falls School District*
Phone: 401.727.7700 x25112

Finding 2013-019	***(material weakness - repeat finding)***

CENTRAL FALLS SCHOOL DISTRICT – CAPITAL ASSETS

The School District does not have formal policies and procedures and an accounting system in place to properly maintain and account for their capital assets on a perpetual basis. Although a list of capital assets and depreciation expense were prepared as of June 30, 2013, the list was prepared after year-end. The School District does not have procedures in place to maintain the list of capital assets on a perpetual basis or to provide for the periodic physical inventory of the capital assets.

RECOMMENDATION

2013-019 We strongly recommend that the School District implement policies and procedures and utilize the Unifund capital asset accounting system to account for the addition and deletion of capital assets and related depreciation expense, throughout the year. We also recommend that the School District perform an inventory of the capital assets and compare it to the list of capital assets at least annually. This will ensure proper recording and safeguarding of capital assets.

Corrective action plan / auditee views:

The District has engaged a third party to inventory all capital assets. This inventory was completed after the close of fiscal year 2013. As soon as the final report is received, information *will be entered into Unifund. All District assets will then be reviewed regularly to account for asset additions and deletions, along with the recording of all necessary depreciation expenses.*

Anticipated Completion Date: *June 2014*

Contact Person: *Brad Peryea, Central Falls School District*
Phone: 401.727.7700 x25112

Finding 2013-020 *(material noncompliance - repeat finding)*

CONVENTION CENTER AUTHORITY – MATERIAL NONCOMPLIANCE - FUNDING OF THE OPERATING RESERVE AND RENEWAL AND REPLACEMENT COMPONENTS OF ITS RESTRICTIVE COVENANTS

During the fiscal year ended June 30, 2013, the Convention Center Authority was unable to fund the Operating Reserve and Renewal and Replacement components of its restrictive covenants pursuant to the bond indentures.

Corrective action plan / auditee views:

The Authority will fund the Operating Reserve and Renewal Replacement components noted above provided there is sufficient cash flow.

Anticipated Completion Date: *Ongoing*

Contact Person: *James McCarvill, Executive Director*
Rhode Island Convention Center Authority
Phone: 401.351.4295

Finding 2013-021 *(material weakness - new finding)*

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – IMPLEMENTATION OF OPEN ROAD TOLLING AND NEW BACK OFFICE SYSTEM

During June 2012, the Authority placed into service open road tolling (ORT) lanes. Transactions related to ORT activities (for example, tolls and violations) were captured and reported by an in-house system developed by a third-party service provider. The Authority contracted with an additional third party to bill and collect violation tolls and fees. In July 2012, the contract with the billing contractor was terminated. In connection with that action, in August 2012, the Authority contracted with a new third-party billing service provider to process invoices for violations using information obtained from the newly developed in-house system. However, invoices for violations were not processed by the billing service provider until October 2012 due to the in-house system's inability to communicate to, or receive from, the billing service provider information related to the violation billings. Consequently, financial transactions related to ORT violation transactions were not recorded in the Authority's accounting records as they occurred, violators were not billed timely, and controls could not be implemented to determine whether transactions were accurately and completely recorded.

The Authority used a third party to capture and report all E-ZPass transactions, including ORT E-ZPass transactions, through mid-June 2013, at which time the Authority terminated its contract with the third party. The reports generated by the service provider were used to report financial transactions in the

Authority's books and records and to facilitate the settlement of receivables from and payables to other states related to E-ZPass transactions. As part of its contract with the in-house developer, the Authority contracted with the in-house developer to develop an in-house back office system (the Back Office System) to capture and report all E-ZPass transactions, including ORT violations, and to facilitate the (i) recording of transactions in the Authority's accounting records; (ii) settlement of receivables from other states for E-ZPass transactions; and (iii) billing of violations related to ORT transactions. The Back Office System was not adequately tested in an IT test environment by users prior to its implementation, and the system did not appropriately report transactions captured during the period from implementation through year-end until mid-July 2013. Consequently, financial transactions were not reported in the Authority's accounting records timely and controls could not be implemented to determine whether transactions were accurately and completely recorded.

RECOMMENDATION

2013-021 Although we were able to use information generated subsequent to year-end during the audit process, we recommend that the Authority design and implement policies and procedures that would (i) require new systems to be adequately tested in an IT test environment by users prior to their implementation to ensure that the system is operating effectively; (ii) determine whether transactions are captured and reported accurately and completely to enable the Authority to record transactions timely and accurately as part of its normal month-end financial closing process prior to system implementation; and (iii) to identify and correct on a timely basis system features that are subsequently noted as not operating effectively or as intended.

Corrective action plan / auditee views:

Based on discussions, the Authority agrees with the recommendation and has implemented the process.

Anticipated Completion Date: *Completed*

Contact Person: *Buddy Croft, Executive Director*
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2013-022 ***(significant deficiency - new finding)***

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – RECORDING OF CAPITAL ASSETS AND CONSTRUCTION IN PROGRESS

The Authority records capital additions as construction in progress. However, the Authority does not reclassify amounts previously recorded as construction in progress to the appropriate capital asset category (for example, bridges), or commence the recording of depreciation expense, in the month during which the capital asset was placed in service for assets which are not part of a lengthy completion process. Consequently, significant journal entries are required to be recorded at year-end to reclassify amounts that were incorrectly categorized as construction in progress and to record depreciation expense.

RECOMMENDATION

2013-022 We recommend that the Authority reclassify amounts initially recorded as construction in progress to the appropriate capital asset category in the month in which the capital asset is placed in service, and record depreciation expense commencing in the month the capital asset is placed in service.

Corrective action plan / auditee views:

Based on discussions, the Authority agrees with the recommendation and has implemented the process.

Anticipated Completion Date: *Completed*

Contact Person: *Buddy Croft, Executive Director*
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2013-023 ***(significant deficiency - repeat finding)***

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – ACCOUNTS PAYABLE AND YEAR-END CUTOFF PROCEDURES

During our audit, we noted that certain capital assets and associated liabilities at year-end related to the construction of certain equipment were not recorded.

RECOMMENDATION

2013-023 We recommend that the Authority review work performed and liabilities incurred related to construction activities to identify liabilities related to goods and/or services received on or prior to year-end in order to record such transactions in the period to which they relate.

Corrective action plan / auditee views:

Based on discussions, the Authority agrees with the recommendation and has implemented the process.

Anticipated Completion Date: *Completed*

Contact Person: *Buddy Croft, Executive Director*
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2013-024 *(significant deficiency - repeat finding)*

RHODE ISLAND TURNPIKE AND BRIDGE AUTHORITY – RECORDING OF NONRECURRING TRANSACTIONS

During our audit, we noted that the Authority recorded as revenue the reduction in the estimated legal settlement liability previously recorded, rather than recording the amount as reduction of settlement expense.

RECOMMENDATION

2013-024 As previously communicated in the prior year, we again recommend that upon the occurrence of a nonrecurring transaction the Authority identify, research, and evaluate applicable accounting guidance based on the nature of the nonrecurring transaction in order to select and apply the appropriate accounting principle to ensure that the transaction is recorded in the general ledger in accordance with U.S. GAAP.

Corrective action plan / auditee views:

Based on discussions, the Authority agrees with the recommendation and has implemented the process.

Anticipated Completion Date: *Completed*

Contact Person: *Buddy Croft, Executive Director*
Rhode Island Turnpike and Bridge Authority
Phone: 401.423.0800

Finding 2013-025 *(material weakness - new finding)*

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION – RECORDING OF FINANCIAL TRANSACTIONS

Certain transactions were not recorded in the Corporation's books and records in the period in which the underlying transaction occurred or consistent with the financial elements of the underlying transactions. As a result, significant audit adjustments were required to record such transactions, adjust previously recorded amounts, or reclassify the manner in which previously recorded amounts were presented.

RECOMMENDATION

2013-025 We recommend that management design and implement a process which (i) incorporates the review of the various existing contracts, grants and agreements, including amendments thereto, for which the Corporation currently is a party, and that incorporates the timely review of such agreements entered into in the future in order to identify and record transactions in the period during which they occur based on the economic substance of the transaction; (ii) includes a review of transactions occurring shortly after each reporting period to determine whether all transactions were recorded in the proper period and to adjust previously recorded transactions based on the most recent information available; and (iii) if information required to record certain transactions is required from the State Controller's office, to initiate communication with the State Controller's office when known transactions are expected to occur to obtain information required to record such transactions in the period during which they occur.

We also recommend that a person independent of the person responsible for identifying and recording such transactions review available financial information and approve recorded transactions to determine whether all transactions were properly recorded during the period to which they relate based on the substance of the underlying transaction.

Corrective action plan / auditee views:

During the audit period of July 1, 2012 through June 30, 2013, the Corporation experienced changes in personnel, including organizational restructuring and changes in management, contributing toward the audit adjustments noted in the audit's schedule of findings. Referenced findings generally included non-recurring transactions. As recommended, management has already begun implementing procedures to (1) incorporate the timely review of existing and future contracts, grants and agreements to ensure that transactions are identified and recorded accurately and within the proper reporting period; (2) review transactions occurring shortly after each reporting period to determine whether all transactions were recorded in the proper period and make the necessary adjustments to previously recorded transactions shortly after each reporting period based on the most recent information available; and (3) initiate communication with the State Controller's office when known transactions are expected to occur to obtain information required to record such transactions in the period during which they occur. In addition, management has designated an independent individual to review available financial information and approve recorded transactions to ensure that all transactions are properly recorded during the appropriate period based on the substance of the underlying transaction.

Anticipated Completion Date: *December 2013*

Contact Person: *Adam N. Quinlan, Chief Financial Officer*
RI Commerce Corporation (formerly RIEDC)
Phone: 401.278.9100

Finding 2013-026 ***(material weakness – new finding)***

RHODE ISLAND ECONOMIC DEVELOPMENT CORPORATION – RENEWAL ENERGY FUND – LOAN FILES AND COMPLIANCE

Certain Renewable Energy Fund (REF) loans require borrowers to comply with certain terms and provisions, including, among others, financial reporting requirements and the requirement to commence loan repayment upon the achievement of certain financial targets. During our audit, we noted that the Corporation had not fully implemented periodic loan monitoring processes as of year-end to monitor the terms and conditions with which a borrower must comply, including provisions which would require the borrower to make loan repayments upon the achievement of certain financial targets. It is our understanding that the Corporation began implementing loan monitoring processes near year-end in response to a similar finding contained within the Bureau of Audits' final report, dated July 8, 2013, of its audit of the REF (the Bureau's Report).

Also, although no REF loans were originated during the year ended June 30, 2013, we reviewed the loan file for selected loans recorded as loans receivable at year-end. During our review of the selected loan files, consistent with management's prior knowledge based on similar findings contained within the Bureau's Report, we noted that the selected loan files did not contain sufficient supporting documentation evidencing decisions related to loan origination and were not maintained using a consistent file structure.

RECOMMENDATION

2013-026 We recommend that management complete the implementation of its monitoring processes which would incorporate the review of all loans to determine the terms and provisions with which each borrower must comply and to monitor the borrowers' compliance with such terms and provisions. Also, we recommend that management implement a formal loan origination and maintenance file structure, similar to that currently used within the Small Business Loan Fund, to facilitate the documentation of all loan decisions.

Corrective action plan / auditee views:

As recommended, management is completing the implementation of its monitoring processes which will incorporate the review of all loans to determine the terms and provisions with which each borrower must comply and will monitor the borrowers' compliance with such terms and provisions. In addition, management will finish implementing a formal loan origination and maintenance file structure to facilitate the documentation of all loan decisions.

Anticipated Completion Date: *December 2013*

Contact Person: *Adam N. Quinlan, Chief Financial Officer*
RI Commerce Corporation (formerly RIEDC)
Phone: 401.278.9100

Finding 2013-027 ***(material weakness – new finding)***

I-195 REDEVELOPMENT DISTRICT COMMISSION – RECORDING OF FINANCIAL TRANSACTIONS

Certain transactions were not recorded in the Commission's books and records in the period in which the underlying transaction occurred, consistent with the financial elements of the underlying transactions, or on the accrual basis of accounting. As a result, significant audit adjustments were required to record such transactions and adjust previously recorded amounts.

RECOMMENDATION

2013-027 We recommend that management design and implement a process which (i) incorporates the review of the various existing contracts and agreements to which the Commission is a party, and incorporates the timely review of such agreements entered into in the future in order to identify and record transactions in the period during which they occur based on the economic substance of the transaction; (ii) includes a review of the transactions occurring shortly after each reporting period to determine whether all transactions were recorded in the proper period and to adjust previously recorded transactions based on the most recent information available; and (iii) if information required to record certain transactions is required from the State Controller's office, to initiate communication with the State Controller's office when known transactions are expected to occur to obtain information required to record such transactions in the period during which they occur.

We also recommend that a person independent of the person responsible for identifying and recording such transactions review available financial information and approve recorded transactions to determine whether all transactions were properly recorded during the period to which they relate based on the substance of the underlying transaction.

Corrective action plan / auditee views:

The referenced findings generally include non-recurring transactions (e.g., reconciling inter-agency balances with State Controller's office related to closing of bond transactions associated with the land transfer) and were subsequently recorded based on information provided by the State Controller's office.

Management has already begun implementing procedures to (1) incorporate the timely review of existing and future contracts, grants and agreements to ensure that transactions are identified and recorded accurately and within the proper reporting period; (2) review transactions occurring shortly after each reporting period to determine whether all transactions were recorded in the proper period and make the necessary adjustments to previously recorded transactions shortly after each reporting period based on the most recent information available; and (3) initiate communication with the State Controller's office when known transactions are expected to occur to obtain information required to record such transactions in the period during which they occur. Additionally, management has designated an independent individual to review available financial information and approve recorded transactions to ensure that all transactions are properly recorded during the appropriate period based on the substance of the underlying transaction.

Contact Person: *Jan Brodie, Executive Director*
I-195 Redevelopment District Commission
Phone: 401.278.9100 Ext. 148

Finding 2013-028	***(significant deficiency - repeat finding)***

RHODE ISLAND HIGHER EDUCATION ASSISTANCE AUTHORITY – CONTROLS OVER FINANCIAL REPORTING

During the fiscal year ended June 30, 2013, we tested a sample of 40 cash disbursements to determine if the Authority's internal controls were being implemented. The results of our testing identified 4 invoices that didn't have the proper approval according to the internal controls documented by management. Due to the significant amount of exceptions noted during this test, we recommend that the Authority evaluate the current internal controls over this function and modify them to match the controls that are in place or implement a review process that ensures that the controls have been implemented and documented appropriately.

During the audit process, we requested a reconciliation to support the cash account held with the State Treasurer. When we obtained the bank reconciliation from the State and there was a significant variance between the balance they reconciled and what was reported on the Authority's books. We inquired with management as to their records of how the balance was reconciled as of June 30, 2013 and no reconciliation was provided. Due to the significant variance between the Authority and the State, we recommend that the Authority evaluate the current internal controls over this function and implement a more effective control to ensure all transactions recorded on the State level have been properly recorded on the Authority's books.

RECOMMENDATIONS

2013-028a Evaluate the current internal controls over cash disbursements and modify them to match controls that are in place or implement a review process that ensures that the controls have been implemented and documented appropriately.

2013-028b Evaluate the current internal controls over the Authority's cash reconciliation process and implement a more effective control to ensure all cash transactions recorded on the State level have been properly recorded on the Authority's books.

Corrective action plan / auditee views:

Management noted that there were compensating controls in place to ensure that these disbursements were not erroneous expenses and that the disbursements were related to general and proper operating expenses of the Authority. Management will ensure that the controls identified by the Authority are being followed going forward.

Anticipated Completion Date: November 2013

Management agreed that the balance of this account held with the State Treasurer was not reconciled on a monthly basis to the balance on the Authority's books to ensure that all the Authority's activity had been properly recorded during the year. Going forward, management has decided to obtain information from the State Controller and State Treasurer on a monthly basis to help facilitate the reconciliation process on the Authority's books.

Anticipated Completion Date: January 2014

Contact Person: Marc M. Lacroix, Chief Financial Officer
Rhode Island Higher Education Assistance Authority
Phone: 401.736.1139

Table of Findings by Federal Program

Program Title	CFDA	Applicable Findings
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
Supplemental Nutrition Assistance Program (SNAP)	10.551	None
State Administrative Matching Grants for the SNAP Program	10.561	2013-035, 2013-036
Child Nutrition Cluster:		
School Breakfast Program	10.553	2013-030, 2013-031, 2013-032, 2013-033, 2013-034
National School Lunch Program	10.555	2013-030, 2013-031, 2013-032, 2013-033, 2013-034
Special Milk Program for Children	10.556	2013-030
Summer Food Service Program for Children	10.559	2013-030
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2013-029
Mortgage Insurance – Homes	14.117	None
Section 8 Project-Based Cluster:		
Section 8 Housing Assistance Payments Program – Special Allocations	14.195	None
Lower Income Housing Assistance Program - Section 8 Moderate Rehabilitation	14.856	None
Section 8 Housing Choice Vouchers	14.871	None
Unemployment Insurance	17.225	2013-037, 2013-038
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	2013-029, 2013-039, 2013-040, 2013-041, 2013-042, 2013-043, 2013-044
Federal Transit Cluster:		
Federal Transit – Capital Investment Grants	20.500	2013-029, 2013-045, 2013-046, 2013-047, 2013-048, 2013-049
Federal Transit – Formula Grants	20.507	2013-029, 2013-045, 2013-046, 2013-047, 2013-048, 2013-049
Student Financial Assistance Cluster:		
Federal Supplemental Educational Opportunity Grants	84.007	None
Federal Work-Study Program	84.033	None
Federal Perkins Loan Program – Federal Capital Contributions	84.038	2013-051
Federal Pell Grant Program	84.063	None
Federal Direct Student Loans	84.268	2013-051, 2013-052, 2013-053
Teacher Education Assistance for College and Higher Education Grants (TEACH Grants)	84.379	None
Health Professions Student Loans, Including Primary Care Loans/Loans for Disadvantaged Students	93.342	None
Nursing Student Loans	93.364	None
Title I, Part A Cluster:		
Title I Grants to Local Educational Agencies	84.010	None

Table of Findings by Federal Program (continued)

Program Title	CFDA	Applicable Findings
Special Education Cluster:		
Special Education – Grants to States	84.027	2013-050
ARRA - Special Education – Grants to States	84.391	None
Special Education – Preschool Grants	84.173	None
Federal Family Education Loans (Guaranty Agency)	84.032	None
ARRA - State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants	84.395	2013-054
Immunization Grants	93.268	2013-055
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	2013-029, 2013-056, 2013-057
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	2013-036, 2013-058, 2013-059, 2013-060, 2013-061
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families - State Programs	93.714	2013-036, 2013-058, 2013-059, 2013-060, 2013-061
Low-Income Home Energy Assistance	93.568	2013-062
CCDF Cluster:		
Child Care and Development Block Grant	93.575	2013-036, 2013-058, 2013-063, 2013-064
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	2013-036, 2013-058, 2013-063, 2013-064
Social Services Block Grant	93.667	2013-029, 2013-036, 2013-061
Children's Health Insurance Program	93.767	2013-029, 2013-060, 2013-065, 2013-066
Medicaid Cluster:		
State Medicaid Fraud Control Units	93.775	None
State Survey and Certification of Health Care Providers and Suppliers (Title XVIII) Medicare	93.777	None
Medical Assistance Program	93.778	2013-029, 2013-036, 2013-060, 2013-066, 2013-067, 2013-068, 2013-069, 2013-070, 2013-071, 2013-072, 2013-073, 2013-074, 2013-075, 2013-076, 2013-077, 2013-078
Research and Development Cluster	various	None

Finding 2013-029 *(Significant deficiency - repeat finding)*

VARIOUS PROGRAMS – refer to TABLE OF FINDINGS BY FEDERAL PROGRAM

FEDERAL FUNDING ACCOUNTABILITY AND TRANSPARENCY ACT – REPORTING REQUIREMENTS

The Federal Funding Accountability and Transparency Act (FFATA) requires prime recipients of federal awards made on or after October 1, 2010, to accumulate and report subaward and executive compensation data regarding their first-tier subawards that exceed $25,000. The prime recipient is required to report subaward information through the Federal Funding Accountability and Transparency Subaward Reporting System (FSRS) by the end of the month following the month in which the subaward is granted (date contract or subaward was finalized). Prime recipients also must report all required elements established in the *Office of Management and Budget's Open Government Directive – Federal Spending Transparency and Subaward and Compensation Date Reporting* issued August 27, 2010.

The State did not administer compliance with FFATA through a state-wide centralized process. Instead, compliance with FFATA reporting requirements was required by the State agency responsible for the administration of each federal program. We evaluated compliance for the thirteen (13) major programs (administered by the primary government) where FFATA reporting requirements were applicable. Major programs reviewed for material compliance were categorized as follows at June 30, 2013:

1) Six (6) programs attempted a "good faith effort" to comply by seeking guidance from the federal grantor and/or by successfully reporting subaward data during fiscal 2013; and

2) Seven (7) programs, Special Supplemental Nutrition Program for Women, Infants and Children, Highway Planning and Construction, Federal Transit Cluster, Social Services Block Grant, Medical Assistance, Children's Health Insurance Program, and State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges were found not to have made a reasonable effort to comply with FFATA during fiscal 2013.

Further progress is needed to ensure full compliance in fiscal 2014. The State can best comply with FFATA reporting requirements by ensuring that all agencies administering applicable federal programs maintain the following documentation:

- An inventory of all federal programs where transparency reporting is applicable, identifying the agency or department responsible for compliance;

- A listing identifying all contracts and subawards meeting FFATA's requirements for reporting;

- Identification of the specific data elements required to be reported to the FSRS, including whether reporting of awardee executive compensation is applicable; and

- Communications with the federal grantor clarifying the applicability of FFATA reporting requirements specific to their program.

We were informed that the State is planning a FFATA training opportunity for all federal program administrators to ensure compliance with the FFATA reporting requirements.

Questioned Costs: None

RECOMMENDATIONS

2013-029a Standardize agency documentation requirements for compliance with FFATA reporting.

2013-029b Ensure that FFATA-applicable subawards are reported to FSRS in a complete and timely manner.

Corrective Action Plan / auditee views:

2013-029a - The Grants Management Office in the Office of Management and Budget will work with state agencies to standardize the documentation requirements for compliance reporting and, where possible, will implement procedures to streamline the collection of the required data.

2013-029b - The Grants Management Office in the Office of Management and Budget will continue to provide training and technical assistance to state agency staff to ensure that they are prepared to comply with the FFATA reporting requirements. The Grants Management Office has invited the Federal Office of Management and Budget to present at a statewide FFATA training on June 9, 2014. Over 100 people have signed up for this training.

It should be noted that State agencies' ability to comply with the timeliness requirement is directly impacted by delays in the federal awards being added to the FSRS system by federal agencies. The reporting process is such that the federal agency must submit the award information prior to state agencies submitting sub-award information. Frequently, awards are not in the system when state agencies attempt to report sub-awards. Furthermore, awards are not date stamped when added to FSRS by federal agencies. The result is the inability to document timeliness of reporting of sub-awards in those cases where the delay was at the federal level.

A coalition of state grant offices is working with the Federal Office of Management and Budget to address the underlying system issues. The Grants Management Office will work with state agencies to ensure that they adequately document their efforts to report on a timely basis including efforts to reach out to the federal funding agency when awards are not in the FSRS system.

Anticipated Completion Date: *October 1, 2014*

Contact person: *Laurie Petrone, Director, Grants Management*
Office of Management and Budget
Phone: 401.574.8723

Finding 2013-030 ***(significant deficiency -new finding)***

CHILD NUTRITION CLUSTER:
School Breakfast Program - CFDA 10.553
National School Lunch Program - CFDA 10.555
Special Milk Program for Children - CFDA 10.556
Summer Food Service Program For Children – CFDA 10.559
Federal Award Agency: US Department of Agriculture
Award Year: 2013
Federal Award Number: N/A
Administered by: RI Department of Corrections (DOC)

ACCOUNTABILITY FOR USDA-DONATED FOODS

DOC needs to improve the computer system it uses to account for USDA-Donated Foods to ensure that it complies with federal regulations governing the receipt, distribution and inventory of these commodities.

Federal regulation 7 CFR section 250.14(e) requires DOC to take a physical inventory of its storage facility and reconcile the results with its inventory records. We found that DOC performed a physical inventory at June 30, 2013, but it was unable to produce documentation that it reconciled the results with its inventory records. DOC advised us that this was because its computer system could not generate the necessary information.

DOC implemented a new computer system to account for donated foods in November 2012. We attempted to review a sample of significant donated foods on hand as of the June 30, 2013 inventory date and, using these records, "roll forward" the reported balances at that date to the balances existing at the time of our visits (in March 2014). The computer system could not generate the information necessary to achieve our intended objective (such as the values associated with the donated commodities).

Federal regulation 7 CFR section 250.16 requires DOC to maintain accurate and complete records with respect to the receipt, distribution/use and inventory of donated foods. The computer system it now uses does not facilitate compliance with this regulation.

Questioned Costs: None

RECOMMENDATION

2013-030 Make necessary modifications to the computer system used to account for USDA-Donated Foods to ensure compliance with federal regulations.

Corrective Action Plan / auditee views:

In November 2012, we changed our inventory system over from a manual, paper system to one that is computerized. As is often the case in such conversions, we have experienced a few glitches that need to be fixed. One of them has resulted in difficulty producing the proper reports for USDA reporting purposes. Our Management Information Systems staff are working on these issues and may also need to seek assistance from the company that installed the computer program. Once those problems are remedied, we do not anticipate further reporting difficulties. We expect to have all aspects of the system fully operation by the Auditor Generals' return on June 30th, which will make possible and accounting for the USDA Donated Foods in order to demonstrate compliance with federal regulations.

Anticipated Completion Date: *June 30, 2014*

Contact Person: *Joanne Hill, Chief Financial Officer*
Phone: 401.462.2617

Finding 2013-031 ***(significant deficiency - repeat finding)***

CHILD NUTRITION CLUSTER:
School Breakfast Program – CFDA 10.553
National School Lunch Program- CFDA 10.555
Federal Award Agency: U.S. Department of Agriculture
Administered by: Central Falls School District

ELIGIBILITY

For a child to be eligible for free or reduced benefits the child must be directly certified or the household must submit a complete application and be determined to be either categorically eligible or income eligible. The certifying school official must verify the application is complete, determine eligibility and approve the application.

During our testing of compliance of the eligibility requirements, we noted nine out of forty applicants selected did not have the required application on file. In addition, of the applications selected and on file, three were incomplete. For example the applications were missing the social security number or income source information. It was also determined that the School District is responsible for the applications and eligibility determination for the two private/charter schools in the District that are included in the count of free and reduced price meals. The School District did not obtain the required applications and determine eligibility for these two schools.

Questioned Costs: None

RECOMMENDATION

2013-031 We recommend that more care be taken to ensure all applications are completed and completed properly as required by U.S.D.A. guidelines. We also recommend that all supporting documentation be maintained on file to support the determination of eligibility.

Corrective Action Plan / auditee views:

The District completely restructured how it handles the collection of school lunch applications. It is now a centralized process that is handled directly by Aramark. Instead of each individual school handling their own applications, all applications go to a centralized location for processing and safekeeping. This new process will eliminate the necessity of individual schools to keep other schools apprised of applications that cover multiple students. It also is easier to keep track of unapproved applications and pull applications when necessary from a centralized location. This change has already been executed for fiscal year 2014.

Anticipated Completion Date: *Completed September 2013*

Contact Person: *Brad Peryea, Staff Accountant*
Phone: 401.727.7700

Finding 2013-032 ***(significant deficiency - repeat finding)***

CHILD NUTRITION CLUSTER:
School Breakfast Program – CFDA 10.553
National School Lunch Program- CFDA 10.555
Federal Award Agency: U.S. Department of Agriculture
Administered by: Central Falls School District

VERIFICATION OF FREE AND REDUCED PRICE APPLICATIONS

By November 15th of each school year, the School District must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals, unless the School District is otherwise exempt from the verification requirement. The School District must follow-up on children whose eligibility status has changed as a result of the verification process and put them in the correct category.

The School District has eight schools participating in the National School Lunch and Breakfast Program and only seven of the schools performed the required verifications. The verifications that were performed, however, were all completed after the November 15th deadline. We also noted several discrepancies in the verification documentation and procedures, including the calculation of incorrect sample sizes and missing documentation. We also determined that the verification process resulted in the changes in eligibility states, which were not changed in the system or were changed to the incorrect status.

Questioned Costs: None

RECOMMENDATION

2013-032 We recommend that the School District ensure that all personnel responsible for the food service program are aware of the federal compliance requirements.

Corrective Action Plan/auditee views:

The District completely restructured how it handles the processing of school lunch verifications. It is now a centralized process that is handled directly by Aramark. Instead of each individual school handling their own verifications, all verifications are completed by Aramark. Much like the changes that were made to school lunch application processing, the verification processing will be much more efficient from a centralized location. This change has already been executed for fiscal year 2014.

Anticipated Completion Date: *Completed September 2013*

Contact Person: *Brad Peryea, Staff Accountant*
Phone: 401.727.7700

Finding 2013-033 *(significant deficiency -new finding)*

CHILD NUTRITION CLUSTER:
School Breakfast Program – CFDA 10.553
National School Lunch Program- CFDA 10.555
Federal Award Agency: U.S. Department of Agriculture
Administered by: Central Falls School District

EQUIPMENT AND REAL PROPERTY

Office of Management and Budget (OMB) Circular A-102 states that a subrecipient of a state-administered grant shall use, manage and dispose of equipment acquired under a federal grant in accordance with state laws and procedures.

The Central Falls School District does not have formal policies and procedures or an accounting system in place to properly maintain and account for their capital assets. As a result of lack of controls over capital assets, the School District is unable to identify the equipment purchased with federal funds and is unable to ensure compliance with the state laws and procedures regarding the use, management and disposition of equipment.

Questioned Costs: None

RECOMMENDATION

2013-033 We recommend that the School District implement policies and procedures and an accounting system for capital assets. The procedures should include the identification of the specific federal funds used to acquire equipment and be in compliance with the state laws and procedures regarding the use, management and disposition of capital assets.

Corrective Action Plan / auditee views:

With the District now ready to track assets through its financial system (per the management response for Finding 2013-019), we will now be able to easily earmark any asset to show what specific federal funds were used to acquire all equipment. An update to our accounting policies and procedures will also be required for the process of tracking specific federal funds used for purchasing equipment.

Anticipated Completion Date: *June 2014*

Contact Person: *Brad Peryea, Staff Accountant*
Phone: 401.727.7700

Finding 2013-034 *(significant deficiency - new finding)*

CHILD NUTRITION CLUSTER:
School Breakfast Program – CFDA 10.553
National School Lunch Program- CFDA 10.555
Federal Award Agency: U.S. Department of Agriculture
Administered by: Central Falls School District

PAID LUNCH EQUITY

The School Food Authorities (SFA) participating in the National School Lunch Program are required to ensure sufficient funds are provided to its nonprofit school food service accounts for lunches served to students not eligible for free or reduced price meals. A SFA currently charging less for a paid lunch than the difference between the Federal reimbursement rate for such a lunch and that for a free lunch is required to comply. The two ways to meet the requirement are a) to raise the prices charged for paid lunches; or b) through contributions from non-Federal sources. The SFA is responsible for this calculation and determination of "equity".

Central Falls School District was unaware of this requirement and did not perform the required calculation to determine it paid the lunch required adjustment. The School District's weighted average price is less than the paid lunch equity requirement. The School District has not increased the weighted average price or contributed from non-Federal sources and is not in compliance with lunch equity requirement.

Questioned Costs: None

RECOMMENDATION

2013-034 We recommend that the School District implement policies and procedures to ensure it is in compliance with Paid Lunch Equity requirements.

Corrective Action Plan/ auditee views:

The District did not complete the required calculation on paid lunch price "equity" because it was thought that the District was exempt from this calculation due to its meeting meal pattern requirements per USDA memo code SP 58-2013. This exemption did not go into effect, however, until fiscal year 2014. For fiscal year 2014, we are indeed exempt from completing the lunch price "equity" worksheet per USDA memo code SP 58-2013.

Anticipated Completion Date: *Completed March 2014*

Contact Person: *Brad Peryea, Staff Accountant*
Phone: 401.727.7700

Finding 2013-035 ***(significant deficiency - repeat finding)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
State Administrative Matching Grants for the SNAP - CFDA 10.561
Federal Award Agency – Department of Agriculture
Award Year: Federal Fiscal Years 2011-2012, 2012-2013
Federal Award Numbers: 2012IS251444, 2013IS251444
Administered by: Department of Human Services (DHS)

DOCUMENTATION OF IN-KIND MATCHING EXPENDITURES

The Department of Human Services contracted with the University of Rhode Island to provide Supplemental Nutrition Assistance Program (SNAP) outreach services during fiscal 2013. We found that DHS did not obtain sufficient documentation from the University of Rhode Island to support the amounts of in-kind match claimed for their SNAP Outreach program. We reported this finding in previous Single Audit reports as well.

The fiscal 2013 audit of the University of Rhode Island, a component unit of the State, included an audit finding regarding the documentation of in-kind matching expenditures for the SNAP cluster sub-award to the University. The finding reported by the University's auditor follows:

> The University contracted with the state's Department of Human Services to provide Supplemental Nutrition Assistance Program (SNAP) outreach services during fiscal year 2013. The contract states that the matching expenditures were to be provided, principally, by third party entities, which had partnered with the University. According to certified documentation provided by the third party entities, the payroll of the third party entities was used to meet the matching requirement of the grant.
>
> Although the matching expenditures appear reasonable in comparison to the budget, the University did not receive payroll records from forty-one third party vendors totaling $596,107 to support the matching requirement.
>
> According to 7 CFR Section 277.4(d): All cash or in-kind contributions except as provided in paragraph (e) of this section shall be allowable as part of the State Agency's share of program costs when such contributions:
>
> - Are verifiable;
> - Are not contributed for another federally-assisted program, unless authorized by federal legislation;
> - Are necessary and reasonable for accomplishment of project objectives;
> - Are charges that would be allowable under this part;
> - Are not paid by the federal government under another assistance agreement unless authorized under the other agreement and its subject laws and regulations; and
> - Are in the approved budget.
>
> The cause of this condition has been attributed to the University not having a proper policy and oversight to ensure that the documentation for in-kind third party contributions is collected and reviewed for accuracy and completeness.
>
> Questioned Costs: $596,107

RECOMMENDATION

2013-035 We recommend that management of the University implement policies and procedures to ensure that proper information is collected and reviewed.

Corrective Action Plan/ auditee views:

We agree the procedures surrounding the monitoring of cost share expenditures should be enhanced. The University's Policy #97-01 "Cost Sharing" states "it is the department/principal investigator's responsibility that the committed amount of cost sharing is met and that the actual amount of cost sharing is documented." In this case, the cost share committed was actually met, however, two months after the grant end date (within a typical grant close-out period); the written documentation was obtained and provided to the University's sponsor (Rhode Island Department of Human Services). The Principal Investigator has agreed to work on obtaining quarterly written certifications from the third party providers with the new SNAP outreach grant that begins October 1, 2013 to enable monitoring and reporting of these commitments during the grant period.

Anticipated Completion Date: *October 1, 2013*

Contact Person: *Sharon Bell, Controller*
University of Rhode Island
Phone: 401.874.2378

Finding 2013-036 ***(significant deficiency - repeat finding)***

SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM (SNAP) CLUSTER:
State Administrative Matching Grants for SNAP – CFDA 10.561
Federal Award Agency – Department of Agriculture
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Number: 2012IS251444, 2013IS251444
TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs – CFDA 93.714
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 (Stimulus), 2011-2012 and 2012-2013
Federal Award Numbers: G1002RITAN2, G1202RITANF, G1302RITANF
CCDF CLUSTER:
Child Care and Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: G1201RICCDF, G1301RICCDF
SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1201RISOSR and 13RISOSR
Administered by: Department of Human Services (DHS)
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

COST ALLOCATION PLAN (CAP)

The Department of Human Services accounts for administrative expenditures relating to various activities, objectives, and programs administered by the department in accordance with a federally approved Cost Allocation Plan (CAP). The cost allocation system, which incorporates the concepts approved in the plan, accounts for direct program costs as well as distributes administrative and indirect costs to the appropriate programs. The various methods of allocating expenditures within each cost center are federally approved and documented. Some methods of allocating, such as time studies and statistical data methods, utilize reports from sub-systems within the Department's INRHODES computer system. Each quarter's analysis from these sub-systems is then manually input into the cost allocation system to allocate expenditures for each particular quarter.

The Department uses the cost allocation system reports as the basis for reporting expenditures on the federal financial reports of various programs. The transactions processed through the system are a result of expenditures already processed through the State accounting system. Therefore, a quarterly reconciliation is performed to show that the cost allocation system agrees with the State accounting system.

Employees paid through cost centers, which are allocated based on time studies, are required to submit a time sheet for a randomly selected day for each pay period. The time study system summarizes all the employee time study data for the quarter and allocates the cost center to the various DHS programs for that quarter. Five employees had not submitted time study activities for one period we selected for testing. If these employees had been included in the time study analysis, the allocation percentages to the various programs for that cost center may have differed - some programs may have been undercharged while others overcharged for that quarter.

Questioned Costs: Unknown

RECOMMENDATION

2013-036 Require supervisory/management review to ensure that all employees complete and submit required time studies.

Corrective Action Plan/ auditee views:

The department will work to assure that employees are notified correctly and with supervisors to assure that staff complete their time studies as necessary.

Anticipated Completion Date: *January 2014*

Contact Person: *Janice Cataldo, Chief Financial Officer*
Phone: 401.462.0547

Finding 2013-037 ***(significant deficiency - repeat finding)***

UNEMPLOYMENT INSURANCE – 17.225
Federal Awarding Agency: US Department of Labor / ETA Division of Federal Assistance
Award Years: Federal Fiscal Years 2010, 2011, 2012, and 2013
Federal Award Numbers: UI-22336-12-55-A-44, UI-23916-13-55-A-44, TA-19730-10-55-A-44, TA-21241-11-55-A-44, TA-22681-12-55-A-44 and TA-24367-13-55-A-44
Administered by Department of Labor and Training (DLT)

FEDERAL REPORTING

Trade Act Participation Report

The Trade Act Participation Report (TAPR) is a quarterly report of trade assistance provided to participants and their employment and wage information. The report is prepared from client data maintained within DLT's employment services computer system and wage information obtained from DLT's Wage Record computer system. All data is electronically populated in the TAPR report by a contractor that maintains the employment services computer system. DLT Adult and Dislocated Worker Unit staff reviews the TAPR for reasonableness and obvious errors and submits the report electronically to the US Department of Labor, quarterly.

Federal guidance for the TAPR (2012 Trade Activity Participant Report Data Preparation and Reporting Handbook) states that accrued training expenditures should be reported in the TAPR and that they should equal the amount of accrued expenditures reported by the State for the relevant quarterly submission on the ETA-9130 Fiscal Report for TAA Training. DLT did not reconcile expenditure information between the TAPR and the 9130 reports before the TAPR was submitted, as personnel in different divisions within DLT complete the two reports. DLT management indicated they were aware of differences between the two reports and continue to work with USDOL to improve the accuracy of the TAPR information. We attempted to reconcile federal expenditures between the TAPR reports and the corresponding ETA 9130 reports for state fiscal year 2013 and found unreconciled differences of $37,287 (TAPR's less than 9130's) for training expenditures and $643,836 (TAPR's less than 9130's) for all Trade expenditures including training. These are most likely timing differences between the different systems used to prepare the reports. For example, the 9130 reports are prepared from DLT's internal financial and reporting system (FARS) while the TAPR is prepared from information in the DLT employment services computer system.

We found that DLT retained wage record data for reported wages. As a result, we were able to determine the propriety of wage data included in the TAPR reports submitted to the federal government for SFY 2013, except for a few instances where a participant's wages were not reported for a certain *prior to participation quarter*, i.e., fourth quarter of CY 2009.

ETA 227 Overpayment Detection And Recovery Activities Report

The ETA 227 Overpayment Detection and Recovery Activities Report provides quarterly information on results of the State Workforce Agency's (DLT) accomplishments in principal detection areas of benefit payment control (ETA Handbook 401).

During SFY 2013, basic controls were not implemented to ensure the accuracy and completeness of these reports and that amounts are supported by and reconciled to the State's accounting system. Additionally, the financial information in these reports was not reviewed by a supervisor in the fiscal unit for propriety.

We reported this same finding and recommendations in our 2011 audit report. DLT implemented the recommendations in SFY 2012 but not in SFY 2013.

Questioned Costs: None

RECOMMENDATIONS

2013-037a Reconcile expenditures between the TAPR and related ETA 9130 reports. Review TAPR reports prior to submission to ensure data agrees to supporting information systems and is reasonable.

2013-037b Perform and document a fiscal unit supervisory review of the financial related information in the ETA 227 report on a timely basis. Reconcile report information to the underlying accounting records.

Corrective Action Plan/ auditee views:

2013-037a: DLT will perform and document quarterly reconciliations between the TAPR and related ETA 9130 reports starting with the 9/30/2013 quarter. The data reflected on the TAPR will be reviewed for reasonableness prior to submission.

2013-037b: DLT will document a fiscal unit supervisory review of the ETA 227 report. Quarterly reconciliations of the ETA 227 and the underlying accounting records will be performed starting with the 9/30/2013 quarter.

Contact Person: Denise Paquet, Administrator, Financial Management
Email: dpaquet@dlt.ri.gov

Finding 2013-038 ***(significant deficiency - repeat finding)***

UNEMPLOYMENT INSURANCE – 17.225
Federal Awarding Agency: US Department of Labor
Award Years: Not Applicable – Entitlement Program
Federal Award Numbers: Not Applicable – Entitlement Program funded through U.S. Treasury Trust Fund – State of Rhode Island
Administered by Department of Labor and Training (DLT)

ELIGIBILITY TESTING – JOB SERVICES REGISTRATION

UI claimants are required to be registered with RI Job Services in accordance with RI General Law 28-44-12. Registration is required to be completed before the first benefit payment is made to any individual who is not exempt from the requirement and who is otherwise eligible for UI.

RI Job Services was converted from one computer system (AOSOS) to another (GEOSOL) during the summer of 2009. Our prior year audits have found that some subsequent claims which had claims previous to this conversion may have been registered, but the job service registration information may not have transferred over properly during the conversion due to a known conversion issue. Since this conversion occurred over four years ago, DLT should register all UI recipients prior to first payment whether or not they may have been previously registered prior to conversion. State law requires registration for both fully and partially unemployed individuals who are not exempt from the requirement.

We tested a sample of 60 UI benefit cases (randomly selected from a file containing 1,111,916 benefit payments during fiscal 2013) for compliance with controls over eligibility determination. We found 4 cases where DLT could not provide documentation that the claimant was registered with RI Job Services. If a claimant was required to be registered but was not, the claim for that week could be deemed an overpayment.

One of the four cases initially had a return to work date and was therefore exempt from registration, but subsequently did not return to work and should have then been registered. But, there was no evidence of such registration. A second individual who was collecting based on RI wages, but resided in another state, had no evidence of required registration in the other state. The remaining two cases had no evidence of job services registration.

In addition, we found four claimants who were not registered at the time of the initial benefit payment, but subsequently were registered soon thereafter. DLT advised us that these individuals may have actually been registered at the time of first payment but were not entered into the computer system, timely. We considered these claims allowable, but they indicate that DLT needs to strengthen controls to ensure that claimants are registered in the Job Services computer system *before* the first benefit payment.

DLT should enhance controls to ensure that all eligible UI cases are registered with RI Job Services prior to the first UI payment.

Questioned Costs: None

RECOMMENDATION

2013-038 Enhance controls to ensure that all currently eligible UI cases, both fully unemployed and partially unemployed, are registered with RI Job Services prior to first UI benefit payment.

Corrective Action Plan/ auditee views:

In December, 2012, programming was implemented to allow for all non-exempt UI claimants to be registered for reemployment services in EmployRI. The exemptions from registrations following that programming were for WorkShare participants, claimants whose first benefit payment occurred in excess of eight weeks of the effective date of their UI claim, and claimants with definite return-to-work dates within 8 weeks.

In June, 2013, the decision was made to register every UI claimant except for those participating in WorkShare. The programming was completed at that time, and remains the process today.

Contact Person: *Kathy Catanzaro*
Chief Unemployment Insurance Special Programs
Email: kcatanzaro@dlt.ri.gov

Finding 2013-039 ***(material weakness - repeat finding)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

QUALITY ASSURANCE PROGRAM - MATERIALS TESTING

Federal regulations (23 CFR 637.205) require that state transportation departments have a sampling and testing program for construction projects to ensure that materials and workmanship generally conform to approved plans and specifications, including approved changes. The program must meet the criteria in §637.207 and be approved by the FHWA.

RIDOT operates an FHWA approved quality assurance program; however, we observed opportunities for the department to enhance controls over its operation, implement efficiencies, and improve coordination within divisions with the overall goal of ensuring that materials and workmanship generally conform to approved plans and specifications.

We have reported control weaknesses over RIDOT's Quality Assurance Program each year beginning with our 2006 Single Audit. RIDOT has made policy changes in response to those recommendations with varying degrees of success. For fiscal 2013, we tested 134 materials tests related to 22 projects. Ultimately, except as noted below, RIDOT was able to provide evidence of the tests performed. In many instances, obtaining the test results required repeated follow-up over an extended period. RIDOT's policy requires that materials test results be documented and available at each construction site office, which is overseen by the project Resident Engineer. Based on our visits to various construction sites, we found that the recording of the materials test results was not uniform throughout the department. Specifically, we were unable to adequately determine that the appropriate tests were performed for eight out of the 134 material tests selected for testing. Questioned costs related to these materials total $90,842.

A challenge in this and prior audits is discerning that the test results provided by RIDOT correspond to a specific material, delivery interval, and contract due to the lack of consistent cross-referencing between the material (item number) and the test results. This is compounded further when testing stockpiled materials, which can be used at different times, places and for different purposes.

In response to prior findings, the Materials section issued a policy requiring the project Resident Engineer (Construction Section) to provide the Rhode Island Contract (RIC) number and material item number to the Material Inspector to ensure linkage of the test results to the appropriate project. Enforcement of this policy could be enhanced; we observed instances where the RIC number and material item reference information were not provided.

The Materials section also began scanning and storing material test results in a shared folder on the RIDOT network. This process could be further enhanced by developing a uniform file naming convention that allows for easy identification of the applicable construction project and materials test by the resident engineer.

We also observed the need for enhanced coordination among the three RIDOT sections (Materials, Construction, and Design) which have responsibilities related to the Quality Assurance Program. Each section implements policy without necessarily coordinating and considering the impact on the overall Quality Assurance Program.

Lastly, RIDOT should consider employing additional information technology resources to this activity to enhance the timeliness, reliability, and availability of materials test results to the Resident Engineers and to effect overall departmental efficiencies.

Master Schedule of Sampling, Testing and Certification of Materials (MST)

RIDOT's Quality Assurance Program is formalized in a written policy (Master Schedule of Sampling, Testing and Certification of Materials (MST)). The MST identifies the materials and required testing for those most commonly used in the construction of roads and bridges. Industry standards related to testing procedures continually change and consequently the Department periodically changes its testing procedures and seeks approval from FHWA.

RIDOT converted the MST into an electronic system (Materials Testing System Module). A "Materials Test Book" is created for each construction project which becomes the basis for all testing performed. We identified the following control weaknesses over the MST and Materials Testing System Module:

- The Master Schedule of Sampling, Testing and Certification of Materials (MST) does not include all changes approved by FHWA. Consequently, Materials Test Books created from the MST do not reflect the updated testing requirements. Further, RIDOT has not adopted a policy regarding when MST changes are effective (e.g., effective immediately or only for new contracts).

- In practice, RIDOT certifies specific material plants or field sites for the construction season; whereas the MST requires tests to be performed in the field (construction site). The MST should be updated to reflect actual current practices.

- RIDOT has not implemented controls over the creation, updating or deletion of materials testing requirements in the Materials Testing System (MTS) Module - changes should only be initiated and approved by the designated RIDOT personnel.

Materials Test Book

RIDOT's Procedures for Uniform Record Keeping (PURK) manual states "the Construction Section will prepare and provide each project with a Project, Schedule of Sampling, Testing, and Certification of Materials (Project Materials Test Book). The Resident Engineer must ensure that the required tests are performed and logged. We observed the following control weaknesses over creation of the Project Materials Test Book:

- The PURK manual has not been updated to reflect various Department memorandums communicating changes in construction policies.

- Creation of the Project Materials Test Book has been computerized but still requires significant manual intervention. Users may modify testing requirements (within the MTS Module) without approval. Additionally, all non-standard items (Specialty Items) are assigned testing requirements by staff creating the Project Materials Test Book. These staff members may not have sufficient training or experience to assign the appropriate materials test. We observed instances where the test did not appear appropriate for the item.

- RIDOT has not implemented requirements regarding modifying the Project Materials Test Book for project change orders – generally as quantities change so do the number of required materials tests. Currently, there are no addendums to the Project Materials Test Book when change orders are approved.

- Specialty items are non-standards items that require different tests than those included in the Master Schedule of Testing (MST). The Materials section issued a policy requiring the consulting design engineer to identify appropriate material tests for the specialty items; however, this policy has not been implemented.

Questioned Costs: $90,842

RECOMMENDATIONS

2013-039a Enforce existing policies designed to better link testing results to projects and contract items by requiring resident engineers to provide RIC and material item numbers; and establishing a uniform file naming convention for test results shared on the RIDOT network.

2013-039b Update the Procedures for Uniform Record Keeping (PURK) manual to include all current policies and procedures. Maintain and distribute the PURK manual electronically.

2013-039c Enhance coordination among the three sections of RIDOT that have shared responsibility for the overall operation of the department's Quality Assurance Program.

2013-039d Consider employing additional information technology resources to the Quality Assurance Activity to enhance the timeliness, reliability, and availability of materials test results to the Resident Engineers and to effect overall departmental efficiencies.

2013-039e Train all project related staff, design through closeout, as to the requirements of 23 CFR 637.205 and the Department's related policies, procedures and controls. Establish a plan of self-testing (e.g., internal audit) of the Department's policies, procedures and controls to ensure compliance with the required Quality Assurance Program.

Corrective Action / Auditee Views

2013-039a - RIDOT has increased the use of item numbers on test results. Item numbers are included on test forms when supplied by Construction, and an item numbers field is now included on all test forms. Some materials, such as concrete sand/aggregate/sand, are used for multiple item numbers on the same project, so it is not always possible and/or practical to know the item number at the time of sampling.

2013-039b - At the direction of the Chief Engineer, a subcommittee headed by Construction, along with members of Materials, has been established to work on a revision to the PURK manual.

2013-039c - RIDOT has weekly meetings between Construction and Materials supervisors to discuss work for the coming week, issues, and policies. We also discuss policies with Design before TACs/TAPEs are sent out.

2013-039d - RIDOT has worked consistently and diligently with MIS to increase the use of IT over the years by providing scan documents to the Residents, and most recently going to implement test reports sent to the Residents electronically through electronic signatures. In addition, RIDOT is constantly working to improve its databases in the materials laboratory.

RIDOT has also instituted a new plant program, which will come on-line as a pilot for the 2014 season. Although the department has worked diligently in this area, progress has been impacted by the myriad of demands on limited MIS staffing resources.

2013-039e - RIDOT regularly issues policy memos and also provides training at the winter staff development seminars. This winter, a class was added specifically for Construction Record Keepers to apprise them of the audit findings.

Anticipated Completion Date: *June 30, 2014*

Contact Person: *Colin Franco, Materials*
Phone: 401.222.3030

Finding 2013-040 ***(significant deficiency - repeat finding)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

DAVIS-BACON ACT REQUIREMENTS

We tested 22 active construction contract project files for evidence that the required labor compliance check had been performed at the required interval. We found that three of the 22 projects (14%) tested had at least one labor compliance checklist missing.

Section 5.5(3) (ii) (A) of Title 29 of the Code of Federal Regulations requires verification that the contractors and subcontractors submit weekly certified payrolls. For the 22 active construction contracts tested as part of our sample, RIDOT did not have 74 (15.3%) contractor or subcontractor certified payrolls on file. RIDOT's daily activity log did not indicate whether there were contractors on site for 63 of the 74 missing certified payrolls. Also, the daily activity log did indicate that contractors were on site for the remaining 11 missing payrolls.

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 submitting 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 each project's Resident Engineer to ensure that a labor compliance check is performed at least twice per year. 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.

RIDOT can enhance its compliance with Davis-Bacon Act requirements by improving its documentation of required compliance checks and ensuring that contractors and subcontractors submit weekly-certified payrolls.

Questioned Costs: None

RECOMMENDATIONS

2013-040a Strengthen oversight of the labor compliance monitoring procedures to ensure contractor compliance with Davis-Bacon Act requirements. Enforce completion of labor compliance checklists and receipt of certified payrolls.

2013-040b Develop a policy for documenting "No Activity" in the Daily Activities Book.

Corrective Action / Auditee Views

2013-040a - The department has strengthened oversight by having a separate RIDOT unit monitor compliance with Davis-Bacon Act requirements. Construction is still responsible for completing the labor compliance checklists and ensuring that the certified payrolls are received.

Anticipated Completion Date: December 31, 2014

2013-040b - The Department will take this recommendation under advisement.

Anticipated Completion Date: TBD

Contact Person: Frank Corrao, Construction Management
Phone: 401.222.2468

Finding 2013-041 *(material weakness - repeat finding)*

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

SUBRECIPIENT MONITORING

The Rhode Island Department of Transportation (RIDOT) can improve its policies and procedures to monitor subrecipients.

RIDOT has not reliably identified all amounts passed through to subrecipients; however, we estimated that payments to subrecipients totaled approximately $9.0 million in fiscal 2013. The Office of Monitoring and Finalization (OMF) provided a list of subrecipients which spanned multiple years but was incomplete since some subrecipient payments, as included in the State's accounting system, were omitted. A complete list of sub-awards detailing project award information should be maintained to facilitate both programmatic and financial monitoring procedures.

We requested all subrecipient agreements executed during the fiscal year to determine whether the elements required by federal regulation were included; the department provided only one agreement. At the time of sub-award, RIDOT, as the pass-through entity, did not make the subrecipient aware of the required award information (i.e., CFDA title; award name and number). During fiscal 2011, RIDOT implemented new standard agreements that included all required federal award information; however, we noted the agreement issued during the current fiscal year still lacked some of the required elements. Additionally, RIDOT did not amend prior agreements still in effect to include all required elements.

RIDOT is required to have an annual monitoring plan that ensures subrecipients' use of federal awards is in compliance with federal regulations. The monitoring plan can consist of reviewing audit reports, site visits, regular contact or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws and regulations. RIDOT generally performs site visits, reviews contractor and sub-contractor billings, and communicates regularly with its subrecipients; however, the department does not have an annual monitoring plan and it did not document all the monitoring activities performed. RIDOT indicated that the Office of Monitoring and Finalization only monitors subrecipient awards when they reach the construction phase and only for awards beginning in fiscal 2011.

RIDOT has improved certain aspects of subrecipient monitoring but can further improve its efforts by ensuring the identification of all subrecipients timely, notifying the subrecipient of federal compliance information timely, and by coordinating the overall departmental monitoring efforts.

Questioned Costs: None

RECOMMENDATIONS

2013-041a Identify all federal awards passed through to subrecipients by project.

2013-041b Ensure subrecipients are made aware of the required award information (i.e., CFDA title; award name and number) in the project agreements.

2013-041c Enhance written policies and procedures over subrecipient monitoring, document the department's monitoring plan and document the monitoring performed.

Corrective Action / Auditee Views

2013-041a - The RIDOT Office of Financial Management reconciles subrecipient expenditures per FMS with corresponding subrecipient expenditures per RIFANS and then resolves any variances.

Furthermore, the RIDOT Office of Financial Management has implemented a policy that requires all subrecipient expenditures to be charged to Natural Account 654120 on the State accounting system.

In addition, a list identifying all expenditures passed through to subrecipients is generated annually by the RIDOT Office of Financial Management and provided to the respective RIDOT offices that have subrecipient monitoring responsibilities. This list is also provided to the Auditor General's Office for its tests of subrecipient monitoring.

Lastly, RIDOT will develop a process to inform the respective RIDOT offices that have subrecipient monitoring responsibilities whenever federal money is authorized for a subrecipient project.

Anticipated Completion Date: *December 31, 2014*

Contact Person: *Robert Farley, Chief Financial Officer*
401.222.6590

2013-041b - The RIDOT Office of Financial Management currently includes a "Subrecipient Fact Sheet" with all subrecipient agreements that it reviews.

In order to implement a more global corrective action, the Department has recently established a committee that is charged with revising the standard templates for all contracts, including subrecipient agreements. In particular, subrecipient agreement templates will include: the CFDA number and title; federal agency name; federal award number; applicable compliance requirements; and a provision communicating to each subrecipient that it must maintain current registrations in the System for Award Management System (SAMS), and obtain a Dun and Bradstreet Data Universal Numbering System (DUNS) number, in accordance with Section 1512(h), ARRA, and 2 CFR 176.50(c).

In addition to the template revisions, the aforementioned committee is currently in the process of developing certain process improvements, such as placing all templates on the RIDOT intranet and including a revision date on every template to ensure the most current version is used.

Anticipated Completion Date: *December 31, 2014*

Contact Person: *Robert Farley, Chief Financial Officer*
401.222.6590

2013-041c - The Department would like to clarify that RIDOT's Office of Quality Compliance and Review also provides technical assistance in subrecipient monitoring efforts before projects reach the construction stage. As far as when RIDOT's Office of Quality Compliance and Review began monitoring subrecipients, agreements with subrecipients were strengthened during FY 2011, but subrecipient monitoring activities were conducted prior to FY 2011.

Additionally, RIDOT's Office of Compliance and Review has established written policies and procedures for subrecipient monitoring. Regarding a monitoring plan, RIDOT will review the federal regulations to ensure that the department's existing monitoring plan is in compliance. Lastly, RIDOT's Office of Compliance and Review believes that it maintains adequate back-up documentation of the monitoring reviews performed, but will develop an overall checklist of steps and required documentation.

Anticipated Completion Date: *December 31, 2014*

Contact Person: *Richard Fondi*
Administrator Highway Bridge Construction Operations
Phone: 401.222.6940

Finding 2013-042 ***(material non-compliance / material weakness - new finding)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

SPECIAL TESTS AND PROVISIONS – UTILITY ACCOMMODATION POLICY

The Department has not documented and sought FHWA approval of its Utility Accommodation Policy (UAP) as required by federal regulation 23 CFR 645.215. The policy is required to outline when and how utilities may use public highway right-of-way, and under what conditions public funds may be used to relocate utility facilities to accommodate highway construction.

The lack of a UAP increases the risk that the Department will not comply with limitations on the use of public highway right-of-ways or the use of public funds to relocate utility facilities to accommodate highway construction.

Questioned Costs: None

RECOMMENDATION

2013-042 Develop a Utility Accommodation Policy and obtain FHWA approval.

Corrective Action / Auditee Views

The Department has prepared a draft Utility Accommodation Policy that is being reviewed. As soon as this review is complete, the policy will be forwarded to FHWA for its approval.

Anticipated Completion Date: *December 31, 2014*

Contact Person: *Kazem Farhoumand, Chief Engineer*
Phone: 401.222.2492

Finding 2013-043 ***(significant deficiency - repeat finding)***

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

VALUE ENGINEERING

Federal regulation 23 CFR 627.1(b) states that State transportation departments shall assure that a Value Engineering (VE) analysis has been performed on all applicable projects and that all resulting, approved recommendations are incorporated into the plans, specifications and estimates. Applicable projects generally include those with an estimated total project cost of $50 million or more ($40 million for bridge projects) that utilize Federal-aid highway program funding.

RIDOT provided evidence where value engineering analyses had been performed for various projects. However, we noted that RIDOT's Value Engineering policy does not include 22 of the 28 requirements of such as outlined in 23 CFR 627. RIDOT can improve its controls and procedures to (1) identify those projects that must include a value engineering analysis and delineate the appropriate point in the project timeline for such analysis to be performed, and (2) ensure value engineering recommendations are evaluated, and approved recommendations are incorporated into the plans, specifications, and cost estimate for the project. Enhanced control procedures should include an appropriate monitoring component to ensure compliance.

Questioned Costs: None

RECOMMENDATION

2013-043 Enhance policies, procedures, and controls to ensure compliance with Value Engineering analysis requirements contained in 23 CFR 627.

Corrective Action / Auditee Views

The Department will further enhance its existing policies, procedures, and controls to ensure compliance with the Value Engineering analysis requirements contained in 23 CFR 627. An updated Value Engineering policy has been drafted and is currently being reviewed; upon completion, it will be forwarded to FHWA for concurrence. Overall, the Department believes it is in compliance with Value Engineering requirements and can document its efforts in this area.

Anticipated Completion Date: *December 31, 2014*

Contact Person: *Norman Marzano, Managing Engineer*
Phone: 401.222.2468

Finding 2013-044 *(significant deficiency - new finding)*

HIGHWAY PLANNING AND CONSTRUCTION CLUSTER:
Highway Planning and Construction – CFDA 20.205
Federal Award Agency: US Federal Highway Administration
Award Years: Various
Federal Award Number: Various
Administered by: Rhode Island Department of Transportation (RIDOT)

MATCHING

"Soft match" is authorized by 23 USC 120 (j) and provides that a state may get credit for certain qualified state expenditures and then use those as the state matching share for a federal aid project (e.g., a Highway Planning and Construction funded project). We noted a $900,000 difference between RIDOT's records and the "soft match" being used and recorded on the Federal Management Information System (FMIS). RIDOT determined that the "soft match" difference related to two project modifications processed during the fiscal year which were not entered into the FMIS. RIDOT submitted a project modification to correct the errors detected.

RIDOT can improve its controls over amounts claimed and reported as "soft match" by requiring a secondary or management review of information input into FMIS, thereby allowing difference between its records and FMIS to be detected on a timely basis.

Questioned Costs: None

RECOMMENDATION

2013-044 Enhance controls over the accounting of "soft match" by requiring secondary or management review of information input to the FMIS, thereby allowing differences between RIDOT and FMIS amounts to be detected on a timely basis.

Corrective Action / Auditee Views

The RIDOT Grants staff will reconcile the use of soft match on a quarterly basis to ensure that all entries are recorded both in FMIS and on the tracking spreadsheet used by the Administrator. The reconciliation for Fiscal Year 2014 will be completed on or before June 30, 2014.

Anticipated Completion Date: *June 30, 2014*

Contact Person: *John Megrdichian*
Administrator for Financial Management
Phone: 401.222.2496

Finding 2013-045 ***(material weakness - new finding)***

FEDERAL TRANSIT CLUSTER:
Capital Investment Grants – CFDA 20.500
Formula Grants – CFDA 20.507
Federal Award Agency – Federal Transit Administration
Administered by: Rhode Island Public Transit Authority (RIPTA)

ACTIVITIES ALLOWED AND UNALLOWED; ALLOWABLE COSTS/COST PRINCIPLES; PERIOD OF AVAILABILITY OF FEDERAL FUNDS

An entity is responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal award programs. In addition, OMB Circular A-87 – "*Cost Principles for State, Local, and Indian Tribal Governments"* requires that charges to federal award programs be supported by appropriate documentation including approved requisitions, vendor invoices or other documentation.

RIPTA has allowed internal control policies and procedures in place to ensure compliance with activities allowed or unallowed, allowable costs/cost principles, and period of availability of federal funds requirements. RIPTA's internal control procedure to ensure compliance with these requirements is the approving signature of the Assistant General Manager (AGM) of Planning or his designee and the approving signature of the AGM of Finance or the Director of Finance on the capital supply requisition. During our testing of internal controls, we determined that reimbursements for the federal awards programs to RIPTA's operating fund do not require a capital supply requisition. As a result, there is no documentation that RIPTA has performed procedures for this type of federal awards program expense to ensure compliance with the activities allowed or unallowed, allowable costs/cost principles, and period of availability of federal funds requirements.

Questioned Costs: None

RECOMMENDATION

2013-045 We recommend that RIPTA prepare a capital supply requisition or equivalent form for all federal awards program expenses to ensure proper documentation of the internal control policies and procedures related to activities allowed or unallowed, allowable costs/cost principles, and period of availability of federal funds requirements.

Corrective action plan / auditee views:

The Authority will begin implementing the capital requisition process for operating fund reimbursements from Federal Awards programs as is currently done for all vendor expenditures.

Anticipated Completion Date: *February 1, 2014*

Contact Person: *Maureen Neira, CFO*
Rhode Island Public Transit Authority
Phone: 401.784.9500
Email: mneira@ripta.com

Finding 2013-046 ***(material weakness - new finding)***

FEDERAL TRANSIT CLUSTER:
Capital Investment Grants – CFDA 20.500
Formula Grants – CFDA 20.507
Federal Award Agency – Federal Transit Administration
Administered by: Rhode Island Public Transit Authority (RIPTA)

EQUIPMENT DISPOSAL

An entity is responsible for establishing and maintaining effective internal controls over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal award programs. Federal Transit Administration (FTA) Circulars 5010.1, 9030.1 and 9300.1 establish requirements related to FTA approval of the transfer, sale or lease of property, equipment or supplies acquired with FTA transit funds that are no longer needed for transit purposes. Any disposition of project property before the end of its useful life requires prior FTA approval.

The Planning Department determines whether the disposal of equipment acquired with federal awards requires prior FTA approval. Although RIPTA has internal control policies and procedures to ensure compliance with equipment and real property management requirements, there is no formal documentation of the policies and procedures related to whether prior FTA approval is required for the disposition of project property.

Questioned Costs: None

RECOMMENDATION

2013-046 We recommend that RIPTA document its internal control procedures for the disposal of equipment acquired with federal awards. The procedures should include documentation of the Planning Department's determination of whether prior FTA approval is required.

Corrective action plan / auditee views:

RIPTA's current disposal policy will be updates to include language regarding the Planning Department's determination of whether FTA approval is required prior to disposal of an asset.

Anticipated Completion Date: *May 1, 2014*

Contact Person: *Lillian Shuey Picchione, Transit Planner*
Rhode Island Public Transit Authority
Phone: 401.784.9500
Email: lpicchione@ripta.com

Finding 2013-047 ***(significant deficiency - new finding)***

FEDERAL TRANSIT CLUSTER:
Capital Investment Grants – CFDA 20.500
Formula Grants – CFDA 20.507
Federal Award Agency – Federal Transit Administration
Administered by: Rhode Island Public Transit Authority (RIPTA)

DBE COMPLIANCE AND REPORTING

Recipients of FTA funds are required to ensure nondiscrimination in the award and administration of FTA-assisted contracts by implementing a DBE (Disadvantaged Business Enterprise) program in accordance with 49 CFR 26.

Although RIPTA has a DBE program in place, we noted during our testing of internal controls of procurement policies and procedures that the DBE file for a vendor selected was incomplete. Documentation related to the vendor payment of the approved DBE subcontractors was incomplete or not available. RIPTA obtained the information from the vendor after we requested it.

Questioned Costs: None

RECOMMENDATION

2013-047 We recommend that RIPTA ensure DBE participation is monitored and documented in a timely manner in accordance with federal requirements.

Corrective action plan / auditee views:

RIPTA will ensure that payment verification by vendors to DBE's are made on a timely basis. The RIPTA Compliance Officer will be included as a sign-off in the invoice approval process.

Anticipated Completion Date: *February 1, 2014*

Contact Person: *Jim Vincent, Compliance Officer*
Rhode Island Public Transit Authority
Phone: 401.784.9500
Email: jvincent@ripta.com

Finding 2013-048 ***(material non-compliance / material weakness- new finding)***

FEDERAL TRANSIT CLUSTER:
Capital Investment Grants – CFDA 20.500
Formula Grants – CFDA 20.507
Federal Award Agency – Federal Transit Administration
Administered by: Rhode Island Public Transit Authority (RIPTA)

REPORTING - ACCOUNTING BASIS

FTA Circular 5010.1 requires financial status reports be prepared on the accrual basis of accounting. All of RIPTA's Federal Transit Cluster quarterly financial status reports prepared during fiscal year 2013 were prepared on the cash basis of accounting.

Questioned Costs: None

RECOMMENDATION

2013-048 We recommend that RIPTA prepare its quarterly financial status reports on the accrual basis of accounting in accordance with federal requirements.

Corrective action plan / auditee views:

RIPTA prepared the quarterly financial status reports including the quarterly accruals as part of the encumbrances on the unliquidated obligations lines I and J. With the 9/30/13 quarterly financial status reports, the accruals will be listed with the quarterly expenditures on lines F and G in accordance with federal requirements.

Anticipated Completion Date: *October 30, 2013*

Contact Person: *Maureen Neira, CFO*
Rhode Island Public Transit Authority
Phone: 401.784.9500
Email: mneira@ripta.com

Finding 2013-049 *(significant deficiency - new finding)*

FEDERAL TRANSIT CLUSTER:
Capital Investment Grants – CFDA 20.500
Formula Grants – CFDA 20.507
Federal Award Agency – Federal Transit Administration
Administered by: Rhode Island Public Transit Authority (RIPTA)

REPORTING - TIMING

FTA Circular 5010.1 requires that financial status reports be prepared bases on supporting documentation maintained in the grantee's official financial management system and that quarterly reports be filed within 30 days of the end of each calendar quarter.

During our test of controls of the reporting policies and procedures, we noted that 10 of the thirty quarterly reports selected were filed after the reporting deadline. We also noted four instances where the financial status report, although correct, did not agree to the supporting documentation due to a formula error in the supporting documentation and one quarterly report that was filed with a material error. RIPTA corrected the error on the following quarterly report, as the current report was closed.

Questioned Costs: None

RECOMMENDATION

2013-049 We recommend that RIPTA file the quarterly reports within 30 days of the end of the calendar quarter and implement procedures to ensure that the supporting documentation agrees to the financial status reports submitted. We also recommend that more care be taken when entering data to the FTA reporting system.

Corrective action plan / auditee views:

Six of the ten quarterly reports filed after the deadline were submitted one day late. All submitted financial status reports, along with supporting documentation will be included in the review package prior to final review and approval. RIPTA will insure that all quarterly reports will be submitted within 30 days of the quarter end.

Anticipated Completion Date: *January 30, 2014*

Contact Person: *Maureen Neira, CFO*
Rhode Island Public Transit Authority
Phone: 401.784.9500
Email: mneira@ripta.com

Finding 2013-050 ***(significant deficiency - new finding)***

SPECIAL EDUCATION CLUSTER
Special Education – Grants to States (IDEA Part B) - CFDA – 84.027
Federal Award Agency: U.S. Department of Education
Administered by: Central Falls School District

EARMARKING –EARLY INTERVENTION SERVICES

Local Educational Agencies (LEA) cannot use more than 15 percent of the amount of federal funds, in combination with other funds for early intervening services for children in kindergarten through grade 12 who have not been identified under IDEA but need additional academic and behavioral support to succeed in the general education environment.

The Central Falls School District entered the budget for the IDEA, Part B grant for early intervening services incorrectly to the accounting system. The grant budget approved was not entered and as a result the School District charged actual costs for early intervening services that exceeded the 15 percent earmarking requirement.

Questioned Costs: $36,318

RECOMMENDATION

2013-050 We recommend that the School District implement procedures to ensure that all earmarking requirements are monitored for compliance.

Corrective action plan / auditee views:

Due to a misinterpretation of data from the Accelegrants budgeting system, the budget for IDEA, Part B, was misallocated for early intervening services. Upon reviewing internal controls, it is suggested that new protocols be added for the Finance Director to review all grant budgets that are entered by the Grants Director, review monthly expenditure reports, and review UCOA structure for accuracy.

Anticipated Completion Date: *June 2014*

Contact Person: *Brad Peryea, Staff Accountant*
Phone: 401.727.7700

Finding 2013-051 ***(significant deficiency - repeat finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Perkins Loan Program – CFDA 84.038
Federal Direct Student Loans – CFDA 84.268
Federal Award Agency – U.S, Department of Education
Administered by: Rhode Island College

STUDENT STATUS REPORTS

According to 34 CFR 682.610(c)(2), a College shall, unless it expects to submit its next Enrollment Reporting Roster File to the guaranty agency within the next 60 days, notify the guaranty agency or lender within 30 days if the College discovers a Stafford, SLS, or PLUS loan has been made to a student who enrolled at the College and:

1. Has ceased to be enrolled on at least a half-time basis.
2. Has failed to enroll on at least a half-time basis for the period for which the loan was intended.
3. The loan was made to a full-time student who has ceased to be enrolled on a full-time basis.
4. Has changed his or her permanent address.

Out of a sample of ten students with the changes in enrollment status, six students, who had either officially withdrawn, were on leave of absence or had been determined to have unofficially withdrawn, were not reported to the NSLDS within the prescribed time limit.

The College reports student enrollment status changes to the NSLDS through the National Student Clearinghouse (NSC) and is responsible for ensuring that student enrollment status changes are reported to the NSLDS in a timely manner. It is the responsibility of the Registrar to submit the enrollment changes to the NSC and to ensure that controls are in place to timely submit updates one the Registrar's office receives a student withdrawal form. The Registrar's office did not report the student enrollment changes in a timely fashion.

Questioned Costs: None

RECOMMENDATION

2013-051 We recommend that management strengthen their oversight of the NSLDS reporting to ensure that timely reporting of enrollment information is made to the NSLDS in order for them to be in compliance with the requirements. We also recommend that management establish and enforce specific administrative procedures, according to which those students who unofficially withdrew from the College will be identified and subsequently reported to the NSLDS within prescribed time frames.

Corrective action plan / auditee views:

The College's reporting process to the NSC originally required manual intervention. The College became aware of the problems with its process when it received late notices from the NSC. In April 2013, the College changed to a delivered Oracle/PeopleSoft process for reporting to the NSC. At this point, all reporting issues have been resolved.

Anticipated Completion Date: *April 2013*

Contact Person: *Jim Hanbury, Director of Financial Aid*
Rhode Island College
Phone: 401.456.8684

Finding 2013-052 ***(significant deficiency - repeat finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Direct Student Loans – CFDA 84.268
Federal Award Agency – U.S. Department of Education
Administered by: Community College of Rhode Island

STUDENT STATUS REPORTS

One of the underlying assertions regarding the student status reports is the accuracy of the information as it relates to the effective dates of status changes.

Our testing revealed 2 of 10 students tested did not have the proper withdrawal date reported.

According to 34 CFR Section 685.309(b):

> A school shall (1) upon receipt of a student status confirmation report from the Secretary, complete and return that report to the Secretary within 30 days of receipt; and (2) unless it expects to submit its next student status report to the Secretary within the next 60 days, notify the Secretary within 30 days of it discovers that a Direct Subsidized, Direct Unsubsidized, or Direct PLUS Loan has been made to or on behalf of a student who (i) enrolled at that school but has ceased to be enrolled on at least a half time basis; (ii) has been accepted for enrollment at that school but failed to enroll on at least a half time basis for the period for which the loan was intended; or (iii) has changed his or her permanent address. (3) The Secretary provides student status confirmation reports to a school at least semiannually. (4) The Secretary may provide the student status confirmation report in either paper or electronic format.

Our audit disclosed that although the Community College of Rhode Island had policies and procedures for transmitting information to the National Student Clearinghouse (NSC), they did not establish an appropriate policy to ensure the accuracy of the information. The Community College does have a policy in place to ensure that the reporting is completed timely, but the information uploaded was not independently reviewed to ensure the reports generated were accurate.

Questioned Costs: None

RECOMMENDATION

2013-052 We recommend that the Community College have a manual process for at least one individual to manually review the information being uploaded to ensure that the software is pulling the accurate information on a test basis.

Corrective action plan / auditee views:

The Community College will ensure that at least one staff member will manually review a percentage of students identified on the report relating to the effective dates of status changes and will confirm the information produced on the report is accurate prior to transmitting the report to *the National Student Clearinghouse (NSC). The Community College believes that the actions taken should fully resolve the internal control issue.*

Anticipated Completion Date: *April 2013*

Contact Person: *Joel Friedman, Director of Financial Aid*
Community College of Rhode Island
Phone: 401.825.2117

Finding 2013-053 ***(significant deficiency - repeat finding)***

STUDENT FINANCIAL ASSISTANCE CLUSTER:
Federal Direct Student Loans – CFDA 84.268
Federal Award Agency – U.S. Department of Education
Administered by: Community College of Rhode Island

STUDENT STATUS REPORTS

One of the underlying assertions regarding the student status reports is the accuracy of the information as it relates to the student's effective status.

Our testing revealed 2 of 10 students tested did not have the proper effective status reported. According to the National Student Loan Data System (NSLDS) Enrollment Reporting Guide: A school must correctly report students who have completed a program with a "G" for "graduated" status rather than a "W" for "withdrawn." This assists the Department in identifying individual student completion of programs of study. Further, an accurate anticipated completion date aids in correct servicing of students' loans, avoiding unnecessary early conversion, causing technical defaults.

Our audit disclosed that although the Community College of Rhode Island had policies and procedures for transmitting information to the National Student Clearinghouse (NSC), they did not establish an appropriate policy to ensure the accuracy of the information. The Community College does have a policy in place to ensure that the reporting is completed timely, but the information uploaded was not independently reviewed to ensure the reports generated were accurate.

Questioned Costs: None

RECOMMENDATION

2013-053 We recommend that the Community College have a manual process for at least one individual to manually review the information being uploaded to ensure that the software is pulling the accurate information on a test basis.

Corrective action plan / auditee views:

The Community College will ensure at least one staff member will manually review a percentage of students identified on the report relating to the effective dates of status changes and will confirm the information produced in the report is accurate prior to transmitting the report to the National Student Clearinghouse (NSC). The Community College believes that the actions taken should fully resolve the internal control issue.

Anticipated Completion Date: *April 2013*

Contact Person: *Joel Friedman, Director of Financial Aid*
Community College of Rhode Island
Phone: 401.825.2117

Finding 2013-054 ***(material weakness - repeat finding)***

ARRA - STATE FISCAL STABILIZATION FUND (SFSF) – RACE-TO-THE-TOP INCENTIVE GRANTS – CFDA 84.395
Federal Award Agency: US Department of Education
Award Years: 2010-2014
Federal Award Number: S35A100073
Administered by: RI Department of Education (RIDE)

ALLOWABLE COSTS/COST PRINCIPLES

RIDE needs to continue improving its oversight and verification of consultant invoices to ensure that there is adequate support for the Race to the Top program costs. We found in our prior year audit that some of the consultants' invoices did not provide sufficient supporting detail and documentation for amounts billed. As a result, we were unable to ascertain that some of the consultants' expenditure claims were reasonable and supported by contract provisions.

RIDE began developing and instituting a corrective action plan shortly after the issuance of our fiscal 2012 Single Audit report. RIDE's Director of Finance issued a memorandum to all consultants on May 7, 2013 outlining the specific documentation that they must submit before payments would be processed. All RIDE employees involved with payment processing for the Race to the Top grant were informed of the new documentation requirements.

The U.S. Department of Education's Post Audit Group (PAG) initiated a review of our fiscal 2012 findings and RIDE's corrective action plans. In a letter dated August 2, 2013 PAG concurred with our audit conclusions and RIDE's initial corrective actions noting that final resolution would be subject to our required follow-up during the fiscal 2013 audit.

Total fiscal 2013 expenditures for the Race to the Top grant were $26.9 million. After excluding payroll and other internal administrative charges, we selected four large dollar vendor payments totaling $2.5 million and a random sample of 32 contract line item deliverables corresponding to a total of $22.3 million in vendor payments. These vendor payments totaling $24.8 million were tested for compliance with program requirements including whether vendor billings were adequately supported consistent with federal cost principles (OMB Circular A-87).

As expected, due to the date of the corrective actions implemented by RIDE (May 2013), we found that some of the payments made during the first three quarters of the fiscal year were not adequately supported (July 1, 2012 to March 31, 2013). Of the amounts tested, $2.1 million represented 13 vendor payments processed after the new guidelines were issued by RIDE's Director of Finance on May 7, 2013. The documentation supporting these charges was generally improved in comparison to previously processed payments. We did, however, find that some of the thirteen payments did not include the information outlined in RIDE's new documentation standards or conform to federally-established cost principles (e.g., OMB Circular A-87 and US Department of Education EDGAR).

For example, RIDE processed a payment to one vendor totaling $741,966 representing payment for its employees' salaries and unspecified consultant costs for the month of May. The supporting documentation did not provide detailed costs by employee/consultant – as required by its new documentation standards. Instead, the vendor simply provided the number of hours its employees worked by general position category. For example, it indicated that the employees in its Item Development position worked 4,653 hours in the month of May. The contract between RIDE and this consultant stipulated that the consultant expected to employ 5-8 individuals in this position on the Race to the Top project. In sum, this is insufficient documentation to enable a fair assessment of the reasonableness of these charges.

Additional examples of payments made after May 7, 2013 without sufficient supporting documentation are outlined below.

Nature of contractor billed cost item	**Amount**	**Date Paid**
Out of state travel	$16,754	May 24, 2013
Additional training	$10,000	May 24, 2013
PLCs and networking	$9,622	May 24, 2013
Meeting space rental	$39,434	July 19, 2013*
Registration fees	$7,500	July 16, 2013*
* fiscal 2013 accrued expenditure		

Subsequently, additional supporting documentation was provided by the vendors for some of these items.

RIDE should strengthen its monitoring of vendor compliance with billing documentation policies. In most instances, contract terms delineate required billing documentation and payment terms. Generally, when detailed documentation is not required at the time of billing, the contract provides for RIDE or its representatives to make onsite inspections if desired. Due to the significance of the amount of consultant vendor payments in relation to the $75 million Race to the Top grant award, RIDE may wish to either make selected site visits to review vendor documentation supporting charges to the grant or alternatively engage an independent auditor to review such documentation on its behalf. Additionally, in selected instances and when contracts remain open, RIDE should make future vendor payments contingent on delivery of required documentation for items already reimbursed.

Questioned Costs: None

RECOMMENDATION

2013-054 Ensure documentation supporting all disbursements meets the minimum standards established by federal cost principles and RIDE policies.

Corrective action plan / auditee views:

The RI Department of Elementary and Secondary Education (RIDE), in response to audit comments in the 2012 audit relative to paying vendor invoices, instituted a formal process for invoice payments. As noted in the audit narrative referencing this finding the process was introduced in mid-May of 2013 and was explained to RIDE staff and vendors as part of the May 2013 roll out, responding to a March 31st notice of an audit finding.

As a result of this new process the Department has seen a significant improvement in the back up information submitted by the vendor with the vendor invoices. Although encouraged by the improved documentation and verification the Department is disappointed that some randomly selected invoices, which included more back up information than previously submitted, did not include enough to satisfy the auditor's requirement. The Department believes it is not unreasonable to expect the new process to take more than several weeks to be 100% implemented *and followed, especially when attempting to redesign payment requirements within the final year of a multi-year work agreement.*

Documentation, although deemed insufficient for the audit requirements, was received for two of the four items cited in this report, and partial documentation was received for a third. The department does not agree that the entirety of the vendor invoice cited in the audit finding was paid without documentation.

RIDE firmly believes and can document the items noted in this finding, such as teaching modules, presentations, test creation and scoring, and on site visits by professional service providers were received and took place prior to payment.

The Department looks forward to continued improvement in its invoice paying operation, both for its existing multi-year contracts, and for future contracts and purchase orders.

Anticipated Completion Date: *N/A*

Contact Person: *Mark Dunham, Director of Finance, RIDE*
Phone: 401.222.4647

Finding 2013-055 ***(significant deficiency - new finding)***

IMMUNIZATION COOPERATIVE AGREEMENTS
Immunization Cooperative Agreements – CFDA 93.268
Federal Award Agency: US Department of Health and Human Services
Award Years: 2012, 2013
Federal Award Number: 5H23IP122530-10, 1H23IP000775-01
Administered by: Department of Health

CONTROL, ACCOUNTABILITY, AND SAFEGUARDING OF VACCINE

The Department of Health (DOH) performs required on-site reviews of providers administering vaccines under the Vaccines for Children (VFC) program. These reviews are intended to ensure that effective control and accountability is maintained for all vaccine. Additionally, vaccine must be adequately safeguarded and used solely for authorized purposes (42 USC 1396s). Federal regulations require follow-up when deficiencies are identified during on-site monitoring reviews to ensure the deficiencies are corrected.

We found that DOH can improve its documentation of required follow-up procedures when deficiencies are observed during on-site monitoring reviews. DOH was unable to provide documentation of follow-up procedures performed for deficiencies noted in one of ten provider site visits selected for testing. The deficiencies noted in this site visit were in the areas of vaccine storage, incomplete documentation of vaccine administration in the provider’s medical records, and the provider’s use of outdated Vaccine Information Statements. In this case, DOH lacked documentation demonstrating that the provider had corrected the deficiencies thereby ensuring the provider was safeguarding vaccines and maintaining records of vaccine administered in each person’s medical record.

Questioned Costs: None

RECOMMENDATION

2013-055 Ensure required follow-up procedures are performed and documented when deficiencies are noted during on-site provider monitoring reviews.

Corrective action plan / auditee views:

In January 2014, Health implemented PEAR, CDC's new data collection system. This system does not allow a Quality Assurance Specialist to close out annual site visit reports until all follow-up actions have been taken and documented in the system. The annual Vaccine for children Management survey report based on Pear Data, will also flag incomplete documentation that will be reconciled prior to submission to the CDC.

The corrective action was completed on January 1, 2014 with the implementation of the PEAR system.

Contact Person: *Patricia Raymond, RN, MPH, Chief, Prevention Services and Community Practices*
Phone: 401.222.5921

Finding 2013-056 ***(material weakness - new finding)***

STATE PLANNING AND ESTABLISHMENT GRANTS FOR THE AFFORDABLE CARE ACT (ACA)'S EXCHANGES – CFDA 93.525
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013
Federal Award Numbers: HBEIE0030A, HBEIE0064A and HBEIE0086A
Administered by: HealthSource RI – Department of Administration

FEDERAL REPORTING - SF-425 FEDERAL FINANCIAL REPORT

Standard terms and conditions for grants awarded under the State Planning and Establishment Grants for the Affordable Care Act's Exchanges federal program required the grantee (the State) to file Form SF-425, Federal Financial Report, Quarterly Project Reports to the HHS Grants Management Specialist and to the project officer for CMS's Center for Consumer Information and Insurance Oversight (CCIIO). During fiscal 2013, the RI Department of Business Regulation - Office of the Health Insurance Commissioner, filed the reports on behalf of the State.

The SF-425 Federal Financial Report includes quarterly cash transaction data, expenditures, and any program income. The report details quarterly and cumulative grant awards drawn and expenditures disbursed by individual grant awards. Our review of the four quarterly SF-425 reports noted the following:

- Documentation supporting the quarterly federal reports was not maintained by the State.
- Expenditures reported on each SF-425 differed from the amounts reported by the State's accounting system. The State indicated that the reason for the differences, which for one quarter exceeded $3 million, was caused by a misunderstanding by the State as to how expenditures were to be reported on the SF-425. The State erroneously recorded cash disbursements equal to reported cash receipts each quarter regardless of the actual amount expended that quarter. In these instances, the State should have reported a greater amount of expenditures each quarter to the federal grantor.

HealthSource RI, a division within the Department of Administration, is now responsible for the daily operations of the State's Health Insurance Exchange and adjusted amounts reported on the September 30, 2013 filing to correct reported cumulative disbursements by grant award through that date.

Questioned Costs: None

RECOMMENDATION

2013-056 Prepare the SF-425 Federal Financial Report in accordance with guidelines issued by the Office of Management and Budget and consistent with amounts recorded in the State's accounting system.

Corrective action plan / auditee views:

Internal control processes implemented by HealthSource RI in late state fiscal 2013 identified the reporting items highlighted in the finding. Reports beginning with the September 30, 2013 submission correctly identify and report all federal expenditures charged to respective HealthSource RI grants. All reported expenditures are supported by RIFANS. HealthSource RI will ensure future compliance with reporting requirements by continued staff education and commitment to effective operation of internal controls.

Anticipated Completion Date: *N/A*

Contact Person: *Meetesh Kumar, Chief of Strategic Planning Finance and Administration, HealthSource RI*
Phone: 401.574.9805

Finding 2013-057 ***(material weakness - new finding)***

STATE PLANNING AND ESTABLISHMENT GRANTS FOR THE AFFORDABLE CARE ACT (ACA)'S EXCHANGES – CFDA 93.525
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2012-2013
Federal Award Numbers: HBEIE0030A, HBEIE0064A and HBEIE0086A
Administered by: HealthSource RI – Department of Administration

ALLOWABLE COSTS/COST PRINCIPLES

For fiscal 2013, the State expended $25.2 million relating to the planning and implementation of its State-based Health Insurance Exchange (HIE) as authorized by the federal Affordable Care Act. The majority of the expenditures (approximately $23.7 million) related to consulting and technology services for the implementation of the State's HIE. In addition, the State charged personnel costs (nearly $1 million) to the program for employees working directly on the program.

HealthSource RI can improve its controls to ensure amounts billed by vendors are fully supported and documented consistent with federal requirements. Additionally, controls can be enhanced to ensure personnel costs allocated to the program are supported by time sheets or semi-annual certifications (for employees expending 100% of their efforts on the program).

Consultant and Technology Services Vendor Charges

During fiscal 2013, HealthSource RI engaged multiple consultants and technology service providers to plan and build the HIE. Some vendors were paid based on successful task completion/delivery while others were paid based on hourly billing rates and reimbursement for other charges.

Expenditures must meet certain criteria defined in OMB Circular A-87, *Cost Principles for State, Local, and Tribal Governments*, to be allowable for federal reimbursement. We tested a sample of the vendor related expenditures and found that documentation supporting hours charged in monthly consultant invoices and for reimbursed consultant travel expenses was not complete. In certain instances, additional documentation was provided by the vendors after our audit requests to HealthSource RI; however, such documentation had not been obtained and reviewed, at the time of payment. We observed the following:

- HealthSource RI was unable to provide documentation (i.e., timesheets, activity reports, etc.) demonstrating that the number of hours detailed on contractor invoices had been validated prior to approval – the hourly billing rates were supported by the original contract provisions;

- $252,201 in consultant travel costs were reimbursed without supporting documentation – during our audit the vendor subsequently provided adequate supporting documentation for the charges;

- $17,940 labeled as travel costs were approved in conjunction with consultant invoice payments without the agency reviewing supporting documentation for these costs - documentation supporting the costs was subsequently obtained from the consultant, and in one instance, found to be costs labeled improperly on the original invoice; and

- $20,074 overpaid due to a clerical error made in the calculation of a “mark-up” percentage applied to subcontractor charges.

HealthSource RI should have ensured adequate supporting documentation was obtained and reviewed for all consultant and vendor invoices prior to payment. While each of the underlying contracts and purchase orders within the State accounting system provide control over the maximum contract amount disbursed, review and approval of invoices and supporting documentation is critical to ensuring that only allowable costs are charged to the federal program.

HealthSource RI should adopt a policy detailing uniform documentation requirements for consultants that bill on an hourly basis and are reimbursed for other allowable costs. This is particularly important due to the volume of consultant effort billed on an hourly basis - one vendor’s workplan alone estimated more than 84,000 hours of consultant billings.

Personnel Charges

HealthSource RI was unable to provide supporting documentation for certain personnel costs charged to the HIE program. OMB Circular A-87 requires employees that work solely on one federal award to complete periodic (no less than semi-annually) certifications attesting to that fact. The State did not complete semi-annual certifications for those employees that worked exclusively on the program in fiscal 2013. In addition, timesheets were not provided for two employees included in our sample supporting the allocation of their salary and related employee benefits to the program. These employees did not work exclusively on the program.

Initial planning for the HIE began as a multi-agency collaboration before program activities and responsibilities were consolidated within HealthSource RI, a division within the Department of Administration. The sharing of responsibilities over several departments complicated the retrieval of certain documentation related to fiscal 2013 as requested during our audit.

Questioned Costs: $20,074

RECOMMENDATIONS

2013-057a Ensure that consultant billings are adequately supported and documented prior to payment to ensure compliance with federal allowable cost regulations.

2013-057b Adopt uniform documentation requirements for consultants billing on an hourly basis and for other reimbursable costs.

2013-057c Ensure personnel costs reimbursed under the program are supported either by timesheets or semi-annual certifications for those employees that work solely on one federal award.

Corrective action plan / auditee views:

Current HealthSource RI policies and procedures require that both operational contract managers and financial contract managers review invoices for appropriateness and allowability of time and expenditures charged by vendors; however, management agrees that more standardized policies regarding collection of supporting documentation for vendor time and expense should be considered.

In addition to the control process mentioned above, vendors are required to perform regular contract reviews and updates with HealthSource RI management. In October 2013, a vendor's internal review process identified the miscalculation of a contractually approved administrative fee. This error was investigated and reported to HealthSource RI and resulted in a repayment of funds by the vendor. HealthSource RI management will consider the need for additional staff training to ensure future invoicing errors are prevented prior to processing.

Personnel Expenditures

State fiscal 2013 was a year of transition for HealthSource RI which included a movement between state agencies and a high level of collaboration with multiple other agencies. During state fiscal 2014, HealthSource RI has been able to implement internal controls that include the bi-annual certification of time for all employees who are charged 100% to HealthSource RI grants. In addition, HealthSource RI will consider the need to develop additional policies and procedures for the collection of payroll documentation from other state agencies that provide staffing support for HealthSource RI grants.

Anticipated Completion Date: *June 30, 2014*

Contact Person: *Meetesh Kumar, Chief of Strategic Planning Finance and Administration, HealthSource RI*
Phone: 401.574.9805

Finding 2013-058 ***(significant deficiency - repeat finding)***

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs – CFDA 93.714
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 (Stimulus), 2011-2012 and 2012-2013
Federal Award Numbers: G1002RITAN2, G1202RITANF, G1302RITANF

CCDF CLUSTER:
Child Care and Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: G1201RICCDF, G1301RICCDF

Administered by: Department of Human Services (DHS)

<u>ELIGIBILITY - CASE FILE DOCUMENTATION</u>

The Department provides cash assistance and other services to eligible families in an approved employment plan of the State's Rhode Island Works Program (RI Works) which is funded by TANF. It also provides services to children of low-income families whose gross income is within established eligibility limits – these are primarily childcare services funded through the CCDF Cluster programs.

Families apply for RI Works cash assistance using the DHS Application for Assistance and the Statement of Need forms. Families seeking eligibility for the Child Care Assistance Program (CCAP) must submit a signed RI Works request for services or CCAP application form. All RI Works and childcare service applications are required to be submitted along with the documentation required to verify eligibility and the need for services.

We tested the case files of 35 families receiving RI Works cash assistance and 30 receiving child care services to determine whether the proper eligibility determinations were made, and whether payments were calculated in accordance with program requirements, including obtaining any required documentation and performing required verifications. We noted the following documentation exceptions concerning the RI Works Program and Child Care Programs applications eligibility determination process:

- One CCAP case file selected was not provided for review. In five additional cases, we did not receive the application for the selected testing period.

- Five TANF cases did not include an application or interim report for the selected testing period. One case noted unearned income, but it was not included in the determination of cash assistance.

- Two TANF service files were not provided and there were six instances where no employment activity plan was in place for the client for the selected month. One client's work plan expired in December, but she was not sanctioned until May.

Controls should be further strengthened to ensure that workers comply with established procedures thereby assuring the accuracy of eligibility determinations, including sanctions for noncompliance with a work plan, and calculations of benefits or provider payments.

<u>Questioned Costs:</u> Unknown

RECOMMENDATION

2013-058 Strengthen controls to ensure adherence to procedures requiring agency personnel maintain and properly utilize required documentation to update electronic case file records prior to determining eligibility and payment amounts, as well as performing proper re-certifications and determining and enforcing compliance with work participation requirements.

Corrective action plan / auditee views:

The Department will instruct all RI Works supervisors to review cases more regularly. Through ongoing training and improved communication, supervisors should have better oversight

Anticipated Completion Date: *January 2014*

Contact Person: *Deborah Buffi, Associate Director*
Phone: 401.462.0547

Finding 2013-059 ***(material weakness - new finding)***

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs – CFDA 93.714
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 (Stimulus), 2011-2012 and 2012-2013
Federal Award Numbers: G1002RITAN2, G1202RITANF, G1302RITANF
Administered by: Department of Human Services (DHS)

ARRA REPORTING AND PERIOD OF AVAILABILITY

DHS overstated expenditures on its final ARRA report and expended ARRA funds outside of the period of availability.

In 2010, DHS was awarded $7.5 million in ARRA funds to be used for TANF. These funds were set to expire with final expenditure amounts to be reported as of March 31, 2013. At that time, DHS reported the grant was fully expended, however, accounting records indicated that $750,000 remained available.

In May 2013, DHS drew the remaining funds, in advance of disbursement, and allocated the majority of the funding to the Department of Labor and Training (DLT) for a summer employment program for at-risk youth. Subsequent to June 30, 2013, DLT disbursed $579,000 for the summer employment program.

At March 31, 2013, DHS should have reported the funds as an unliquidated obligation. When the program ended, about $171,000 in ARRA funds remained unspent and should be returned.

DHS should strengthen controls to ensure adherence to period of availability limitations, cash management provisions, reporting amounts on federal reports consistent with the State's underlying accounting records. Any unspent ARRA funds remaining after the period of availability should be returned to the federal grantor.

Questioned Costs: $171,000

RECOMMENDATIONS

2013-059a Adhere to all grant requirements including reporting and cash management.

2013-059b Return any remaining unspent ARRA funds to the federal grantor.

Corrective action plan / auditee views:

We have communicated with our federal partners and will improve timeliness in the future.

Anticipated Completion Date: *Completed*

Contact Person: *Janice Cataldo, Chief Financial Officer*
Phone 401.462.0547

Finding 2013-060 ***(material weakness - repeat finding)***

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs – CFDA 93.714
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 (Stimulus), 2011-2012 and 2012-2013
Federal Award Numbers: G1002RITAN2, G1202RITANF, G1302RITANF
Administered by: Department of Human Services (DHS)
CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5021 and 1305RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

INCOME ELIGIBILITY AND VERIFICATION SYSTEM

The Department of Human Services (DHS) participates in the Income Eligibility and Verification System (IEVS) as required by Section 1137 of the Social Security Act as amended. Through this system, DHS coordinates data exchanges with other federally assisted benefit programs and utilizes the income and benefit information to determine individuals' eligibility for assistance and the amount of assistance.

DHS data interfaces with the Internal Revenue Service, the Social Security Administration and the Department of Labor and Training (the State Wage Information Collection Agency) to verify information about recipients of federally assisted programs, including the Temporary Assistance for Needy Families (TANF) program. Federal regulation 45 CFR 205.56 requires that the State agency review and compare the information obtained from data exchanges against information contained in recipients' case records to determine whether it affects the recipients' eligibility or the amount of assistance. The Department's INRHODES computer system receives the information from the data exchanges and automatically includes the data in the applicable case record. Caseworkers are then electronically prompted about the receipt of new data and are required to investigate and resolve any discrepancies.

The objective of our testing was to assess whether DHS considered the IEVS data match information in determining eligibility for TANF and the amounts of benefits. Specifically, we understand that case workers are prompted electronically through the Department's INRHODES computer system when new information resulting from the IEVS data matches is posted in the case record.

We received a data file from DHS for our testing which included 95,384 IEVS records representing data that populated INRHODES case files upon upload of various data interfaces. Since INRHODES is used to determine eligibility for multiple programs including TANF, we matched the IEVS data interface file to a file containing all TANF benefit payments for fiscal 2013. That file included 11,594 TANF recipients with at least one or more cash benefit payments during the year. The resulting match yielded 6,394 records representing TANF recipients with one or multiple cash benefit payments during the year and at least one IEVS data match. We selected a random sample of 40 out of a population of 6,394 records for testing.

For each case, we assessed whether the IEVS data had been properly considered in the eligibility and benefit determination process. Our assessment was based on whether the electronic case record contained evidence that a worker had acted on and/or cleared the IEVS data. The results of our testing of 40 randomly selected IEVS data messages are summarized as follows:

- For eight (8) of the 40 cases the IEVS data posted to the case record related to a period prior to the recipient becoming eligible for benefits. DHS informed us that, in these instances, a worker can readily determine that the IEVS data related to a period prior to eligibility and these IEVS data messages are disregarded without further documentation.

- Twenty-six (26) out of 40 electronic case records with IEVS data matches did not contain evidence that a worker investigated or resolved the issue.

- Six (6) cases where there was appropriate evidence in the case record of worker investigation and consideration of the IEVS data in the eligibility and benefit determination process.

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

2013-060a Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.

2013-060b Maintain documentation supporting the resolution of data match discrepancies and initiate modifications when discrepancies affect eligibility and/or amount of benefits.

Corrective action plan / auditee views:

2013-060a - The Department will improve the oversight for data matches and resolution of eligibility through updated quality control procedures. In addition, policy and procedures will be amended to clearly identify to staff when and what type of action is required on various types of cases (i.e. cases not active during time of discrepancy, therefore, no impact on eligibility).

2013-060b **-** *The Department continues to strive toward prompt resolution of interface matches and will implement an automated employment and income verification process. In addition, DHS will continue to work with new IES (Integrated Eligibility System) vendor to automate interfaces, as appropriate.*

Anticipated Completion date: *September 2014*

Contact Person: *Lissa DiMauro, Associate Director*
Phone: 401.462.6356

Finding 2013-061 ***(material non-compliance / material weakness - repeat finding)***

TANF CLUSTER:
Temporary Assistance for Needy Families – CFDA 93.558
ARRA – Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs – CFDA 93.714
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2010-2011 (Stimulus), 2011-2012 and 2012-2013
Federal Award Numbers: G1002RITAN2, G1202RITANF, G1302RITANF
Administered by: Department of Human Services (DHS)
SOCIAL SERVICES BLOCK GRANT – CFDA 93.667
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 12RISOSR and 13RISOSR
Administered by: Department of Human Services (DHS)

SUBRECIPIENT MONITORING

OMB Circular A-133 requires pass-through agencies to monitor subrecipients to ensure the subrecipients' compliance with laws, regulations, and the provisions of contracts and grant agreements. Monitoring can be accomplished through a combination of procedures including site visits and other programmatic measures.

Guidance for pass-through agencies can be found at 31 USC 7502(f)(2)(A through C). It requires pass through entities to provide subrecipients the program name, CFDA number (or other identifying number) and federal requirements of the award. The Circular also requires the pass-through agencies (1) ensure that subrecipients expending $500,000 or more in federal awards have met applicable audit requirements, (2) issue a management decision on any audit findings within six months after receipt of the subrecipients' audit reports, (3) ensure that the subrecipients take timely and appropriate corrective action, and (4) evaluate whether any audit findings necessitate adjustment of the pass-through entity's records or impact the agency's ability to comply with applicable federal regulations.

We selected seven TANF subrecipient files for testing. Only four of the subrecipients had provided their audit report timely to the department. The other three subrecipients only forwarded their reports after our request of the department. Once received, DHS staff did review them and noted no findings related to the TANF program.

The Social Services Block Grant is primarily administered by the Department of Human Services but program funds were provided to other departments. For example, DOA awarded contracts to provide services for homeless adults, BHDDH administered contracts covering mental health services and DCYF awarded two contracts for the development of infrastructure for a system of care. We found that subrecipient monitoring, involving the awarding of contracts and monitoring of contracts both during and after the award process was lacking across all departments:

- DHS did not obtain audit reports from all of its grantees and did not have procedures to ensure compliance with subrecipient monitoring for SSBG funds expended by other State agencies.

- DOA obtained audit reports from its subrecipients as part of their grant application process – but they did not maintain a log to track when reports are due, nor complete checklists or otherwise indicate that the reports were reviewed when received. Audit reports received as part of the application process may not be timely depending on the date of the application and the agency's fiscal year end date.

- BHDDH did not perform after the award monitoring by reviewing audit reports, and also during the award monitoring was lacking as awardees were not required to submit invoices or periodic fiscal reports in order to receive payment. The funding source for two contracts was changed from State to federal dollars after they were awarded and the agencies were not notified. The agencies should have been notified of the change since it may have affected their need for a Single Audit or compliance with other federal compliance requirements.

DHS needs to improve it subrecipient monitoring procedures, specifically those related to receipt and review of subrecipient audit reports. DHS should also ensure that when grant funds are allocated for expenditure by other State departments, all applicable and appropriate subrecipient monitoring procedures are performed.

Questioned Costs: None

RECOMMENDATIONS

2013-061a Obtain and review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action. Ensure that all federal funds passed through the State are included in the subrecipient's audit report.

2013-061b Notify all subrecipients of federal award data and compliance requirements, including changes in funding source.

2013–061c Require subrecipients to submit appropriate documentation when requesting payment of federal funds.

Corrective action plan / auditee views:

2013-061a - The Department will review the process for obtaining and reviewing subrecipient audit reports.

2013-061b - The Office of Financial Management Services will notify all subrecipients of the requirement to comply with OMB A-133 and assure that all recipients of these federal awards are complying.

2013–061c - The Office of Financial Management will work with the agencies that receive SSBG funds -BHDDH, DCYF and DOA to require subrecipients to submit audit findings within 9 months after the end of the subrecipients' fiscal year.

Since this has been more complicated to monitor as awards cross departments and subrecipients must respond to many departments, this activity too should be centralized.

Anticipated Completion Date: *February 2014*

Contact Person: *Jennifer Pate, Administrator, Financial Management*
Phone: 401.462.1586

Finding 2013-062 ***(material weakness - repeat finding)***

LOW-INCOME HOME ENERGY ASSISTANCE PROGRAM – CFDA 93.568
Federal Award Agency: Department of Health and Human Services - Administration for Children and Families
Federal Award Numbers – 2013G992201, 2012G992201, 2011G992201, 2010G992201
Administered by: Department of Human Services (DHS)

SUBRECIPIENT CASH MANAGEMENT

The Department of Human Services (DHS) contracts with various Community Action Program (CAP) agencies to provide energy related services designed to assist low-income households with home energy costs. Each CAP agency submits a weekly report to DHS which identifies the balance of LIHEAP funds on hand. DHS uses these reports to monitor agency cash balances and to determine if agencies require additional program funds. In fiscal 2013, the current process enabled the subrecipients to have excess cash on hand. As required in the federal regulations (45 CFR 74.22), DHS must ensure that payments of LIHEAP program funds to subrecipients are limited to their immediate cash needs. DHS should strongly consider making payments to the subrecipients on scheduled intervals based on appropriate supporting documentation.

We found that DHS lacks consistent controls to restrict subreceipient cash balances to their immediate cash needs. DHS is advancing funds to the subrecipients, allowing for the possibility of a material positive cash balance being held for an extended period of time. As a result, we noted that various subrecipient CAP agencies reported a material positive cash balance on hand for more than 14 days. Cash is in excess of immediate cash needs.

Questioned Costs: None

RECOMMENDATIONS

2013-062a Restrict subrecipient funding to their immediate cash needs.

2013-062b Strengthen internal controls over subrecipient cash management.

Corrective action plan / auditee views:

DHS will continue to monitor cash balances for the subrecipient agencies to improve cash management. Currently funds are released based on a two week prior performance. Subrecipients will be required to submit a weekly status summary to monitor cash needs

Anticipated Completion Date: *May 2014*

Contact Person: *Lewis Babbitt, Chief of Program Development*
Phone: 401.462.6424

Finding 2013-063 ***(significant deficiency - repeat finding)***

CCDF CLUSTER:
Child Care and Development Block Grant – CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund – CFDA 93.596
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: G1201RICCDF, G1301RICCDF
Administered by: Department of Human Services (DHS)

MATCHING AND EARMARKING REQUIREMENTS

Controls over federal reporting need to be enhanced to ensure accurate and consistent reporting of financial information to the Administration for Children and Families (ACF) and to demonstrate that earmarking requirements have been met.

DHS reported an amount of State expenditures on its December 31, 2012 report that indicated it had met the matching requirement. The matching requirement must be met at the end of each quarter, not just at the end of the grant year. The actual amount of State expenditures recorded in the State's accounting system indicated that the State had not met the matching requirement for the quarter and had over-reported State expenditures by $20,225.

We reported in our previous audit that DHS spent its allocation of mandatory funds before the quarter in which the funds became available - grantees are not allowed to spend funds in anticipation of an award. In FFY 2013, DHS used its fourth quarter funds to pay childcare costs that were incurred in SFY 2013, but they did not report the expenditures until September 30, 2013 (SFY 2014). Reports are to be prepared on an accrual basis and expenditures should be reported consistent with their presentation in the State's financial accounting system.

Questioned Costs: None

RECOMMENDATIONS

2013-063a Strengthen controls to ensure that federal reports are prepared accurately and reviewed prior to submission to ensure compliance with matching requirements.

2013-063b Improve cash management practices to limit pre-award expenditures.

Corrective action plan / auditee views:

2013-063a - The Office of Financial Management staff will work closely with program managers to monitor matching requirements.

2013-063b - The Department will work with the State Budget Office to monitor the availability of CCDF funds to match the mandatory Child Care Development Funds. The department would have to monitor spending in the state fiscal year and move funds to the next fiscal year to avoid a finding.

Anticipated Completion Date: *May 2014*

Contact Person: *Jennifer Pate, Administrator, Financial Management*
Phone: 401.462.1586

Finding 2013-064 ***(significant deficiency - new finding)***

CCDF CLUSTER:
Child Care and Development Block Grant CFDA 93.575
Child Care Mandatory and Matching Funds of the Child Care and Development Fund CFDA 93.596
Federal Awarding Agency: US Department of Health and Human Services
Award Years: Federal Fiscal Years 2012 and 2013
Federal Award Numbers: G1201RICCDF, G1301RICCDF
Administered by Department of Human Services (DHS)

FRAUD DETECTION AND REPAYMENT

Federal regulations require that lead agencies such as DHS recover childcare payments that are the result of fraud. These payments shall be recovered from the party responsible for committing the fraud (45 CFR section 98.60).

The Front-End Detection (FRED) Unit concentrates on early detection of potential fraud by investigating Child Care applications which exhibited indicators of possible fraud as well as investigating active cases that are forwarded to it from other Divisions within the Department in order to identify potential overpayments. If an overpayment is detected, the FRED Unit attempts appropriate action to recover payment, including referrals to the DHS fraud and collection units. The FRED Unit investigates cases of potential fraud for four federal programs: Child Care, SNAP, Medical Assistance and RI Works (TANF).

During fiscal 2013, 430 Child Care cases with potential overpayments were referred to the FRED Unit for investigation but no overpayment cases were identified. Management advised us that this occurred because the small staff of five persons focused on SNAP and TANF cases because of federal grantor emphasis on those programs. As a result, the FRED Unit identified 446 SNAP and 50 TANF cases for referral to collections, but no Child Care cases.

Questioned Costs: None

RECOMMENDATION

2013-064 Review active Child Care cases referred by other units for possible overpayments and take appropriate action to recover any overpayments found.

Corrective action plan / auditee views:

The fraud units will follow up with referrals for possible overpayment and take appropriate actions for recovery if overpayments are found.

Anticipated Completion Date:	*May 2014*
Contact Person:	*Deborah Barclay, Legal Counsel* *Phone: 401.462.6816*

Finding 2013-065 ***(material non-compliance/material weakness - repeat finding)***

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5021 and 1305RI5021
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER THE DETERMINATION OF SCHIP ELIGIBILITY

The 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. Rhode Island has obtained waivers from the federal government that allow reimbursement of medical insurance coverage provided to certain individuals previously eligible under the Medicaid program at the enhanced SCHIP federal financial participation rate. SCHIP expenditures for fiscal 2013 approximated $58 million (federal share - $38 million).

During fiscal 2013, the State significantly over claimed expenditures (in excess of $11 million) charged to SCHIP based on erroneous amounts reported by its managed care consultant. Although the State made the necessary adjustments at year-end to correct its fiscal 2013 claiming, such errors continue to demonstrate the need for more comprehensive monitoring of SCHIP claiming to ensure its completeness and compliance with eligibility requirements. In addition, EOHHS claimed SCHIP reimbursement for children ages six and seven with family incomes between 100% and 133% of the federal poverty limit (FPL) while the federal Children's Health Insurance Program Reauthorization Act of 2009 (CHIPRA) appears to only allow reimbursement for those with family incomes between 133% and 250% of the FPL. EOHHS estimates that it over claimed to SCHIP for these children by $3.5 million (federal share). These claims were eligible for and should have been charged to the Medical Assistance Program instead, resulting in a net federal over claiming of $657,762.

The State began claiming children ages 0-7 between 133% and 250% of the FPL under SCHIP in fiscal 2010 as authorized under CHIPRA. While federal authority clearly allowed for this claiming, it is unclear whether the terms and conditions of the State's Global Waiver or CHIP State Plan required amendments to align the approved State Plan with the underlying federal authority.

Eligibility for both the Medicaid and the SCHIP programs is determined through the State's INRHODES computer system; however, specific SCHIP eligibility criteria have not been programmed into that system. Instead, all individuals first become Medicaid eligible. Procedures to identify and claim amounts eligible under SCHIP consist primarily of disbursing capitation or fee-for-service payments initially as Medicaid eligible expenditures and then, using queries (designed by the State's contracted fiscal agent) against the Medicaid Management Information System (MMIS), identify claims paid on behalf of individuals that also meet the eligibility criteria for SCHIP. These queries are designed to identify claims (both capitation and fee-for-service) for individuals that meet the specific age and income criteria deemed eligible for SCHIP and also to determine whether the Medicaid recipient has verified third party insurance coverage - a characteristic that would disqualify them from meeting SCHIP eligibility requirements. This process is normally done monthly to isolate individuals meeting the SCHIP eligibility criteria so that the related expenditures can be shifted to SCHIP and the additional federal match can be claimed.

The State uses queries rather than programming its systems to identify SCHIP eligible individuals because of existing system design constraints, continual changes regarding eligibility for SCHIP, and federal limits on funding for the SCHIP program. Accordingly, the determination of SCHIP eligible claims through monthly queries of MMIS data is reasonable and cost-effective.

A quality control review process over SCHIP claiming is needed because the eligibility determination process is variable and entirely performed by consultants. Controls over this process, should be improved by subjecting SCHIP claiming results to an eligibility quality control process similar to the process in place over all Medicaid claims. Such a process should provide additional control over the determination of SCHIP eligibility by evaluating eligibility based on the specific income and insurance criteria mandated for the program instead of relying solely on an individual's coding characteristics within the MMIS.

Questioned Costs: $3.5 million for SCHIP - federal share ($657,762 in net federal questioned costs over allowable Medicaid FFP)

RECOMMENDATION

2013-065 Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure that eligibility and allowable cost program criteria are met.

Corrective Action / auditee views:

As noted by the Auditor General, the State concurs that there was a coding error that led to over claiming of CHIP funds for children 6 and 7 years old. This coding for CHIP allocation amounts has been corrected. The State's new eligibility system (UHIP) determines Title XXI eligibility prospectively. This is a significant improvement from InRhodes/MMIS functioning in the allocation of CHIP claiming. UHIP transmits the CHIP eligibility to InRhodes and MMIS.

(Note: Until all existing CHIP recipients are transitioned to the UHIP system over the next 15 months, the State will need to continue to use the current back end claiming method.)

Anticipated Completion Date: *On-going*

Contact Person: *Deborah Florio, Administrator*
Phone: 401.462.0140

Finding 2013-066 *(significant deficiency- repeat finding)*

CHILDREN'S HEALTH INSURANCE PROGRAM – CFDA 93.767
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5021 and 1305RI5021
MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

FEDERAL REPORTING

Federal regulations require that expenditures for the Medical Assistance Program (Medicaid) be reported on Form CMS-64. Expenditures for the State Children's Health Insurance Program (SCHIP) are also reported on Form CMS-64 for the basic children's population with all other eligible SCHIP populations reported on Form CMS-21. While most of the information regarding claims paid is provided through the MMIS operated by the State's fiscal agent, RIFANS, the State's accounting system, is the official record for reported federal expenditures.

Quarterly Statements of Expenditures- Program Expenditures

Controls should be improved over the preparation of the quarterly reporting of Medicaid and SCHIP expenditures. The processes required to accumulate information needed to prepare the CMS-64 report are complex and require extensive manual effort. Although total program expenditures reported for both federal programs were able to be reconciled to RIFANS for fiscal 2013, RIFANS does not include the same level of Medicaid service detail that is available in the MMIS. This requires that financial management staff perform significant manual computations to derive amounts required for the preparation of the CMS-64 and CMS-21 reports. This often requires that estimated federal expenditures be reported on the federal financial report, Form SF-425, which must be filed within 30 days after the end of each quarter.

Although the reconciliation and reporting of Medicaid program expenditures has improved in recent years, the overall process could be streamlined by better aligning the account structure within the State's accounting system to accommodate the categories of expenditure data generated by the MMIS and required for preparation of the CMS-64. Better alignment of accounts and coding would facilitate the preparation of the CMS-64 as well as the reconciliation of data reported by the fiscal agent which ultimately is recorded in the State's accounting system.

Quarterly Statements of Expenditures- Administrative Expenditures

EOHHS reports administrative expenditures claimed by other State agencies (DEA, DOH, BHDDH, DCYF) based on certifications filed by these departments or transactions recorded in the State's accounting system. For certain administrative expenditure categories, EOHHS imputes State matches for federal expenditures certified by other State agencies to derive total costs reported on the CMS-64. Based upon agreements with other State agencies, all Medicaid claiming initiated by other departments should be recorded in authorized accounts within the State accounting system demonstrating the appropriate state/federal shares of the expenditures. Agency compliance with this mandated accounting would allow EOHHS to completely reconcile administrative expenditures reported in the State's accounting system with those reported on cost certifications filed by those agencies and ultimately on Form CMS-64.

During fiscal 2013, Medicaid administrative expenditures reported on Form CMS-64 totaled $87,346,622 (federal share) while expenditures reported in the State's accounting system totaled $79,875,044. Most of the difference is attributable to administrative expenditures for other State agencies which often are not claimed on federal reports in the same quarter that they are recorded in the State accounting system. Federal reimbursement of administrative expenditures is drawn when recorded in the State accounting system, thus administrative expenditures should only be recorded in Medicaid accounts when agencies have determined their eligibility for Medicaid reimbursement.

While EOHHS reconciles reported program expenditures to amounts recorded in the State's accounting system, no reconciliation is performed for administrative expenditures to explain reporting differences. Adopting policies that align the timing of when administrative expenditures are recorded in the State accounting system, drawn for federal reimbursement, and reported on federal reports would significantly enhance EOHHS's ability to reconcile administrative expenditures reported on federal reports with those reported in the State accounting system.

Questioned Costs: None

RECOMMENDATIONS

2013-066a Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.

2013-066b Reconcile administrative expenditures reported on the CMS-64 report with those reported in the State's accounting system.

Corrective Action / auditee views:

2013-066a - EOHHS agrees with the Auditor's recommendation to align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS. EOHHS working with the State Controller, the Auditor General's staff has developed a system to interface MMIS transactions with the State's accounting system (RIFANS) to facilitate the process of reconciling expenditures reported on the CMS 64 and the state's accounting system. This interface is being developed and will be live by April 2014.

Anticipated Completion Date: April 2014

2013-066b - EOHHS agrees with the Auditor's recommendation that administrative expenditures reported on the CMS-64 report reconcile with the State's accounting system. EOHHS issued a Request for Proposal in October, 2013 soliciting vendors to develop a new cost allocation plan for the Medicaid administrative program as a whole. One of the many factors which complicates the reconciliation process is the adjustments which occur at the agencies outside of the EOHHS hierarchy. We are anticipating awarding the development of the cost allocation plan to a qualified vendor by April, 2014. However, given that this work will take time to complete, we are going to commence a quarterly reconciliation of Medicaid administrative expenditures to cash and the CMS-64. By extracting Medicaid expenditure information from RIFANS for all state agencies, EOHHS will be able to identify where variances exist and will either correct practices that cause these variances or have explanations for why these variances occur.

Anticipated Completion Date: Ongoing monitoring and developing of the variance report and December 2014 for the implementation of the new Medicaid Cost Allocation

Contact Person: *Alda Rego, Chief Financial Officer*
Phone: 401.462.1834

Finding 2013-067 *(material weakness - repeat finding)*

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

COSTS NOT OTHERWISE MATCHABLE (CNOM)

In January 2009, the Centers for Medicare and Medicaid Services (CMS) approved the State's request to operate its entire Medicaid program under a single Section 1115 Demonstration Waiver called the Global Consumer Choice Demonstration ("Global Waiver"). The approval authority for this demonstration exists within Section 1115(a) of the Social Security Act. Section 1115(2)(A) includes a provision for certain expenditures that would not otherwise be matchable under Section 1903 of the Social Security Act (the section of the act that authorizes Medical Assistance payments to States) to be claimable as program expenditures under Medicaid "to the extent and for the period prescribed by the Secretary". Commonly referred to as "CNOM" claiming, it is designed to allow States some added flexibility under Section 1115 demonstrations. The State, under this authorization, has identified various CNOM populations and services deemed to represent "at risk" segments of the State's population.

The State claimed $39.6 million (federal share - $20.0 million) in CNOM expenditures during fiscal 2013. These included early intervention services to young children, individuals in need of medical and pharmacy services relating to mental illness and substance abuse, as well as children not in the custody of the State that receive services through the State's Department of Children, Youth and Families (DCYF), as examples.

During fiscal 2013, the majority of CNOM expenditures were paid by the State's MMIS. Documentation of recipient eligibility, however, remained either manually documented by the State or by the specific provider rendering the services. Determination of recipient eligibility for CNOM expenditures lacks the comprehensive controls applied to recipient eligibility for those individuals found eligible for Medicaid. Our testing of CNOM expenditures claimed during fiscal 2013 noted the following:

- The general characteristics (i.e., medical service provided, age of recipient, recipient medical condition, etc.) of the specific claims tested were consistent with the corresponding CNOM populations approved in the State's Global Waiver; however, the underlying support for required income and asset limitations, when applicable, was not maintained within the State's INRHODES system and subject to the recipient eligibility controls designed within that system.

- Of the 28 CNOM claims tested, we found the supporting documentation of recipient eligibility to be insufficient or unable to be provided by the State for seven of those claims (federal questioned costs - $1,141).

- The Executive Office of Health and Human Services (EOHHS) adopted policies and procedures that require the State agencies (DHS, DCYF, BHDDH, etc.) responsible for the administration of the respective CNOM programs to document and validate eligibility determinations made by provider agencies. These requirements for fiscal 2013 had not been fulfilled by the respective agencies at the time of our audit, and thus, specific post review controls designed to validate CNOM claiming within the Medicaid program were not effective.

- For those CNOM claim groups not paid through the MMIS, no documentation of claiming or eligibility was available at the time of our audit due to agency post audit reviews not being completed (federal questioned costs - $5,059,011).

We noted the following control deficiencies over certain CNOM claiming populations:

- Several CNOM claiming populations were not paid through the MMIS and thus were not subjected to the control edits inherent in that system. The payment of Medicaid benefit expenditures external to the MMIS exposes the State to the risk of paying duplicate claims for the same service performed.

- Certain CNOM populations relate to services provided to individuals that do not qualify for Medical Assistance yet still have defined eligibility criteria. The eligibility criteria (income, in most instances) for these individuals are not being processed through the State's eligibility determination system, the INRHODES system. The INRHODES system, through its income eligibility verification system (IEVS), has various control interfaces designed to validate the representations made by the individuals that are ultimately claimed to Medicaid. Decentralizing the Medicaid eligibility determination process throughout the program weakens overall controls over eligibility, and will require a more extensive monitoring and post audit process to ensure that CNOM eligibility requirements are met.

- Provider eligibility requirements must be met for Medicaid eligible services. The State utilizes centralized provider eligibility procedures employed by its fiscal agent to ensure that licensure and suspension and debarment requirements are met. Processing CNOM claims external to the MMIS circumvents the program's provider eligibility controls and creates a risk that claims could be reimbursed for services performed by ineligible providers or unlicensed clinicians.

CNOM claiming should be subject to the same claims processing and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid claims to ensure adequate control over these claim groups. Respective departments need to complete all claiming reviews relating to fiscal 2013 CNOM expenditures and credit the federal government for amounts determined to be claimed in error. In the future, EOHHS should ensure that all CNOM claiming processes are fully operational prior to claiming these expenditure populations to the Medicaid program.

Questioned Costs: $5,060,152

RECOMMENDATIONS

2013-067a Subject all CNOM claiming to the system edits and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.

2013-067b Ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during the fiscal year and credit the federal government for any amounts claimed in error.

2013-067c Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditures to the Medicaid program.

<u>Corrective Action / auditee views:</u>

2013-067a - EOHHS agrees with the Auditor's recommendation to subject all CNOM claiming to the system edits and eligibility control processes embedded in the MMIS and INRHODES systems.

Currently, the only two Behavioral Healthcare CNOMS not in MMIS are the Methadone CNOM and the NON-IMD Substance Abuse residential CNOM. Methadone CNOM eligibility is currently established through IN-Rhodes prior to acceptance in CNOMS. The NON IMD Residential CNOM is performing eligibility internally currently. The Department will work with the providers to begin establishing eligibility by using IN RHODES. We anticipate completion of this process by 6/30/14.

DEA currently uses MMIS for purposes of CNOM reporting. DHS will work closely with EOHHS to ensure continued compliance with all MMIS requirements.

2013-067b - EOHHS agrees with the Auditor's recommendation. However, no CNOM adjustment have been identified and made yet on the 2014 CMS-64 reports.

2013-067c - EOHHS agrees with and intends to comply with the Auditor's recommendation. Although with the advent of the ACA, we expect CNOM activity to dwindle down significantly.

Anticipated Completion Date: *June 30, 2014*

Contact Person: *Lawrence A. Ross, Assistant Director*
Phone: 401.462.6025

Finding 2013-068 *(material weakness - repeat finding)*

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

<u>MEDICAID ELIGIBILITY QUALITY CONTROL (MEQC) PROGRAM</u>

42 CFR 431.800 establishes State Plan requirements for a Medicaid Eligibility Quality Control (MEQC) program that must be designed to reduce erroneous expenditures by monitoring eligibility determinations and claims processing operations. The regulations require that federal financial participation (FFP) be disallowed for erroneous Medicaid payments due to ineligibility and recipient liability errors as detected through the MEQC program. The agency must collect and verify all information necessary to determine the eligibility status of each individual included in the State's MEQC sample.

42 CFR 431.812 requires that the agency perform both active and negative case reviews in accordance with terms defined in the regulations. Active cases are comprised of individuals that participate in the Medicaid program. Negative cases include those individuals that were denied, suspended, or terminated from the Medicaid program. EOHHS, the State Medicaid agency, has delegated the operation of the MEQC program to the Department of Human Service (DHS). Due to acute staffing shortages, DHS has been unable to substantially complete active case reviews in recent years on a timely

basis. For fiscal 2013, 247 active cases of the 393 positive cases to be completed through June 30, 2013 had been completed as of October 2013. No negative case reviews were completed in 2013.

42 CFR 431.814 requires that the agency submit a basic MEQC sampling plan (or revisions to a current plan) that meets the requirements of the section to the appropriate CMS regional office for approval at least 60 days before the beginning of the review period in which it is to be implemented. The regulations also require that the program submit the monthly list of cases to be reviewed to CMS beforehand. DHS was unable to provide evidence that it had submitted a sampling plan or monthly list of cases for review to CMS in accordance with the regulations. DHS stated that it last submitted a sampling plan to CMS for approval in 2008.

42 CFR 431.816 requires the Medicaid agency to complete eligibility case reviews and report the findings electronically through the system prescribed by CMS for 100% of all cases selected in the MEQC sample within 150 days of the review month. DHS could not comply with this requirement because the studies had not been completed in a timely manner as previously noted. DHS was also unable to provide us with Certification of Medicaid Eligibility Quality Control Payment Error Rate submissions to CMS for any periods following March 2009.

MEQC is one of several requirements with which States must comply to ensure overall compliance with Medicaid recipient eligibility. We consider the deficiencies in the operation of the State's MEQC program described above to be a material weakness in internal control over recipient eligibility.

Questioned Costs: None

RECOMMENDATIONS

2013-068a Address staffing deficiencies in the MEQC unit to ensure compliance with federal monitoring and reporting responsibilities.

2013-068b Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.

Corrective Action / auditee views:

DHS accepts the recommendations of the report and we will look to add additional staff. We recently hired an MEQC Supervisor. This employee will be working with EOHHS to develop and establish protocols to meet new federal requirements regarding the implementation of the Affordable Care Act as well as federal requirements in place currently. DHS and EOHHS will take steps to determine the federal point of contact for any submission of MEQC data.

DHS is working to develop and submit to CMS an Eligibility Pilot, which will take the place of the current tri-annual PERM eligibility reviews and can/will also replace MEQC beginning with Federal Fiscal Year (FFY) 2014. The pilot project is based on MAGI eligibility determinations made in UHIP beginning 10/1/13. The pilot program will be performed annually for FFY 2014, 2015, and 2016. Each state is required to submit a pilot plan to CMS for review and approval.

We believe that the MEQC requirement can be met by the PERM eligibility pilot program, going forward. However, the MEQC reviews, from March 2009 to September 2013, still need to be performed and the results submitted to CMS. DHS will most likely need to add staff in order to complete the backlog of MEQC reviews and also perform the on-going reviews for the pilot program.

Anticipated Completion Date: *On-going*

Contact Person: *Deborah Buffi, Associate Director*
Phone: 401.462.6819

Finding 2013-069 *(material non-compliance / material weakness- repeat finding)*

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER NURSING FACILITY REIMBURSEMENTS - MATERIAL NONCOMPLIANCE

The State Medicaid agency reimburses providers for nursing facility (and other qualifying long-term care facility) services using rates that are reasonable and adequate to meet provider operating costs. Federal regulation 42 CFR 447.253 establishes the specific rate setting requirements that each Medicaid agency must meet. Each State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. Each State Medicaid agency must also provide for the periodic audits of financial and statistical records of participating providers. The specific audit requirements are established within each Medicaid agency's State Plan.

The CMS-approved State Plan titled *Principles of Reimbursement for Nursing Facilities* (Principles) has historically established the requirements for nursing facility rate setting. Rates have been determined on a prospective basis with payments that are not to exceed the facility's customary charges to the general public for such services. OHHS changed its methodology for reimbursing nursing facilities in 2013 as discussed in more detail below.

All nursing facilities are required to submit a cost report for each calendar year by March 31 of the following year. The EOHHS Rate Setting Unit has determined nursing facility per diem rates by analyzing the costs charged to various cost centers using guidance provided by the Principles. Per diem rates have been changed during the year as required for inflation, fair rental, acuity and other adjustments.

The Principles have required that "all cost reports will be desk audited within six (6) months of submission". "The State of Rhode Island Rate Setting Unit shall conduct audits of the financial and statistical records of each participating provider in operation. Audits will be conducted under generally accepted auditing standards and will ensure that providers are reporting under generally accepted accounting principles." There are approximately 85 nursing facilities within the Rhode Island Medicaid program subject to these cost report filing and auditing requirements.

The EOHHS Rate Setting Unit has typically met the audit requirements by performing annual desk audits and triennial field audits on all nursing facility providers. Desk audits consist of a detailed examination of certain cost centers. Field audits involve a much more comprehensive review of all costs reported and are more likely to result in significant rate setting adjustments. During fiscal 2013, the Rate Setting Unit was still backlogged with 2008 desk audits that needed to be completed, thus no field audits were performed. Although the methodology used to reimburse nursing facilities changed during 2013, the base costs for 2013 and earlier years back to 2008 were based upon unaudited information.

EOHHS changed its methodology for reimbursing nursing facilities in 2013. The new methodology does not rely upon the Principles of Reimbursement. Under the new methodology, each facility's per diem rate is based upon computed median costs from the 2010 cost reports and adjusted on an individual facility basis for acuity differences. Adjustments to the base rate may be made for direct nursing costs, fair rental value, and property taxes using published indices and actual enacted tax rates for each facility within budgetary constraints.

The Centers for Medicare and Medicaid Services (CMS) has indicated that EOHHS did not comply with the State Plan Amendment and public notice requirements before implementing the new methodology. Consequently, CMS has directed EOHHS to reprocess all claims impacted by the new methodology using the previously approved Principles of Reimbursement. EOHHS computed the financial impact of complying with this request and adjusted reported expenditures for nursing facilities for fiscal 2013. As of the time of our audit, the State had not yet reimbursed the providers for amounts due but expected to do so upon complete resolution of the issue with CMS.

Based on the above control deficiencies noted, the State did not materially comply with applicable federal regulations relating to its reimbursement of nursing facilities in fiscal 2013.

Questioned Costs: Unknown

RECOMMENDATIONS

2013-069a Eliminate the current long-term care facility audit backlogs and ensure that sufficient resources are dedicated to ensuring compliance with federal long-term care facility audit requirements.

2013-069b Readjudicate 2013 nursing facility claims using reimbursement rates established using the State's federally-approved rate methodology for fiscal 2013.

Corrective Action / auditee views:

The lack of adequate personnel resources in the Rate Setting Unit is the key reason for the continued backlog of uncompleted nursing home cost report desk audits. Desk audits reviews for 2008 have been completed for all facilities. Twenty-seven facilities have accepted the findings. Results are being sent to the other facilities for review. Desk audits for 2009 are going through a final internal review before being sent out for review. Results for five facilities have been accepted. All desk audits for 2008 and 2009 are expected to be finalized by the end of fiscal year 2014. Every effort is being made to complete the 2010 desk audits during calendar year 2014. A cost/benefit evaluation will be made in regard to conducting field audits.

The State will comply with any final determination by CMS regarding any additional reimbursement to nursing facilities for services incurred between 10/1/12 and 3/31/13. Alternatives are being considered in lieu of a re-adjudication of claims.

Anticipated Completion Date: *2013-069a: December 2014*
2013-069b: May 2014

Contact Person: *Lawrence A. Ross, Assistant Director*
Phone: 401.462.6025

Finding 2013-070 ***(material weakness - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER DISPROPORTIONATE SHARE PAYMENTS

Section 1923 of the Social Security Act requires that States make Medicaid Disproportionate Share Hospital (DSH) payments to hospitals that serve a disproportionately large number of low-income patients. The Omnibus Budget Reconciliation Act of 1993 limits these payments to the annual costs incurred to provide services to Medicaid and uninsured patients less payments received for those patients. Each State is required to administer DSH payments in accordance with the requirements outlined in their CMS-approved Medicaid State plan.

During fiscal 2013, EOHHS made DSH payments totaling $127.7 million (federal share - $66 million) to hospitals meeting the specific requirements outlined in the Social Security Act (the "Act"). The majority of DSH payments made are determined based on the direct proportion of each qualifying hospital's uncompensated care to the total uncompensated care costs for all qualifying hospitals. Each qualifying hospital is required to certify the amount of uncompensated care costs incurred by providing services to low-income patients. EOHHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by the hospitals.

Section 1923 (j)(2) of the Act requires States to submit to the Secretary an independent certified audit that verifies various DSH-related information. During fiscal 2013, the audit for the federal fiscal year ended September 30, 2009 was filed by EOHHS. EOHHS also received the audit for the federal fiscal year ended September 30, 2010 in fiscal 2013.

The State's DSH auditor made the following recommendations in their 2010 audit:

- EOHHS should implement procedures to estimate the hospital-specific DSH limits prior to making the DSH payments as well as to calculate the DSH limits based on actual cost, charge and payment information after the close of the MSP rate year.

- EOHHS should develop and provide comprehensive instructions to DSH hospitals on the types of documentation they must develop and maintain in order to properly calculate the hospital-specific DSH limits. OHHS should also implement periodic monitoring procedures to ensure that the DSH hospitals are maintaining complete and accurate data and records to support the calculation of these limits.

- EOHHS should continue to monitor the status of a proposed rule referenced in the audit report. If additional guidance is provided by CMS that alters the data elements to be collected, the survey tool should be modified to comply with the guidance and additional education should be provided to the hospitals prior to the next survey being completed. If the treatment of these items remains as written in the proposed rule, the auditors recommend reinforcing the education already provided related to the proper reporting of uninsured data.

EOHHS must address the above control deficiencies relating to disproportionate share payments to hospitals to ensure that such program expenditures comply with federal regulations. These control deficiencies also need to be addressed to ensure that future DSH audits can be completed without limitations caused by incomplete data submitted by hospitals that received DSH payments.

Questioned Costs: None

RECOMMENDATION

2013-070 Improve controls over Medicaid DSH payments by implementing the recommendations made within completed DSH audits.

Corrective Action / auditee views:

The State has worked with the contracted DSH auditor and the Hospital Association of Rhode Island to develop uniform reporting practices by all Rhode Island hospitals. Proper controls have been established and are being used. The State continues to work with the Hospital Association to ensure that data is reported using appropriate and uniform templates. Recommendations included in the most recent DSH audit are under review to determine if any further changes need to be made to the controls and/or processes.

Anticipated Completion Date: *Ongoing*

Contact Person: *Lawrence A. Ross, Assistant Director*
Phone: 401.462.6025

Finding 2013-071 ***(questioned costs only - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

PROGRAM OVERPAYMENTS – QUESTIONED COSTS

Federal regulation 42 CFR 433.312 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 to the federal grantor on the Form CMS-64 within one year of discovery regardless of whether the State has recovered the overpayment from the provider.

Medicaid Eligibility – Questioned Costs

EOHHS uses an integrated computer system (INRHODES) to determine and track eligibility for Medicaid. Transactions affecting eligibility are transmitted daily from INRHODES to update the MMIS recipient subsystem. As designed, Medicaid eligibility data from INRHODES should be replicated in the MMIS. In a limited number of instances, differences occur between the two databases. These differences can be summarized into three categories:

- cases active in INRHODES, but inactive in the MMIS;
- cases active in the MMIS, but closed in INRHODES; and
- other differences, such as personal data, recipient income, category codes, etc.

The MMIS generates a monthly variance report that identifies the differences between the two systems. EOHHS reviews the report and is responsible for making the appropriate corrections to ensure the accuracy and reliability of the two systems. The number of variances ranged between approximately 700 and 1,100 each month during fiscal 2013. EOHHS was able to remain reasonably current in resolving differences reported between the two systems each month. There was approximately $7,105 in questioned costs (federal share - $3,658) for cases where individuals remained eligible on the program when they no longer qualified for benefits. EOHHS did not credit the federal grantor on the CMS-64 Report for these questioned costs as required by federal regulations.

RIte Share Program

The State's RIte Share program provides health insurance through employers for Medicaid eligible individuals and families as a cost effective alternative to its RIte Care program. RIte Share involves paying the employee share of health insurance coverage directly to the employer or in many cases, the employee. For fiscal 2013, RIte Share expenditures approximated $10 million covering approximately 11,500 individuals. Since the inception of RIte Share, EOHHS has accumulated a receivable balance totaling $569,921 (federal share - $293,395) relating to payments made to individuals whose employer health insurance coverage had terminated. EOHHS has not credited the federal government for its share of these unallowable costs.

As part of the RIte Share enrollment process, EOHHS accumulates necessary health insurance information to determine the cost effectiveness of the coverage provided by the employer. Once enrolled, EOHHS periodically confirms that individuals have remained employed and covered by the employer's health coverage. EOHHS does not verify continued coverage with the health insurer.

In most instances, because Medicaid pays individuals prospectively for employer coverage, individuals will usually receive one or more months of payments before EOHHS identifies terminated employment and/or health coverage, retroactively dating their insurance coverage termination date in the MMIS to the date the individual terminated their employment. Under these circumstances, the State may pay both premiums and fee for service claims submitted on behalf of these individuals during the period of ineligibility. Overpayments to individuals that terminated employment coverage should be credited back to the federal government in accordance with federal regulations.

Hospital Settlements

R.I. General Law requires inpatient hospital providers to file cost settlement reports with EOHHS within one year from the end of the hospital's fiscal year. EOHHS uses these settlement reports to determine amounts owed to or due from participating hospitals. As of June 30, 2013, DHS had approximately 58 hospital years dating back to fiscal 2004 that had not been brought to final settlement. Since the fiscal year-end, EOHHS has made a significant effort to review submitted settlements and finalize amounts due to or from each hospital. EOHHS currently estimates that the State is owed for excess hospital reimbursements of approximately $7 million (federal share - $4.5 million) through hospital years ending in fiscal year 2010 (new DRG hospital reimbursement methodology began July 1, 2010). EOHHS expects that some hospitals will contest the amounts owed and will need to review additional documentation provided by these providers before final settlement is received. EOHHS currently credits the federal grantor for its share of the overpayments only after payments have been received from the hospitals rather than within one year of identifying the overpayment as required by federal regulations.

Special Education Claims

The Executive Office of Health and Human Services pays special education claims on behalf of eligible recipients to school districts in the State. A contractor conducts regular audits of the school districts to determine compliance with program requirements for administrative and program costs reimbursed through Medicaid. The audits often find evidence of non-compliance resulting in questioned costs. EOHHS chooses not to credit the federal grantor for the questioned costs unless the audits identify errors deemed to be systematic and potentially wide-spread. EOHHS was unable to provide a quantification of questioned costs determined through these audits. Federal regulations require the State to the credit the federal share of ineligible services back to the federal grantor regardless of whether or not the State recoups the claims from the provider.

Questioned Costs: $4,797,053

RECOMMENDATION

2013-071 Reimburse the federal government for program overpayments within the timeframe mandated by federal regulations.

Corrective Action / auditee views:

Hospital Settlements:

The State has completed its review of all outstanding hospital settlement, and has forwarded the results to each hospital for review. Discussions with the hospitals are actively underway with the objective of finalizing all settlement amounts by the end of fiscal year 2014. Upon finalization of each hospital's settlement amounts and subsequent payment or recoupment, CMS will be debited or credited for its share.

It is the position of EOHHS that the one-year time frame for crediting the Federal Government for its share of overpayments as set forth in 42 CFR 433.312 begins after a settlement amount has been finalized. Additionally, recoupment of overpayments based on an agreed upon repayment schedule, with CMS being credited as payments are received, is acceptable.

Anticipated Completion Date: *June, 2014*

Contact Person: *Lawrence A. Ross, Assistant Director*
Phone: 401.462.6025

RITE SHARE: As part of a 2009/2010 budget initiative, the Department crafted legislation (http://www.rilin.state.ri.us/Statutes/TITLE44/44-30.1/44-30.1-3.HTM) that was successfully passed in 2010 which allows us to intercept RI income tax returns for people who owe us Medical Assistance-related money, such as RIte Share overpayments.

The process is such that a letter is generated to the client/former client approximately two months after an overpayment is identified. This letter informs them of their debt, presents them with an opportunity to appeal or contest the State's claim, and announces the possibility of a tax refund interception if payment is not made to the Department within the allotted timeframe. If payment is not received, a second letter, identified as a final notice, is sent out informing the client/former client that their debt has been turned over to the Division of Taxation for a tax intercept. The debt remains subject to collection until it is paid in full.

Recoveries from clients, whether arriving from the individual directly or via the tax intercept, are credited back to the appropriate Federal and State accounts as they are received.

Development of a new eligibility system is underway as part of the State's effort to implement the Affordable Care Act. The new system will offer the opportunity for more timely identification of changes in insurance status and will help forestall the creation of such receivables in the first place.

Anticipated Completion Date: *June, 2014*

Contact Person: *Deborah Florio, Administrator*
Phone: 401.462.0140

LEA: SPECIAL EDUCATION PROGRAM – EOHHS conducts oversight and monitoring reviews of each school district every other year in order to ensure that the districts have developed and implemented systems of internal controls sufficient to provide reasonable assurance of compliance with applicable Federal and State regulations. These are not financial audits, but oversight and monitoring of internal procedures for ensuring appropriate documentation is in place to support claims. Each visit results in a summary report identifying any recommendations for improving their internal procedures or findings on non-compliance. All findings require a corrective action plan from the district and if significant or errors in billing are identified would result in recoupment of funds. Districts with significant findings are reviewed again the following year until the district can demonstrate compliance. If a recoupment of funds is warranted the federal grantor would be credited.

EOHHS believes it is in compliance with regards to crediting back federal shares of questioned costs. If a recoupment is for direct services, an FACN would be submitted for processing within the MMIS and a recoupment crediting the federal account would occur on the next MMIS cycle. If the recoupment relates to administrative payments, EOHHS would process the recoupment in the next quarterly payment and the federal account would be credited. Back up is available with EOHHS upon request.

Contact Person: *Deborah Florio, Administrator*
Phone: 401.462.0140

Finding 2013-072 ***(significant deficiency - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER RHODY HEALTH PARTNERS CAPITATION PAYMENTS

The State provides capitated managed care coverage to adults age 21 or older that meet certain criteria (i.e., live in the community, otherwise uninsured through Medicare or private health insurance coverage) through the Rhody Health Partners program (Rhody Health). The State paid approximately $184 million for the more than 13,500 individuals enrolled in this program during fiscal 2013. Most individuals enrolled in Rhody Health are eligible under Medicaid because they qualify for federal Supplemental Security Income benefits. These individuals are mostly disabled adults that typically have long-term continued Medicaid eligibility. The goal of Rhody Health is to provide cost-effective medical management of this population while expanding the network of available providers.

The State currently pays monthly capitation amounts ranging between $984 to $1,395 depending upon criteria such as age, gender, and medical condition. Although the Rhody Health monthly capitation is paid through the MMIS, identification of eligible individuals and the determination of capitation payment levels are not coded into the MMIS as they are for RIte Care. Instead, Rhody Health participants are largely determined through queries of MMIS data elements. The State's fiscal agent performs these queries monthly to identify individuals eligible for the program as well as changes in the status of current enrollees. In addition, the capitation payment levels for certain Rhody Health enrollees are determined based upon documentation maintained external to the State's systems.

As part of our testing of specific Rhody Health capitation payments, we review the monthly fee-for-service claims paid for each individual to ensure that the MMIS denied (through its TPL cost avoidance processes) any claims that should be covered by the individual's capitated coverage with its managed care organization. This review noted one claim for "office or other outpatient visit for the evaluation and management of an established patient" had been paid as an out of plan service, when in fact, it should have been covered by the individual's Rhody Health coverage (federal questioned costs = $11). Our follow-up with EOHHS and the fiscal agent on this issue suggested that it was caused by improper system coding in the cost avoidance module of the MMIS. EOHHS has instructed the fiscal agent to determine the extent by which other such claims could have been improperly paid so that those claims can be recouped and those providers can be instructed to bill under the recipient's managed care coverage.

The State believes that enhancements to the Rhody Health enrollment process in combination with specific program coding in the MMIS are the most effective means of improving control over this managed care population. In addition, an effectively functioning MEQC unit with sufficient staffing could also review Rhody Health eligibility, capitation amounts, and related fee-for-service claiming to enhance control over this population of the State's Medicaid program.

<u>Questioned Costs</u>: $11

<u>RECOMMENDATION</u>

2013-072 Improve systemic controls and program oversight over Rhody Health eligibility determinations, capitation payments, and related fee-for-service claiming.

<u>*Corrective Action / auditee views:*</u>

The Department has already initiated improvements in the enrollment procedures and controls for Rhody Health Partner enrollment, specifically in requesting a modification to the MMIS to include a specific program indicator for recipients identified as SPMI. This modification is currently in the MMIS development queue.

As noted by the Auditor General, the State concurs that there was a coding error that led to a Fee For Service claim for "office or other outpatient visit for the evaluation and management of an established patient" to be paid as an out of plan service, when it should have been covered by the individual's Rhody Health coverage. This coding error has been corrected.

Anticipated Completion Date: *May 2014*

Contact Person: *Deborah Florio, Administrator*
Phone: 401.462.0140

Finding 2013-073 ***(significant deficiency - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

BEHAVIORAL HEALTH FACILITIES AND DEVELOPMENTALLY DISABLED GROUP HOMES LICENSING

42 CFR sections 431.107 and 447.10 and section 1902(a)(9) of the Social Security Act require that providers furnishing services to Medicaid recipients be licensed in accordance with federal, State, and local laws and regulations in order to receive Medicaid payments. The Department of Behavioral Healthcare, Developmental Disabilities, and Hospitals (BHDDH) licenses behavioral healthcare providers and providers of services to adults with developmental disabilities within the Medicaid program. The licenses authorize each agency to operate specific types of programs and services. BHDDH has promulgated rules and regulations titled "Licensing Procedure and Process for Facilities and Programs Licensed by the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals (as amended July 2011)" (regulations) to create a uniform licensing process for all facilities and programs licensed by BHDDH. Licenses issued are effective for no more than a two year period. The rules and regulations apply to all facilities, programs and organizations that provide services for adults with developmental disabilities or mental health services for adults who are not in the custody of the Department of Children, Youth, and Families (DCYF) and/or substance abuse services for children and adults. The regulations are designed to ensure the effective operation of provider facilities and programs in the interest of public accountability, health, safety and welfare. BHDDH's Office of Licensure and Standards licenses, monitors and otherwise performs its administrative licensing function under Rhode Island General Laws section 40.1-24.

All licensed providers are subject to periodic monitoring and review to ensure compliance with BHDDH's regulations. Biannual reviews play an important role in the granting of licenses. Providers must meet regulatory requirements to be issued an initial license or to have an existing license renewed.

Our review of BHDDH's implementation of the above policies and procedures did note progress in the number of facilities being evaluated and relicensed during fiscal 2013. We also, however, noted a significant number of providers that had not been subjected to a complete relicensing evaluation by BHDDH for several years, a violation of the department's policies. With the current staffing allocated to provider licensure by BHDDH, it is unlikely that the department will be able to meet its established goal of evaluating and relicensing providers every two years. Agency reviews are complex, time-consuming and multidisciplinary. The survey and support staff available to perform reviews has been limited both in the numbers of required surveyors and the multidisciplinary skills required to perform the variety of clinical determinations required by departmental regulations. For example, surveyors with clinical and behavioral health skills, such as registered nurses and clinical social workers, would be required to adequately measure agencies against certain applicable departmental regulations.

Rhode Island General Laws section 42-35-14 allows a provider to continue to provide services when its license expires provided that the provider has submitted a timely license renewal application. In recent years, BHDDH has relicensed providers without completing its stated procedures for relicensure to ensure that providers had current operating licenses and to restart the two-year period for the department to license providers properly under the newly adopted policies and procedures. We consider the licensing of providers without ensuring that the provider is in compliance with the department's adopted policies and procedures to be a control deficiency over provider eligibility within this provider group.

Given the number of provider agencies and the complexity of the agency reviews, BHDDH needs to reassess the additional resources required to ensure that provider licenses are maintained current and supported by documentation of compliance with agency adopted regulations as mandated by federal regulations.

Questioned Costs: None

RECOMMENDATION

2013-073 Address staffing deficiencies in BHDDH licensing division to ensure that all providers are licensed timely in accordance with promulgated rules and regulations as required for participation in the Medical Assistance Program.

Corrective Action / auditee views:

In accordance with a recommendation by the Office of Program Integrity within the Executive Office of Health and Human Services, beginning in February 2014, BHDDH will require each licensed BHO/DDO/CDO to submit a signed and notarized "Assurance of Compliance with the Department of Behavioral Healthcare, Developmental Disabilities and Hospitals Rules and Regulations" each time an agency submits a licensing application.

In February 2014, BHDDH licensing staff reviewed the unit's current audit processes and made changes designed to further streamline the process and make more efficient use of the unit's available staffing resources while continuing to ensure the delivery of services by qualified staff in safe environments throughout the three (3) service delivery systems.

Anticipated Completion Date: *On-going*

Contact Person: *Robin Pelletier, Chief Financial Officer*
Phone: 401.462.3100

Finding 2013-074 ***(material weakness - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

DOCUMENTATION OF MEDICAID ELIGIBILITY DETERMINATIONS

Individuals or families applying for Medical Assistance benefits, in most cases, are required to complete the appropriate application form (DHS-1, DHS-2, or Marc-1 application forms). These application forms gather the information necessary (household demographics, citizenship, income, resources, etc.) to accurately determine program eligibility. Medicaid eligibility technicians review the forms, including the supporting documentation, for completeness and enter the information into the State's INRHODES system. This information ultimately determines whether the applicant is eligible for Medicaid benefits. Although EOHHS is the State Medicaid agency, the eligibility application and enrollment processes for Medicaid have been delegated to the Department of Human Services (DHS), which also administers this function for the TANF, SNAP, and CCDF Cluster programs.

We reviewed the case files (program application and supporting documentation) for a sample of 25 individuals. We evaluated the completeness and accuracy of the information obtained from these individuals at the time of their eligibility determination in effect for fiscal 2013. We assessed whether (1) the required program application had been completed, (2) documentation supporting the information included on the application had been obtained, and (3) the information reported in the INRHODES system matched the data provided by the applicant.

We noted the following documentation deficiencies:

Documentation deficiencies	Exceptions noted in sample of 25 cases reviewed
Third party insurance documentation incomplete or unavailable	18
Documentation of household financial resources (bank accounts, vehicles, property, etc.)	11
Documents substantiating household income, such as paystubs, not in the file	9
Household income not documented	6
Documentation regarding the absent parent, when applicable	2
Location of eligibility file	2
Monthly rental expense not substantiated	1
InRhodes panel disagreed with TDI information provided by RIDLT	1

The Medical Assistance application forms require applicants to provide documentation of their reported citizenship, income, resources, living arrangements, and expenses. This application process and the program eligibility technicians that perform the initial intake processes for Medicaid represent a vital control over program eligibility. EOHHS and DHS should consider further training to reinforce the specific documentation that must be obtained in conjunction with the application and recertification processes. Also, a more systematic process for storing supporting documentation to allow for improved safeguarding and access to the data obtained.

Questioned Costs: None

RECOMMENDATION

2013-074 Improve controls over required eligibility documentation obtained during the Medical Assistance application process.

Corrective Action / auditee views:

DHS accepts the recommendations. Document Imaging shall be in place within the next 24 months with the development of the new eligibility system and Unified Health Infrastructure Project (UHIP). Medicaid cases will be verified electronically over the next year. Scanning and uploading shall allow for improvement in the processing of the documentation required of clients.

Anticipated Completion Date: *On-going*

Contact Person: *Deborah Buffi, Associate Director*
Phone: 401.462.6819

Finding 2013-075 ***(material weakness - new finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

SURVEILLANCE AND UTILIZATION CONTROL REVIEWS

42 CFR 455.1 establishes State plan requirements for the identification, investigation, and referral of suspected fraud and abuse cases. The regulations require that the State report fraud and abuse and have a method to verify whether services reimbursed by Medicaid were actually furnished to beneficiaries. Federal regulations also require that the agency conduct a preliminary investigation to determine whether there is sufficient basis to warrant a full investigation if the agency receives a complaint of Medicaid fraud or abuse from any source or identifies any questionable practices. If the findings of a preliminary investigation give the agency reason to believe that an incident of fraud or abuse has occurred in the Medicaid program, the agency must refer the case to its Medicaid Fraud Control Unit.

A full investigation must continue until appropriate legal action is initiated, the case is closed due to insufficient evidence to support the allegations of fraud or abuse, or the matter is resolved between the agency and the provider or beneficiary. Resolution may include sending a warning letter to the provider or beneficiary, giving notice that continuation of the activity in question will result in further action, suspending or terminating the provider from participation in the Medicaid program, seeking recovery of payments made to the provider, or imposing other sanctions provided under the State plan.

EOHHS relies upon its fiscal agent's Surveillance, Utilization and Review System (SURS) unit to coordinate much of its Utilization Control and Program Integrity program. The SURS unit is responsible for conducting regular reviews of provider claims and recipient program utilization while also conducting special projects and targeted queries to follow up on instances of suspected fraud or to monitor high fraud risk providers and/or services. Cases are assigned Level I/II status during the initial stages of an investigation. Cases are advanced to Level III if there appears to be evidence of program abuse or fraud. Under those circumstances, the SURS unit requests additional information such as laboratory or medical records to supplement its investigation. Level III cases are those that are most likely to require referral to the Medicaid Fraud Control Unit.

The SURS unit had sixty-nine (69) Level III investigations going back to 2009 on hold at June 30, 2013 due to insufficient personnel resources and additional demands imposed on the unit by the State. Supplemental work is regularly assigned to the SURS unit including OIG investigations support and work delegated by the Medicaid Director and the OHHS's Program Integrity Unit. The supplemental work impacts the SURS unit's ability to close Level III investigations that pose the highest probability of abuse and/or fraud.

The inability of the SURS unit to resolve Level III cases in a timely manner represents a material weakness in internal control over the State's Medicaid Program. The State should ensure that sufficient SURS resources are employed to ensure timely compliance with federal regulations relating to this vital program integrity function.

Questioned Costs: None

RECOMMENDATION

2013-075 Ensure that sufficient resources are employed by the State to fully comply with Medicaid surveillance and utilization review program regulations in a timely manner.

Corrective Action / auditee views:

EOHHS acknowledges the importance of timely and complete reviews of Level III cases and presents a CAP below to address the Level 3 investigations pending review. It should be noted that SUR requirement per the current fiscal agent contract is 50 new cases per quarter – this requirement is consistently met.

Factors impacting SUR ability to close Level III cases:

The timely analysis of Level III cases is prioritized with other investigative work. The following identifies supplemental work that the SUR unit has completed above and beyond the standard SUR case reviews.

The supplemental work listed here is not intended to be all inclusive; rather, this list represents those assignments that have demanded extensive hours of review time that impacts the time allocated to the Level III reviews:

- *On-site medical record review of ER (up coding) – extensive review*
- *Extensive FQHC Dental Review*
- *Two extensive Hospice audits (OIG) – working with and assisting the OIG Auditor*
    - *The General Hospice Audit lasted from March-November 2011. This included in depth review of recipient liability, nursing home rates, medical record review and accommodating onsite reviewers.*
    - *The GIP Hospice audit was completed in April 2012.*
- *SUR unit conducted an extensive medical record review of an illegal alien who was an inpatient for more than 1 year. Resulted in more than $85,000 recoupment.*
- *Increased research requests from PI unit.*
- *Training on the new Case Tracker tool in preparation for implementation.*
- *Development of a project plan for Program Integrity initiative --- not implemented due to funding issue.*

During 2013, one of the SUR Nurses was on medical leave of absence. Given the amount of training necessary, it was determined that providing a temporary backfill would not be effective. Although the LOA extended through 2013, it was always anticipated that this nurse would return to work.

EOHHS has recently learned that the SUR nurse on medical leave of absence will not be returning to work and the State's fiscal agent has begun recruitment for a local (on-site) SUR nurse. During this recruitment period, we will utilize the fiscal agent's medical management capability group to allocate an experienced SUR nurse to review and complete the Level III cases currently pending a "reviewer" assignment.

An accounting of Level III cases will be presented at the newly established Program Integrity bi-monthly meetings. Discussion and prioritization of certain cases can be discussed at this meeting to ensure and agreed upon prioritization.

Anticipated Completion Date: *On-going*

Contact Person:	*Ralph Racca, Administrator* *Phone: 401.462.1879*

Finding 2013-076 ***(significant deficiency - repeat finding)***

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

CONTROLS OVER HOME AND COMMUNITY BASED SERVICES

Medicaid eligible individuals may receive necessary home-based medical and support services (home and community based waiver services outlined in the State's Global Consumer Choice Section 1115 Waiver) with the goal of minimizing more expensive care provided within skilled nursing facilities. For example, these services include homemaker, nursing services, meal preparation, residential support, and respite care services. Fiscal 2013 expenditures for home and community based services totaled in excess of $300 million.

Previous audits had noted instances where claims were submitted and paid for periods when the recipient of certain home and community based services was actually hospitalized and unavailable to receive the billed services at home. These audits also noted that the MMIS lacked edits to detect these types of incompatible services from being paid (e.g., inpatient hospital and meal delivery or home attendant care services). In many instances, home-based service claims cover a period of service (e.g., a month) rather than a specific date for each unit of service provided. This lack of claim detail made it impossible to determine whether incompatible services were paid in these instances. In instances where detailed claim data showed home and community based services paid for when the Medicaid individual was hospitalized, the MMIS is not designed with edits to prevent payment for those services.

In response to this control deficiency, EOHHS has requested that their fiscal agent run periodic reports to identify instances when the MMIS is paying claims for home and community based services that are incompatible with other services being paid for the same dates of service. Our discussions with the fiscal agent noted that their review procedures have been similarly hampered by the inability to match specific units of service to specific dates due to the span billing issue described above. Controls over this claim group could be improved by requiring home and community service providers to detail specific service dates when submitting claims to the MMIS. This detail with enhanced edits in the MMIS would enhance control by identifying incompatible services before payment.

Enhanced MMIS system edits should be programmed to prevent home and community based services from being billed when individuals are receiving institutional care (hospital, hospice, nursing facility, etc.). Post processing identification of incompatible claiming could also be considered; however, such procedures will likely require extensive manual analysis and additional personnel.

Questioned Costs: None

RECOMMENDATION

2013-076 Strengthen system processing controls over home and community based medical and support services to enhance overall program integrity for this claim group.

Corrective Action / auditee views:

The practice of "span billing" prevents the MMIS from identifying instances of a billing for services incompatible with other services. The 'span billing' also hinders the ability to match specific units of service to specific dates.

The EOHHS will consider a policy change to eliminate the practice of span billing and the creation of new MMIS edits / audits to identify specified instances of incompatible services.

It should be noted that there are positive and negative consequences associated with the elimination of span billing.

Anticipated Completion Date: *On-going*

Contact Person: *Ralph Racca, Administrator*
Phone: 401.462.1879

Finding 2013-077 **(material weakness - repeat finding)**

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

MANAGED CARE CONTRACT SETTLEMENTS

The State provides health coverage for certain Medicaid eligible individuals through health maintenance organizations (HMOs). Capitated managed care expenditures totaled $654 million or 34% of total program expenditures. Capitation fee schedules are negotiated annually and each HMO contract includes settlement provisions ("risk share") designed to limit the HMO's exposure to excessive gains or losses based on actual claims paid. These contracts also include "stop loss" provisions for separate reimbursement of certain medical services not included in the capitated rates.

Each HMO contract defines the dates of service included in the contract period and a defined settlement period (usually one year after the contract end date) to allow for submission of all provider claims prior to final settlement. Periodic "risk share" reports that detail capitation amounts received versus actual claims paid are required and, in some instances, periodic payments are made to prevent large liabilities or receivables from accumulating until the end of the settlement period. HMOs are also required to submit periodic "stop loss" reports so those settlements are made in a timely manner. While the State maintains summarized support detailing the amount of final contract settlements, the underlying data and analysis that supports the State's due diligence on reported HMO expenditures has not always been available for audit.

In addition, HMOs are required to submit their detailed medical expenditures in a prescribed format to the State periodically throughout the contract period. This data, referred to as "encounter data", is provided to the State's fiscal agent where it undergoes very limited editing by the Medicaid Management Information System's (MMIS) encounter data subsystem. Subsequently, the State's managed care consultant, as part of the risk share settlement process, uses the encounter data to "evaluate" reported expenditures incurred by the HMOs during the contract period.

EOHHS relies on the MMIS to reject claims that are identified as being covered under an individual's managed care capitation and for the HMOs to only make payment for claims deemed to be covered under capitation to ensure that duplicate or ineligible claims are not paid through the two different payment processes. Due to the limited nature of the encounter data, little analysis or editing can be performed currently on this significant volume of claims. Since the State's managed care program requires settlement with HMOs based on actual costs incurred, claims paid through managed care contracts should receive the same level of control and editing that regular Medicaid fee-for-service claims receive.

EOHHS expects to begin receiving encounter data within the next fiscal year with the expectation that future contract settlements will be based on claim data that has been adjudicated more extensively through the MMIS. EOHHS may also need to identify other settlement data (i.e., drug rebates, provider recoveries, etc.) that may require additional validation by the department to improve controls over final contract settlements. EOHHS should also adopt specific documentation standards relating to final managed care contract settlements to ensure that consistent supporting documentation is maintained to support the allowability of these significant program expenditures (or in some instances, recoveries).

Questioned Costs: None

RECOMMENDATIONS

2013-077a Enhance oversight and monitoring procedures over managed care contracts by implementing independent audit or other validation processes that would ensure the accuracy, allowability, and completeness of expenditure and recovery activities reported by contracted HMOs.

2013-077b Enhance the MMIS's ability to fully adjudicate HMO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods.

2013-077c Adopt specific documentation standards relating to final managed care contract settlements to ensure that consistent supporting documentation is maintained to support the allowability of these significant program expenditures (or recoveries).

Corrective Action / auditee views:

2013-077a - The Office of Program Integrity will meet with each of the Managed Care Organization partners to review fraud compliance requirements as required by contract and the federal regulations This review will include, but not be limited to, fraud case review and education recoupments. Other states have experienced MCO's moving cases to the education/recoupment side of the ledger as these funds stay in house and do not affect the risk share/gain share calculations.

2013-077b - The use of statistical sampling is available for use in the review for fraud, waste and abuse within the MCO population. The encounter data has been upgraded to MMIS standards and therefore the use of the statistical tool will allow for reviews at multiple levels.

Anticipated Completion Date: *On-going*

Contact Persons: *Deborah Florio, Administrator*
Phone: 401.462.0140
Bruce McIntyre, Chief of Program Integrity
Phone: 401.462.0613

2013-077c - The State continually reviews and refines its methods and approaches to the application of due diligence to its MCO contract reconciliation and settlement processes. Defined procedures are currently specified and deployed for review of the MCO's attested risk/gain, DRE and stop loss invoices and reports. Medical expenses are tested for reasonableness against encounter data, and specific documentation is required as appropriate to support particular areas of expense. In addition, as of SFY 14 the State has added contractual language requiring specific review of risk/gain share and stop loss reporting by the MCOs' mandatory external auditors.

Anticipated Completion Date: *On-going*

Contact Person: *Deborah Florio, Administrator*
Phone: 401.462.0140

Finding 2013-078 *(significant deficiency - repeat finding)*

MEDICAID CLUSTER:
Medical Assistance Program – CFDA 93.778
Federal Award Agency: Department of Health and Human Services
Award Years: Federal Fiscal Years 2011-2012 and 2012-2013
Federal Award Numbers: 1205RI5MAP and 1305RI5MAP
Administered by: Executive Office of Health and Human Services (EOHHS)

MEDICAID CLAIMS FOR CHILDREN PLACED IN THE STATE'S CUSTODY

Most children in the Department of Children, Youth, and Families' (DCYF) care are Medicaid eligible and the costs of some of the services provided to these children are reimbursed through Medicaid. When children are placed in a residential facility (non-foster home) that provides comprehensive services including case management, treatment and assessment, room and board, and personal care, an estimate is made of the portion of the total rate paid to the residential facility that is Medicaid reimbursable (generally treatment and assessment). During fiscal 2013, portions of DCYF's residential facility placement costs approximating $30 million were reimbursed through Medicaid. DCYF can improve controls to ensure that the amount of placement costs allocated and reimbursed by Medicaid are consistent with the "time study" allocation methodology implemented by the department.

Beginning in fiscal 2013, DCYF contracted with two provider agencies to form comprehensive "system of care" networks for children in the State's custody. These lead provider agencies contract directly with other licensed DCYF provider agencies as subcontractors. The lead providers submit monthly census reports to DCYF which updates each child's placement history in the department's RICHIST computer system. The census data ultimately determines the total amount that DCYF can claim reimbursement for through federal programs such as Medicaid.

DCYF engaged a consultant to perform time studies of various provider agencies in fiscal 2013 to determine the percentage of contracted placement per diem rates eligible for Medicaid reimbursement. The allocation percentages applied to the fiscal 2013 provider payments were based on time-study results derived during fiscal 2012.

In conjunction with our testing of fiscal 2013 claims, we were unable to agree the percentages allocated within RICHIST to Medicaid for certain claims to time-study results provided by DCYF. We believe that most of the issues noted were for claims with dates of service in prior fiscal years when

DCYF was utilizing averages by facility type as opposed to facility-specific time-study results. DCYF was unable to provide documentation for how those averages were derived.

Time study results for similar providers (i.e., group homes, residential treatment centers, emergency shelters) often vary significantly. For example, the estimate of total placement cost allocated to treatment and assessment (which in most instances is the percentage charged to Medicaid) for various group home providers ranged from a low of 4% to a high of 60% based on the time study results. Consequently, DCYF implemented a provider audit group to ensure that providers administer and document services eligible for Medicaid. In addition to improving provider oversight, these audits should ensure that time-study data used to allocate costs to Medicaid is more reliable and consistent among like providers.

DCYF's utilization of time-study results (along with the implementation of audits of contracted placement providers for compliance with documentation requirements for allowable services reimbursed to Medicaid) has improved controls over the allocation of contracted placement costs to Medicaid. However, controls could be better enhanced if contracted placement providers billed for Medicaid eligible services (on an encounter basis) directly to the Medicaid Management Information System (MMIS). This would reduce the risk of duplicate payments being made to providers through separate systems and would ensure that providers are reimbursed consistently for similar services. Processing these claims consistently with all other Medicaid fee-for-service claim activity would allow the State to incorporate the related provider licensure requirements with other provider eligibility control procedures conducted by the State's fiscal agent and reduce the need for DCYF to conduct separate licensure monitoring. Currently, Medicaid claims originating from DCYF's RICHIST computer system are only subject to a limited edit and control process compared to most provider claims paid through the MMIS.

Controls over the claiming of DCYF contracted placements can be improved by ensuring that the amount of placement costs allocated and reimbursed by Medicaid are consistent with the "time-study" allocation methodology implemented by the department. The State should consider requiring providers to submit claims for Medicaid reimbursement directly to the MMIS. Submitting these claims directly to the MMIS as enrolled providers would greatly enhance the controls over medical services provided to children placed in the State's custody.

Questioned Costs: Unknown

RECOMMENDATIONS

2013-078a Improve documentation supporting the allocation of contracted placement costs reimbursable by Medicaid through provider time-study results.

2013-078b Consider requiring residential placement providers to bill directly to the MMIS for eligible Medicaid services. Such direct billing should ensure more standardized reimbursement for services provided in addition to validating that such services were performed by licensed providers at the time of payment.

Corrective Action /auditee views:

2013-078a - DCYF will review procedures performed by our consultant in determining the time study results to ensure appropriate allocation of Medicaid claiming percentages across the various types of residential providers. In addition, DCYF will review all time study percentages entered into our RICHIST system to ensure the percentages allocated to Medicaid in Fiscal Year 2013 agree to the actual results of the provider time study. Any variances from the time study results discovered will be corrected and Medicaid claiming will be adjusted.

2013-078b - DCYF has begun discussions and will continue to work with EOHHS and the two lead agencies for the System of Care to determine the feasibility of direct billing to the MMIS. In FY 2014, EOHHS authorized direct billing to the MMIS for some of DCYF's out-of-state providers. Two out-of-state providers are currently billing directly to the MMIS, two have declined to sign up with Rhode Island Medicaid and one provider has not determined if direct billing to Rhode Island Medicaid is appropriate for their facility.

Anticipated Completion Date: *On-going*

Contact Person: *Margaret Farrish, CFO DCYF*
Phone: 401.528.3630

Summary Schedule of Prior Audit Findings

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Supplemental Nutrition Assistance Program (SNAP) Cluster:		
State Administrative Matching Grants for SNAP	10.561	12-41, 12-42, 12-43
Child Nutrition Cluster:		
School Breakfast Program	10.553	12-39, 12-40
National School Lunch Program	10.555	12-39, 12-40
Special Milk Program for Children	10.556	12-39, 12-40
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	12-38
Unemployment Insurance	17.225	12-44, 12-45
WIA Cluster:		
WIA Adult Program	17.258	11-48, 12-46, 12-47, 12-48, 12-49
WIA Youth Activities	17.259	11-48, 12-46, 12-47, 12-48, 12-49
WIA Dislocated Workers	17.260	11-48, 12-46, 12-47, 12-48, 12-49
WIA Dislocated Worker Formula Grants	17.278	11-48, 12-46, 12-47, 12-48, 12-49
Highway Planning and Construction Cluster:		
Highway Planning and Construction	20.205	12-38, 12-50, 12-51, 12-52, 12-53, 12-54, 12-55
Student Financial Assistance Cluster:		
Federal Pell Grant Program	84.063	12-57
Federal Direct Student Loans	84.268	12-58
Title I, Part A Cluster		
Title I Grants to Local Educational Agencies	84.010	12-56
ARRA - Title I Grants to Local Educational Agencies	84.389	12-56, 12-59
ARRA – State Fiscal Stabilization Fund (SFSF) – Race-to-the-Top Incentive Grants	84.395	12-60
TANF Cluster:		
Temporary Assistance for Needy Families	93.558	12-38, 12-43, 12-61, 12-62, 12-63, 12-64
ARRA - Emergency Contingency Fund for Temporary Assistance for Needy Families – State Programs	93.714	12-43, 12-61, 12-62, 12-63, 12-64
Low-Income Home Energy Assistance Program	93.568	12-38, 12-66, 12-67, 12-68
CCDF Cluster:		
Child Care and Development Block Grant	93.575	12-38, 12-43, 12-61, 12-65
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	12-38, 12-43, 12-61, 12-65
ARRA - Child Care and Development Block Grant	93.713	12-43, 12-61, 12-65
Social Services Block Grant	93.667	12-43, 12-64

Summary Schedule of Prior Audit Findings
Table of Prior Findings by Federal Program

Program Title	CFDA Number	Findings included in Previous Single Audit Reports
Children's Health Insurance Program	93.767	12-63, 12-69, 12-70, 12-71
Medicaid Cluster:		
Medical Assistance Program	93.778	11-78, 12-43, 12-63, 12-69, 12-70, 12-72, 12-73, 12-74, 12-75, 12-76, 12-77, 12-78, 12-79, 12-80, 12-81, 12-82, 12-83, 12-84, 12-85
Research and Development Cluster	93.701 43.000 66.456 81.041	11-88 12-86 12-86 12-87

Finding and Recommendation Number		CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
11-48		17.258 17.259 17.260 17.278	A subrecipient reported revenues in excess of expenditures for SFY 2010. The Department was unable to determine the nature of the variance.						
	11-48b		Determine if excess cash was drawn for SFY 2010 and take appropriate action if necessary.		X				
11-78		93.778	Payments were made to a facility whose Medical Director had been suspended from participation in federal programs. Another suspension and debarment certification could not be located.						
	11-78b		Recover reimbursements to providers for services provided by the identified suspended provider and credit the federal government for its share of ineligible Medicaid expenditures.			X			Only partial reimbursement to federal grantor completed to date.
12-38		10.557 20.205 93.558 93.568 93.575 93.596	The State did not have adequate controls to ensure compliance with regulations governing reporting under the Federal Funding Accountability and Transparency Act reporting requirements. Several departments/programs, did not submit required reports.						
	12-38a		Standardize agency documentation requirements for compliance with FFATA reporting.	11-41a			X		See Corrective Action Plan for Finding 2013-029
	12-38b		Ensure that FFATA-applicable subawards are reported to FSRS in a complete and timely manner.	11-41b			X		See Corrective Action Plan for Finding 2013-029
12-39		10.553 10.555 10.556	Central Falls School District - Six out of forty free or reduced price meal recipients tested did not have a required application on file. Three other applications were incomplete.						
	12-39		We recommend that more care be taken to ensure all applications are completed and completed properly as required by USDA guidelines. We also recommend that all supporting documentation be maintained on file to support the determination of eligibility.			X			See Corrective Action Plan for Finding 2013-031
12-40		10.553 10.555 10.556	Central Falls School District – Only three out of the districts nine schools performed the required verifications of free and reduced price meals. Only one of these verifications was performed in accordance with regulations.						

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*
	12-40		We recommend that the School District ensure that all personnel responsible for the food service program are aware of the federal compliance requirements.			X			See Corrective Action Plan for Finding 2013-032
12-41		10.561	DHS did not have documentation supporting all of the amount of in-kind match reported.						
	12-41		Enhance control procedures to ensure that adequate supporting documentation is maintained for in-kind matching expenditures reported in the SNAP Federal Financial Status Report.	10-42a 10-42b 11-43			X		See Corrective Action Plan for Finding 2013-035
12-42		10.561	Errors were noted in the Financial Status Reports for FFY 2011 and FFY 2012. These errors could have been prevented if expenditures reported were regularly reconciled to the State accounting system.						
	12-42a		Amend the final close-out federal financial report to correct Administration and Outreach Services charges for the FFY 2011 grant.		X				
	12-42b		Reconcile expenditures between federal financial reports and the State accounting system quarterly. Investigate and resolve any differences			X			We continue to strive to align RIFANs with the department's cost allocation.
12-43		10.561 93.558 93.714 93.575 93.596 93.713 93.667 93.778	Two employees whose pay is allocated across several programs did not complete their required time sheets.						
	12-43		Require supervisory/management review to ensure that all employees complete and submit required timesheets.	11-44a		X			See Corrective Action Plan for Finding 2013-036
12-44		17.225	Controls over federal reporting for the UI program should be improved to ensure accuracy and completeness. Problems were noted with the 9130, ETA 227 and TAPR reports.						

Finding and Recommendation Number		CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	12-44a		Review (TAPR) reports prior to submission to ensure data agrees to supporting information systems and is reasonable.	11-45e 11-45g		X			See Corrective Action Plan for Finding 2013-037
	12-44b		Coordinate reporting efforts across divisions to ensure consistent reporting and proper reconciliations of the TAPR to the 9130 reports.	10-45b 11-45f		X			See Corrective Action Plan for Finding 2013-037
12-45		17.225	Some clients may not have been registered with RI Job Service. BAM unit investigative summaries were not consistent with respect to whether or not registration was required. The BAM unit did not meet its completion targets for investigations of paid claims.						
	12-45a		Enhance controls to ensure that all currently eligible UI cases, both fully unemployed and partially unemployed, are registered with RI Job Services prior to first UI benefit payment and maintain evidence of registration in the BAM claim review file.	10-43 11-46a 11-46b		X			See Corrective Action Plan for Finding 2013-038
	12-45b		Strengthen controls to ensure that BAM investigations are completed within the required federal timeline targets.	11-46c		X			See Corrective Action Plan for Finding 2013-038
12-46		17.258 17.259 17.260 17.278	DLT should improve controls over federal financial reporting by completing the State's required federal grant information schedule and reconciling to RIFANS.						
	12-46a		Strengthen controls to ensure that data is complete prior to submitting federal reports to USDOL.		X				
	12-46b		Implement controls to ensure all data used to prepare federal reports is archived at the time of reporting to adequately support amounts reflected in the reports.	11-47b	X				
12-47		17.258 17.259 17.260 17.278	DLT should improve its subrecipient monitoring procedures. A variance in expenditures was noted in a subrecipient audit report.						
	12-47a		Enhance monitoring procedures to address subrecipient compliance with other grant requirements, such as, earmarking, cost limitations, and financial reporting. .	11-48c	X				

Finding and Recommendation Number		CFDA	PRIOR YEAR FINDINGS AND RECOMMENDATIONS	Prior rec. number	Imple-mented	Partially Imple-mented	Not Imple-mented	No Longer Valid	Comments
	12-47b		Determine the nature of the $46,000 variance and take appropriate action, if necessary.		X				
	12-47c		Strengthen audit report review procedures to more closely review audit report information and perform appropriate follow up when required.		X				
12-48		17.258 17.259 17.260 17.278	The forms used as guides to determine program eligibility were not always properly completed by staff.						
	12-48a		Further strengthen supervisory review over the eligibility process to ensure consistency between the case file information and the department's client database.	07-56 08-50 09-42 10-47a 11-49a		X			Full implementation expected by December 2013.
	12-48b		Ensure that GEOSOL system data is consistent with case file documentation.	10-47b 11-49b	X				
12-49		17.258 17.259 17.260 17.278	Federal regulations require 30% of youth funds be spent on out-of-school youth. Closeout reports for the FY 2009 ARRA Youth grant indicate only 24.4% of funds were spent on out of school youth.						
	12-49		Develop controls to monitor and ensure compliance with the 30% federal requirement relating to Youth Activity funds.		X				
12-50		20.205	RIDOT should improve its quality assurance program with respect to materials testing.						
	12-50a		Improve controls to ensure materials testing procedures are consistent with the most recent federally approved *Master Schedule for Sampling, Testing and Certification of Materials.* Ensure consistent application of materials test requirements by RIDOT divisions.	07-58a 08-53a 09-44a 10-51a 11-51a			X		See Corrective Action Plan for Finding 2013-039

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
	12-50b		Enhance program change controls over the Construction Management and Materials Testing System modules to prevent unauthorized changes in the Master Schedule or the specific materials test book developed for each project.				X		See Corrective Action Plan for Finding 2013-039
	12-50c		Ensure required certificates of compliance are obtained and on file in the construction field office and required test results are documented in the materials test book prior to vendor payment.	06-33a 07-58b 08-53b 09-44b 10-51b 11-51b			X		See Corrective Action Plan for Finding 2013-039
	12-50d		Improve documentation for tests completed to comply with the FHWA approved *Master Schedule for Sampling, Testing and Certification of Materials.*	06-33b 07-58c 08-53c 09-44c 10-51c 11-51c		X			See Corrective Action Plan for Finding 2013-039
12-51		20.205	RIDOT did not have adequate policies or procedures in place to monitor its subrecipients.						
	12-51a		Enhance written policies and procedures for subrecipient monitoring and schedule on-going projects for review and document the monitoring performed.	08-54a 09-45a 10-52a 11-52a			X		See Corrective Action Plan for Finding 2013-041
	12-51b		Identify all federal awards passed-through to subrecipients by project.	08-54b 09-45b 10-52b 11-52b		X			Financial Management has put a report in place to identify all sub recipients that had charges during the fiscal year and it was modified about a year ago to pull the data by account. All sub recipients are charged to account 6190 in FMS and to natural 654120 in RIFANS. Both FY 2012 and FY 2013 were reconciled without any issue. However since the Finals section monitors throughout the fiscal year, this may not be the best list for them to use in order to compile their sub recipient list.

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
	12-51c		Ensure subrecipients have had required single audits performed and review the audit reports on a timely basis including issuing management decisions within required timeframes. Evaluate the impact of subrecipient activities on RIDOT's ability to comply with applicable federal regulations.	08-54c&e 09-45c&e 10-52c&e 11-52c&e	X				
	12-51d		Provide required information to subrecipients in contracts such as CFDA number and title, federal agency and applicable compliance requirements including identification of ARRA funding. Ensure that the requirement to maintain current registrations in the Central Contractor Registration, including obtaining a Dun and Bradstreet Data Universal Numbering System (DUNS) number, in accordance with Section 1512(h), ARRA, and 2 CFR 176.50(c) are communicated to first-tier subrecipients.	08-54d 09-45d 10-52d 11-52d		X			See Corrective Action Plan for Finding 2013-041
12-52		20-205	RIDOT did not have adequate policies or procedures in place to ensure police detail charges by municipality were reasonable. The Department has drafted new cooperative agreements and billing templates.						
	12-52a		Complete implementation of the revised cooperative agreements and billing procedures for police detail charges.	10-54 11-54a	X				
			RIDOT established a loan program to assist DBE firms. The program is administered by an outside vendor and funds are outside of state control.						
	12-52b		Establish control procedures to ensure accountability and oversight of the DBE Loan Program activities performed by the vendor.		X				
	12-52c		Regain custody of the loan program bank account and all State funds that are deposited in the name of the vendor servicing the loan program.		X				
12-53		20.205	States must ensure that a Value Engineering analysis has been performed on all applicable projects and resulting recommendations are incorporated into plans. RIDOT should improve procedures over its Value Engineering Program.						
	12-53		Enhance policies, procedures, and controls to ensure compliance with Value Engineering analysis requirements contained in 23 CFR 627.				X		See Corrective Action Plan for Finding 2013-053
12-54		20.205	Testing revealed three instances where vendor invoices were approved by staff, and not the resident engineer as required by the PURK Manual.						

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	12-54		Update the PURK manual to include a formal policy of who is able to verify and authorize an invoice for payment.				X		The revisions have been sent to the Chief Engineer. The PURK manual is in process of being updated and the revisions will be added at that time.
12-55		20.205	RIDOT drew funds 58 days in advance of its debt service payment, not in accordance with the MOU with FHWA. No interest was calculated on the excess funds and the draw provision was not included in the Treasury- State agreement.						
	12-55a		Adhere to the Memorandum of Understanding with FHWA that allows RIDOT to draw GARVEE debt service transfers to the Trustee three business days in advance of the payment.		X				
	12-55b		Include all drawdown components in the Treasury-State Agreement					X	
12-56		84.010 84.389	Central Falls School District – documentation supporting time and effort charges was not in compliance with A-87. Some time sheets were incorrect and required certifications missing.						
	12-56		We recommend that the School District review the current procedures for monitoring compliance with the time and effort reporting requirements to ensure that all employees that are charged to federal programs are completing the required documentation.		X				
12-57		84.063	CCRI – Certain ineligible students received Pell grants. The Office of Enrollment had not promptly communicated information to the Office of Student Financial Aid.						
	12-57		We recommend that the Community College update their process to track the status of all applicants, including those who have an educational background from outside of the United States. Based on the information the student completes on their application, as well as other information obtained, including during the verification process, the Community College should ensure that the software is updated to track the necessary information, so that financial aid can only be awarded to the eligible students.		X				
12-58		84.268	CCRI – The college does not have a policy to ensure the accuracy of the information transmitted to the National Student Clearinghouse.						

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	12-58		We recommend that the Community College have a manual process for at least one individual to manually review the information being uploaded to ensure that the software is pulling the accurate information on a test basis.				X		See Corrective Action Plan for Finding 2013-058
12-59		84.389	Central Falls School District – The district paid three years of a contract before services were performed. The contract was paid with ARRA funds that were set to expire before the end of the contract period. Questioned costs of $269,620.						
	12-59		We recommend that the School District review the requirements regarding allowable costs/cost principles and period of availability to ensure the School District is in compliance with all applicable requirements.		X				
12-60		84.395	Documentation to support consultant invoices was insufficient and not adequately reviewed by RIDE prior to payment.						
	12-60a		Improve the oversight and verification of consultant invoices requesting reimbursement for hours expended and other contract costs.			X			See Corrective Action Plan for finding 2013-054
	12-60b		Delineate minimum documentation standards for consultants that are compensated on an hourly basis to ensure that RIDE has sufficient evidence and support for work performed and paid to meet federal documentation requirements. Modify/amend existing contracts as needed to meet the revised documentation requirements.			X			See Corrective Action Plan for finding 2013-054
12-61		93.558 93.714 93.575 93.596 93.713	Discrepancies were found in the eligibility testing for the RI Works program. Supervisors review cases, but do not specifically test childcare cases. Some Ineligible childcare costs were included on federal reports.						
	12-61a		Strengthen controls to ensure adherence to procedures requiring agency personnel obtain and properly utilize required documentation to update electronic case file records prior to determining eligibility and payment amounts, as well as, determining and enforcing compliance with work participation requirements.	05-63a 06-43a 07-70a 08-67a 09-56a 10-57a 11-58a		X			See Corrective Action Plan for Finding 2013-058

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	12-61b		Expand the pilot project where certain applicant eligibility documentation is scanned and stored within the INRHODES system to eliminate paper records and facilitate retrieval of critical eligibility documentation.	08-67d 09-56c 10-57c 11-58c				X	The Department is replacing the current eligibility system under the Affordable Care Act by January 2015. The new system will use imaging and improve task management.
12-62		93.558 93.714	TANF – Special Reporting – Deficiencies were noted in supporting documentation for MOE amounts reported. Supervisory review and approval of the ACF-204 should be improved						
	12-62		Continue to enhance control procedures over the preparation of the ACF-196 and ACF-204 reports to ensure that all such costs meet required TANF criteria.	07-73 08-69 08-71 09-58 10-58 11-59	X				
12-63		93.558 93.714 93.767 93.778	Eligibility discrepancies resulting from IEVS data matches were not investigated and resolved in a timely manner.						
	12-63a		Strengthen control procedures to ensure that discrepancies resulting from data matches are promptly resolved and utilized to determine recipient eligibility and the amount of assistance.	03-41a 04-56a 05-59a 06-40a 07-71a 08-66a 09-57a 10-60a 11-60a			X		See Corrective Action Plan for Finding 2013-060
	12-63b		Maintain documentation supporting the resolution of data match discrepancies and initiate modifications when discrepancies impact eligibility and/or amount of benefits.	03-41b 04-56b 05-59b 06-40b 07-71b 08-66b 09-57b 10-60b 11-60b			X		See Corrective Action Plan for Finding 2013-060

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12-64		93.558 93.714 93.667	Controls over monitoring of subrecipients could be improved. Not all subrecipients submitted their audit reports timely. Controls over documentation and payments could be improved.						
	12-64a		Obtain and review subrecipient audit reports. Issue timely management decisions on any audit findings and ensure that the subrecipients take appropriate corrective action.				X		See Corrective Action Plan for Finding 2013-061
	12-64b		Notify all subrecipients of federal award data and compliance requirements.				X		See Corrective Action Plan for Finding 2013-061
	12-64c		Require subrecipients to submit appropriate documentation when requesting payment of federal funds.				X		See Corrective Action Plan for Finding 2013-061
12-65		93.575 93.596 93.713	Errors were noted in the reporting of earmarked amounts. One report included amounts that were unsupported. Mandatory funds allocated were spent one quarter early. Questioned costs related to 2010 grant funds spent after the period of availability.						
	12-65a		Strengthen controls to ensure that federal reports are prepared accurately and reviewed prior to submission to ensure compliance with earmarking and period of availability requirements. Maintain all supporting documentation used in report preparation.	11-67			X		See Corrective Action Plan for Finding 2013-063
	12-65b		Reconcile reports to the cost allocation system and RIFANS prior to submission.		X				
	12-65c		Improve cash management practices to limit pre-award expenditures.				X		See Corrective Action Plan for Finding 2013-063
12-66		93.568	Controls over monitoring of LIHEAP subrecipients could be improved. No follow-up is performed after on-site reviews and some audit reports are received late.						
	12-66a		Perform regular schedule of site visits, client data reviews, vendor monitoring, and fiscal reviews of LIHEAP subrecipients and document the monitoring procedures performed.	11-62	X				
	12-66b		Evaluate the impact of subrecipient activities on the OER's ability to comply with applicable federal regulations.		X				

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	12-66c		Ensure that all subrecipient audit reports are received and reviewed by management along with appropriate follow-up on audit findings reported in the subrecipient audit reports.		X				
12-67		93.568	The Office of Energy Resources did not have consistent controls to restrict subrecipient cash balances to their immediate needs.						
	12-67a		Restrict subrecipient funding to their immediate cash needs.	11-63b		X			See Corrective Action Plan for Finding 2013-062
	12-67b		Strengthen internal controls over subrecipient cash management.			X			See Corrective Action Plan for Finding 2013-062
12-68		93.568	The OER does not maintain adequate accounting records by grant award in order to support compliance with period of availability requirements.						
	12-68		Maintain documentation to better demonstrate compliance with period of availability requirements.	06-47a 07-78a 08-76a 09-62 10-63a 11-64	X				
12-69		93.767 93.778	Prior audits noted licensure information lacking in the Medicaid provider files maintained by the fiscal agent. These files were subsequently destroyed in the floods of March, 2010.						
	12-69		Complete the re-enrollment of all Medicaid providers to ensure compliance with federal requirements for Provider Eligibility and Suspension and Debarment.	07-96 08-96 09-81 10-73 11-70	X				
12-70		93.767 93.778	The process to accumulate information for the CMS-64 report is complex and requires extensive manual effort. No review process is in place to ensure consistent and accurate reporting of program expenditures on the CMS-64.						

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12-70a		Align accounts and coding within the State accounting system to facilitate posting and reconciliation of data reported by the MMIS.	02-65b 03-65b 04-82a 05-77a 06-59a 07-90a 08-90 09-72a 10-72a 11-72a		X			See Corrective Action Plan for finding 2013-066
12-70b		Reconcile administrative expenditures reported on the CMS-64 with those reported in the State's accounting system.	02-65a 03-65a 04-82b 05-77b 06-59b 07-90b 08-90b 09-72b 10-72b 11-72b		X			See Corrective Action Plan for finding 2013-066
12-70c		Report cumulative disbursements accurately on the SF-425 report in accordance with report guidelines.	03-65f 04-82c 05-77c 06-59c 07-90c 08-90c 09-72c 10-72c 11-72c				X	
12-71	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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	12-71		Subject the results of queries used to accumulate eligible SCHIP program costs to a quality control process to ensure that eligibility and allowable cost program criteria are met.	02-54a 03-53a 04-72a 05-68a 06-56a 07-89 08-89 09-70 10-70 11-71			X		See Corrective Action Plan for finding 2013-065
12-72		93.778	The State was unable to provide specific claims data to support CNOM (costs not otherwise matchable) expenditures.						
	12-72a		Subject all CNOM claiming to the claims processing and eligibility control processes (MMIS and INRHODES systems) in place over all Medicaid program expenditures.	09-76a 10-78a 11-73a		X			See Corrective Action Plan for finding 2013-067
	12-72b		Ensure that adopted standards and practices, including claiming reviews, are completed for all CNOM expenditures claimed during fiscal 2011 and credit the federal government for any amounts claimed in error.	11-73b		X			See Corrective Action Plan for finding 2013-067
	12-73c		Ensure that all future CNOM claiming processes are fully operational prior to claiming expenditure populations to the Medicaid program.	09-76c 10-78c 11-73c		X			See Corrective Action Plan for finding 2013-067
12-73		93.778	EOHHS needs to address staffing deficiencies within the MEQC Program to ensure timely compliance with federal regulations. DHS should re-evaluate MEQC policies to ensure compliance and revisit the continuing eligibility of recipients who fail to cooperate during MEQC reviews.						
	12-73a		Address staffing deficiencies in the MEQC unit so that the agency can meet its federal monitoring and reporting responsibilities.	10-80a 11-76			X		See Corrective Action Plan for finding 2013-068
	12-73b		Re-evaluate MEQC policies and procedures to ensure compliance with federal regulations and/or guidelines for conducting MEQC reviews.				X		See Corrective Action Plan for finding 2013-068
12-74		93.778	The Rate Setting unit did not complete any desk audits for 2009 or 2010 on which 2011 and 2012 rates (respectively) would have been based. The state did not comply with requirements related to rate setting. Hospital Settlement reports have not been reviewed.						

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	12-74		Eliminate the current hospital settlement report review and long-term care facility audit backlogs and ensure that sufficient resources are dedicated to ensuring compliance with federal inpatient hospital and long-term care facility audit requirements.	11-77			X		See Corrective Action Plan for finding 2013-069
12.75		93.778	EOHHS does not currently have controls in place to ensure the accuracy of the uncompensated care data provided by hospitals.						
	12-75		Improve controls over Medicaid Disproportionate Hospital Share (DSH) payments by implementing the recommendations made within completed DSH audits.	08-102 09-84 10-83 11-83		X			See Corrective Action Plan for finding 2013-070
12-76		93.778	Clerical errors resulted in $20,097 in questioned costs.						
	12-76		Credit the federal grantor for unallowable fiscal agent costs charged at the enhanced federal reimbursement rate.		X				
12-77		93.778	Certain expenditures are paid by the fiscal agent outside of the MMIS, i.e. manually.						
	12-77a		Minimize the use of manual payments by the Medicaid fiscal agent. Process payments through RIFANS when appropriate and improve authorization controls over manual payments that must be processed through the MMIS.	11-87a	X				
	12-77b		Eliminate the practice of processing advances to state-operated providers at fiscal year-end.	11-87b	X				
12-78		93.778	Program overpayments for individuals that terminated employment coverage as well as overpayments to hospitals are not being credited to the federal grantor in a timely manner.						
	12-78		Reimburse the federal government for program overpayments within the timeframe mandated by federal regulations.	07-95b 08-95b 09-79 10-82 11-82			X		See Corrective Action Plan for finding 2013-071
12-79		93.778	EOHHS needs to increase its oversight and monitoring procedures to improve controls over managed care contract expenditures.						

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	12-79a		Enhance oversight and monitoring procedures over managed care contracts by implementing independent audit or other validation processes that would ensure the accuracy, allowability, and completeness of expenditure and recovery activities reported by contracted HMOs.	09-86 10-85a 11-84a			X		See Corrective Action Plan for finding 2013-077
	12-79b		Enhance the MMIS's ability to fully adjudicate HMO encounter data to provide a more complete determination of the medical expenditures incurred during managed care contract periods.	10-85b 11-84b			X		See Corrective Action Plan for finding 2013-077
12-80		93.778	Controls over Rhody Health Partners capitation payments could be improved.						
	12-80		Improve systemic controls over Rhody Health Partners eligibility determination and capitation payments.	10-88 11-86			X		See Corrective Action Plan for finding 2013-072
12-81		93.778	BHDDH needs to reassess the resources required to ensure that provider licenses are maintained current and supported by documentation of compliance with agency and federal regulations.						
	12-81		Ensure that all providers meet licensing and federal health and safety requirements for providing services within the Medical Assistance Program.	10-76d 11-79d		X			See Corrective Action Plan for finding 2013-073
12-82		93.778	BHDDH, as operator of the Eleanor Slater Hospital, should examine the current billing process to ensure more timely and accurate billing to Medicaid.						
	12-82a		Implement improved processes to ensure more timely and accurate billing to Medicaid for Eleanor Slater Hospital.		X				
	12-82b		Ensure that all Medicaid reimbursements to Eleanor Slater Hospital are based on claims processed through the MMIS.		X				
12-83		93.778	Controls over Medicaid claims for children in foster care should be enhanced to match controls in place for all other Medicaid claims processed through the State's MMIS.						

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	12-83a		Develop a plan that would facilitate the processing of Medicaid eligible services conducted within DCYF contracted placements through the MMIS.	06-64b 07-100b 08-98b 09-75a 10-77a 11-81a		X			See Corrective Action Plan for finding 2013-078
	12-83b		Develop allowable medical services with defined service units and appropriate reimbursement rates available for DCYF provider groups to bill directly to the MMIS.	06-64a 07-100a 08-98a 09-75b 10-77b 11-81b			X		See Corrective Action Plan for finding 2013-078
	12-83c		Enroll all clinicians employed by DCYF providers within the MMIS so that they can be subjected to provider eligibility monitoring procedures performed by the State's fiscal agent.	09-75c 10-77c 11-81c			X		See Corrective Action Plan for finding 2013-078
12-84		93.778	Numerous documentation deficiencies were noted during testing of Medicaid eligibility determinations.						
	12-84		Improve controls over required eligibility documentation obtained during the Medical Assistance application process.				X		See Corrective Action Plan for finding 2013-074
12-85		93.778	The MMIS currently lacks system edits that properly determine when home and community based service providers bill for services that are incompatible with claims billed by other providers (i.e., inpatient hospital claims) that suggest the individual was not present in the community to receive the services billed.						
	12-85		Strengthen system processing controls over home and community based medical and support services to enhance overall program integrity for this claim group.	00-42 01-49 02-53 03-57 04-75 05-71 06-55 07-86 08-86 09-69 10-74 11-80			X		See Corrective Action Plan for finding 2013-076

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12-86		R&D Cluster 43.000 66.456	URI – Two contracts tested had not met the cost sharing requirements by the end of the contract term.						
	12-86		We recommend that management of the University implement policies and procedures to ensure that proper cost-sharing is established by the end of the program.		X				
12-87		R&D Cluster: 81.041	The University did not furnish required ARRA information to all of its subrecipients at the time of disbursement of ARRA funds.						
	12-87		We recommend that management of the University implement policies and procedures to ensure that the proper information is supplied to the subrecipients.	10-91 11-88 (93.701)	X				