



CITY OF PROVIDENCE, RHODE ISLAND

**Auditors' Reports as Required by OMB Circular A-133
and *Government Auditing Standards* and Related Information**

Year ended June 30, 2003

IN CITY COUNCIL

NOV 3 2005

READ
WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED.

Claire Beitzel CLERK
[Signature]

CITY OF PROVIDENCE, RHODE ISLAND

Auditors' Reports as Required by OMB Circular A-133
and *Government Auditing Standards* and Related Information

Year ended June 30, 2003

Table of Contents

Auditors' Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance and on the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	Exhibit I
Schedule of Expenditures of Federal Awards	Exhibit II
Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	Exhibit III
Schedule of Findings and Questioned Costs	Exhibit IV



KPMG LLP
600 Fleet Center
50 Kennedy Plaza
Providence, RI 02903-2321

**Auditors' Report on Compliance with Requirements Applicable to Each Major Program,
Internal Control over Compliance and on the Schedule of Expenditures
of Federal Awards in Accordance with OMB Circular A-133**

The City Council
City of Providence, Rhode Island:

Compliance

We have audited the compliance of the City of Providence, Rhode Island, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2003. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs (Exhibit IV). Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of a component unit, the Providence Public Building Authority which received federal assistance during the year ended June 30, 2003. Our audit, described below, did not include the operations of that component unit because the component unit engaged other auditors to perform an audit in accordance with OMB Circular A-133.

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 City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

As described in item 2003-1 in Section (3) of the accompanying schedule of findings and questioned costs (Exhibit IV), the City did not comply with requirements regarding the allowable costs that are applicable to the Title II, Improving Teacher Quality (CFDA #84.367) and the Special Education Cluster (CFDA #84.027 and #84.173) programs. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003. The results of our auditing procedures also disclosed other



instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in Section (3) of the accompanying schedule of findings and questioned costs as items 2003-2, 2003-3, 2003-4, and 2003-5.

Internal Control over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in Section (3) of the accompanying schedule of findings and questioned costs as items 2003-1, 2003-2, 2003-3, and 2003-4.

A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 2003-1 to be a material weakness.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the City as of and for the year ended June 30, 2003, and have issued our report thereon, based on our report and the report of other auditors, dated February 17, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards (Exhibit II) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Exhibit I

This report is intended solely for the information and use of the finance committee, elected officials, management, certain federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 17, 2004

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

<u>Federal grantor/pass-through grantor/program title</u>	<u>CFDA number</u>	<u>(000's) Expenditures</u>
U.S. Department of Agriculture:		
Passed through the State of Rhode Island, Department of Education:		
Food Distribution	10.550	\$ 503
National School Breakfast Program	10.553	1,673
National School Lunch Program	10.555	7,475
Summer Food Services Program for Children	10.559	483
		<u>10,134</u>
U.S. Department of Housing and Urban Development:		
Direct Programs:		
Community Development Block Grant	14.218	\$ 20,526
Emergency Shelter Grant	14.231	253
Home	14.239	2,927
Housing Opportunities for Persons with AIDS	14.241	573
HUD – Neighborhood Initiative Project	14.246	361
Lead Based Paint Hazard Control	14.900	159
Healthy Homes Initiative Grants	14.901	108
		<u>24,907</u>
U.S. Department of Interior:		
Direct Program:		
National Park Service	15.921	<u>25</u>
U.S. Department of Justice:		
Byrne Formula Grant Program	16.579	13
LLEBG	16.592	468
Executive Office for Weed and Seed	16.595	224
Public Safety Partnership and Community Policing Grants	16.710	448
JUMP – Juvenile Mentoring Programs	16.726	23
Drug Free Communities Support Program Grants	16.729	31
		<u>1,207</u>
U.S. Department of Labor:		
Passed through the State of Rhode Island, Department of Labor:		
Senior Community SVC Employment Program	17.235	416
Welfare to Work	17.253	1,014
WIA	17.255	1
WIA Adult	17.258	1,153
WIA Youth Activities	17.259	1,562
WIA Dislocated Workers	17.260	522
		<u>4,668</u>
U.S. Department of Transportation:		
Direct Program:		
Highway Planning and Construction	20.205	<u>5</u>
U.S. Department of Commerce:		
Direct Program:		
Economic Adjustment		<u>100</u>

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

Federal grantor/pass-through grantor/program title	CFDA number	(000's) Expenditures
U.S. Department of Environment Protection:		
Direct Program:		
Brownfield Pilots Cooperative Agreements	66.811	111
U.S. Department of Emergency Management Assistance:		
Direct Programs:		
Reimburse Project Impact	83.551	95
U.S. Department of Education:		
Direct Programs:		
Teacher Leadership Program in Literacy	84.215	90
21st Century Community Learning Programs	84.287	121
Passed through the State of Rhode Island, Department of Education:		
Adult Education State Grant Program	84.002	13
Title I – Grants to Local Educational Agencies	84.010	12,965
Special Education Grants to State	84.027	3,380
Vocational Education – Basic State Grants	84.048	704
Special Education Preschool Grant – Project Expand (Section 619)	84.173	228
Safe and Drug-Free Schools and Communities State Grants	84.186	578
School to Work Opportunities	84.278	69
Innovative Education Program Strategies	84.298	583
Technology – Literacy Challenge Fund Grant	84.318	196
Comprehensive School Reform Demonstration	84.332	188
Reading Excellence Tutorial Assistance	84.338	185
Arts in Education	84.351	122
School Renovation	84.352	467
Title III LEP – English Language Acquisition Grant	84.365	105
Title II – Improving Teacher Quality	84.367	3,446
		<u>23,440</u>
U.S. Department of Health and Human Services:		
Passed through the State of Rhode Island, Department of Health and Human Services:		
Consolidated Knowledge Development and Application Program	93.230	388
Refugee and Entrant Assistance Discretionary Grants	93.576	16
		<u>404</u>
U.S. Department of Homeland Security:		
Direct Programs:		
Emergency Management Performance Grants	97.042	146
State and Local All Hazards Emergency Operations Planning	97.051	40
Citizens Corps	97.053	25
		<u>211</u>
Total federal expenditures		<u>\$ 65,307</u>

See accompanying notes to schedule of expenditures of federal awards.

CITY OF PROVIDENCE, RHODE ISLAND

Notes to Schedule of Expenditures of Federal Awards

Year ended June 30, 2003

(1) Summary of Significant Accounting Policies

The accounting and reporting policies of the City of Providence, Rhode Island, are set forth below:

Basis of Presentation

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting.

(2) School Cafeteria Programs

The City contracts with the Sodexo Marriot Corporation for the administration of the National School Lunch and School Breakfast programs. Program expenditures in the accompanying schedule of expenditures of federal awards represent amounts paid to the Sodexo Marriot Corporation during fiscal 2003.

(3) Home Program (CFDA #14.239)

The City passes-through 100% of the Home Program funding to the Providence Neighborhood Housing Corporation. This Corporation engages another independent auditor to perform its audit under OMB Circular A-133. The amount shown as expenditures in the accompanying Schedule of Expenditures of Federal Awards for the Home Program is the amount the City passes through to the Corporation.



KPMG LLP
600 Fleet Center
50 Kennedy Plaza
Providence, RI 02903-2321

**Auditors' Report on Compliance and on Internal Control
over Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

The City Council
City of Providence, Rhode Island:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Providence, Rhode Island, as of and for the year ended June 30, 2003, which collectively comprise the City's basic financial statements and have issued our report thereon, based on our report and the report of other auditors, dated February 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we considered to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements. Reportable conditions are described in Section (2) of the accompanying schedule of findings and questioned costs (Exhibit IV) as items 2003-1 through 2003-3 and 2003-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a





Exhibit III

timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above to be a material weakness.

This report is intended solely for the information and use of the finance committee, elected officials, management, and certain federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 17, 2004

CITY OF PROVIDENCE, RHODE ISLAND
 Schedule of Current Year Findings and Questioned Costs
 Year ended June 30, 2003

(1) Summary of Auditors' Results

- (a) The independent auditors' report on the financial statements expressed an unqualified opinion.
- (b) Reportable conditions in internal control over financial reporting were identified, none of which are considered to be material weaknesses.
- (c) No instances of noncompliance considered material to the financial statements were disclosed by the audit.
- (d) Reportable conditions in internal control over compliance with requirements applicable to a major federal awards program were identified, of which one was considered to be a material weakness.
- (e) The independent auditors' report on compliance with requirements applicable to major federal award programs expressed a qualified opinion over allowable costs for the Title II, Improving Teacher Quality (CFDA #84.367) and the Special Education Cluster (CFDA #84.027 and #84.173) programs.
- (f) The audit disclosed findings required to be reported by OMB Circular A-133.
- (g) The City's major programs were:

Name of federal program or cluster	CFDA number
Title I – Grants to Local Educational Agencies	84.010
Special Education Cluster	84.027/84.173
Community Development Block Grant	14.218
Title II – Improving Teacher Quality	84.367
HOME	14.239
Child Nutrition Cluster	10.553/10.555/10.559

- (h) A threshold of \$1.9 million was used to distinguish between "Type A" and "Type B" programs as those terms are defined in OMB Circular A-133.
- (i) The City did not qualify as a "low-risk auditee" as that term is defined in OMB Circular A-133.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2003

(2) Financial Statements Findings Reported in Accordance with *Government Auditing Standards***2003-1: Financial Reporting**

Finance personnel have taken a number of measures to improve back office operations in the face of evolving complexities in financial reporting and major system enhancements. Despite these efforts, the City continues to experience reporting delays due in large part to numerous post closing adjustments necessary to accurately reflect the books of the City. It was our observation that a significant number of material adjustments were made as late as seven months after fiscal (2003) year-end. We recommend this occurrence be remedied by performing account reconciliations and analyses for all general ledger accounts prior to each monthly closing. Adjustments resulting from this procedure should be recorded as part of the monthly close. Failure to exercise this discipline could result in ineffective controls over financial reporting.

Further, it was our observation that many accounting adjustments (and resulting delays) were caused by inter-departmental activity accounted for outside the centralized (Lawson) system. This would include the records maintained independently by the Planning Department, Civic Center, Workforce Initiative Board, and others. The City should consider consolidating the accounting ledgers of these various departments in order to achieve efficiencies, improve controls over reporting, and better leverage finance personnel.

Finally, the City should assess its present staffing levels to insure there are sufficient resources to implement these recommendations.

Management Response:

Management concurs with the comment. A learning curve on the new Lawson Software, as well as implementation of new citywide payroll and human resource modules, caused delays in closing monthly statements. The Controllers Office has made great strides in fiscal 2004 in reconciling and closing statements in a more timely manner.

Management also concurs that the fiscal 2003 audit required a number of adjustments to the trial balances due to interdepartment activity accounted for outside the Lawson system. This included Planning, Civic Center, and Workforce Initiative Board and agrees with the recommendation of consolidating and having these interdepartment activity accounted for on Lawson. Finally, the City has increased staffing levels in the Controllers Office over the last year and needs to assess the staffing levels when the software implementation is complete, as this project has been a significant drain on resources. Once this project is fully implemented, we will assess staffing further.

2003-2: Accounting for Debt

The City refinanced over \$28 million of debt in fiscal 2003 and failed to properly reflect this activity on the general ledger. Specifically, general ledger accounts were not established to distinguish the various elements of debt refinancing (i.e. proceeds from debt, payments made to escrow agents, and gains/losses on refinancing). Such an oversight can and does produce inaccurate financial presentations throughout the year and could result in erroneous information being made public.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2003

We recommend the City establish accounts to properly reflect all elements of refinancing activity of the City. Such accounts should be periodically reconciled to detail schedules currently being maintained by the finance department.

Management Response:

Management concurs that the refinanced debt was not reflected in a timely manner on the general ledger due to the Finance Department not notifying the City Controllers Office in a timely manner. However, management does not agree that the delay in reflecting the refinancing requires additional accounts to be established. The Controllers Office has the necessary accounts to reflect accurate debt service and inaccurate information on debt has not been made public.

2003-3 Retirement System

The funded status of the retirement system declined again in fiscal 2003 to approximately 37%. The funded status of the retirement system should continue to be of great concern to the City since this liability must eventually be satisfied with City resources through increased pension contributions. We understand the City is currently in the third year of a six-year plan to fund 100% of the actuarial annual required contribution. We continue to stress the importance of achieving and eventually maintaining full-level funding.

Management Response:

The City has a plan to be fully funding the pension system at the annual actuarial recommended amount by fiscal 2006. Currently, the fiscal 2004 contribution will bring the annual funding level to 85%. Investment returns from the early 2000's resulted in flat investment proceeds instead of the 8.5% that the plan anticipates on its assets and this has had a significant effect on the funding ratio. If the portfolio generates an average of 8.5% investment return and the City continues to follow the actuaries recommended funding schedule, the unfunded liability and normal cost contributions will be eliminated in 27 years and the funding level will increase each year beginning in fiscal 2007 until 100% funding is achieved.

2003-4: Postretirement Health Benefits

In addition to the unfunded liability related to the City's retirement system, the City has, but is not required to record, a liability for postretirement health benefits. Although this is not required to be presented in the City's financial statements currently, it will be required to be presented in the future.

The City needs to begin assessing the size of this liability, which could be hundreds of millions of dollars, in order enhance the credibility of future financial projections and to establish a plan for funding these liabilities.

Management Response:

Management concurs and will begin to establish this cost. It is important to note that the City is currently exploring ways to minimize postretirement health benefits.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2003

2003-5: Capital Assets

The City does not account for its Construction in Progress (CIP) in the City's capital asset ledger. The City should ensure that CIP is properly tracked and accounted for. These tasks will help ensure that capital projects are monitored against budgets and that the City's financial reporting is accurate.

Management Response:

The City does not and did not account for Construction in Progress during the fiscal year for Providence Public Building Authority projects. The City does not account for PPBA assets until the projects are completed and turned over and accepted by the City.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2003

(3) Findings and Questioned Costs Relating to Federal Awards

Finding number: 2003-1
Federal agency and pass-through entity: U.S. Department of Education
 State of Rhode Island Department of Education
CFDA number: 84.027/84.173
 84.367
Program: Special Education Cluster
 Title II – Improving Teacher Quality
Finding: Allowable Costs – Documentation of Employee
 Time and Effort

Requirement:

OMB Circular A-87, Attachment B paragraph 11.h.3 states that where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Description:

During our testwork, KPMG noted that the School Department does not obtain the required, semi-annual certifications for individuals whose compensation is funded by Special Education Cluster and Title II funds.

Questioned costs: Not determinable

Recommendation:

KPMG recommends that the City of Providence establish policies and procedures to ensure that the appropriate certifications are obtained for employees that work solely on federal awards.

Management Response:

Management concurs, during the 2003 fiscal year the Providence School Department implemented a policy requiring certification of assignment for all employees funded by Title I.

In future years, similar certification will be required for all employees compensated with Federal Funds.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2003

Finding number: 2003-2

Federal agency and pass-through entity: U.S. Department of Education
State of Rhode Island Department of Education

CFDA number: 84.010

Program: Title I – Grants to Educational Agencies

Finding: Eligibility – Eligible School Attendance Areas
and Allocating funds to eligible school
attendance areas and schools

Requirement:

A Local Educational Agency (LEA) must determine which school attendance areas are eligible to participate in Title I, Part A. A school attendance area is generally eligible to participate if the percentage of children from low-income families is at least as high as the percentage of children from low-income families in the LEA as a whole or at least 35 percent poverty.

An LEA must allocate Title I, Part A funds to each participating school attendance area or school, in rank order, on the basis of the total number of children from low-income families residing in the area or attending the school. In calculating the total number of children from low-income families, the LEA must include children from low-income families who reside in a participating area and attend private schools, using the same poverty data, if available, as the LEA uses to count public school children.

When determining eligibility, and LEA must select a poverty measure from among the following data sources: (1) the number of children ages 5-17 in poverty counted in the most recent census; (2) the number of children eligible for free and reduced priced lunches; (3) the number of children in families receiving TANF; (4) the number of children eligible to receive Medicaid assistance; or (5) a composite of these data sources. The LEA must use the measure consistently across the district to rank all its school attendance areas according to their percentage of poverty (Title I, Section 1113(a)-(b) of ESEA (20 USC 6313(a)-(b)); 34 CFR section 200.78(a).

Description:*Allocation Inaccuracies*

The Providence School Department is required to submit annual ranking reports to the State of Rhode Island, Department of Education. The School Department uses the recent census data maintained within the School Department's enrollment system to complete its ranking reports. During our testwork of the census data, KPMG noted that the student enrollment counts by census tract included in the ranking documentation did not agree to the enrollment system census tract reports for 28 out of 92 (30%) census tracts tested.

Questioned costs: Not determinable

CITY OF PROVIDENCE, RHODE ISLAND
Schedule of Current Year Findings and Questioned Costs
Year ended June 30, 2003

Recommendation:

KPMG recommends that the City of Providence establish policies and procedures to ensure that the census tract information included in the ranking report is complete and accurate.

Management Response:

The Providence School Department will codify policies and procedures for this process that will facilitate the rankings, auditing and validating of the ranking reports. Management acknowledges lack of listed procedures, and overly complicated worksheets contributed to the inability of the auditors to reconcile some of the information.

CITY OF PROVIDENCE, RHODE ISLAND
 Schedule of Current Year Findings and Questioned Costs
 Year ended June 30, 2003

Finding number: 2003-3
Federal agency and pass-through entity: U.S. Department of Education
 State of Rhode Island Department of Education
CFDA number: 84.027/84.173
Program: Special Education Cluster
Finding: Special Reporting

Requirement:

In accordance with 34 CFR Sections 300.754(a),(c), and (e), each State Educational Agency (SEA) must: (a) establish procedures to be used by a Local Educational Agencies (LEA) and other educational institutions in counting the number of children with disabilities receiving special education and related services; (b) obtain certification from each agency and institution that an unduplicated and accurate count has been made; and, (c) ensure that documentation is maintained that enables the State and the Secretary to audit the accuracy of the count. LEAs must report to the SEA in accordance with the SEA-established procedures.

The State of Rhode Island, Department of Education requires the City to report annually the number of children with disabilities receiving special education and related services through the submission of the Special Education Continuum Report.

Description:

In accordance with State Regulations (RI Reg. 300.342), at the beginning of each school year, the City must have an Individualized Educational Program (IEP) in effect for each child with a disability within its jurisdiction. The City is required to ensure that an IEP is in effect before special education and related services are provided to an eligible child under these regulations. The IEP is used as the basis of counting an eligible child with disabilities for purposes of reporting to the State.

KPMG selected 40 students included in the report to test that an IEP was in effect during the audit period. Of the 40 students selected, one (1) student was missing an IEP report and four (4) students had reports that had expired.

Questioned costs: Not determinable

Recommendation:

KPMG recommends that the City of Providence establish policies and procedures to ensure that the number of eligible children with disabilities receiving special education and related services reported to the State is accurate.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2003

Management Response:

The recommendation that the Providence School Department establish procedures to ensure accuracy of reporting to RIDE is being addressed through the development of a system that will identify IEP due dates on a monthly basis. This will ensure that IEPs do not expire; therefore inaccuracies will not be reported. Staff will also be required to review student folders that IEPs are appropriately filed and current.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2003

Finding number: 2003-4
Federal agency and pass-through entity: U.S. Department of Education
 State of Rhode Island Department of Education
CFDA number: 84.010
Program: Title I – Grants to Educational Agencies
Finding: Special Tests and Provisions – Comparability

Description:

An LEA may receive funds under Title I, Part A, and MEP (Title I, Part C) only if State and local funds will be used in participating schools to provide services that taken as a whole, are at least comparable to services that the LEA is providing in schools not receiving Title I, Part A, or MEP funds. If all schools are served by Title I, Part A or MEP, an LEA must use State and local funds to provide services that, taken as a whole, are substantially comparable in each school. Determinations may be made on either a district-wide or grade-span basis.

Description:

The School Department prepares a comparability report which includes various data (enrollment figures, FTE staff counts, etc.) used to support compliance with comparable service regulations. Examination of underlying documentation did not support data contained in the aforementioned report.

Questioned costs: Not determinable

Recommendation:

KPMG recommends that the City of Providence establish policies and procedures to ensure that the supporting documentation is on file to verify that the comparability requirements are being met.

Management Response:

Management agrees clearly defined policies and procedures relative to the district process of determining comparability should be designed and implemented.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2003

Finding number: 2003-5

Federal agency and pass-through entity: U.S. Department of Agriculture
State of Rhode Island Department of Education

CFDA number: 10.553/10.555/10.559

Program: Child Nutrition Cluster

Finding: Special Reporting – Claiming for reimbursement

Requirement:

To receive reimbursement payments for meals (and milk under the SMP) served, a SFA, institution, or sponsor must submit claims for reimbursement to its administering agency (7 CFR Sections 210.8(b), 225.9(d), and 225.15(c)(2)).

At a minimum, a claim must include the number of reimbursable meals/milk served by category and type during the period (generally a month) covered by the claim. All meals claimed for reimbursement must be of types authorized by the SFA's, institution's, or sponsor's administering agency; must be served to eligible children; and must be supported by accurate meal counts and records indicating the number of meals served by category and type (7 CFR Sections 210.7(c), 210.8(c), and 225.9(d)).

Description:

KPMG reviewed underlying support for the October and June free and reduced meal reimbursement submitted to the State of Rhode Island, Department of Education. Numerous variances in the number of meals reported were noted, which resulted in an over-reimbursement to the City of \$34,177.

Questioned costs: \$34,177

Recommendation:

KPMG recommends that City of Providence establish policies and procedures to ensure that accurate meal counts are reported to the State of Rhode Island, Department of Education.

Management Response:

The Providence School Department has implemented the following procedures and policies in order to correct any over reimbursement claims:

- 1.) All schools must keep a copy of eligibility applications from the previous year, that application is still in effect until around October 15th of the following year and has caused some problems not being up to date.
- 2.) Meal counts by category will be taken more accurately at the point of service with a new computer system in place for the next school year.

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Current Year Findings and Questioned Costs

Year ended June 30, 2003

- 3.) The Providence Academy of International Studies was a new school and there were problems with the application process during the school year, that situation has been corrected.
- 4.) A memo has been issued to all school principals providing guidance on what needs to be done with each application for the school year.

The school district will start the coming year by putting more supervision on the problem schools and will be in compliance with all U.S.D.A. regulations.

IN CITY COUNCIL

JUN 17 2004

Received and Referred
to the Committee on Finance

Michael A. Ernest
CLERK

Report

KPMG