



**Finance Department**  
*"Building Pride In Providence"*

February 18, 2005

Councilman Kevin Jackson  
Providence City Hall  
25 Dorrance Street  
Providence, RI 02903

RE: Audited Federal Financial and Compliance Report (A-133) & Management  
Comments (Single Audit)

Dear Councilman Jackson;

Attached are the City Federal Compliance Report and Management Letter as of June 30, 2004. This is the second part of the annual audit that is due to the Federal Government and State of Rhode Island no later than March 31<sup>st</sup>. The A-133 Compliance Supplement audits major federal programs and the compliance of internal controls of those federal programs.

I am please to report that this year's compliance report identified NO MATERIAL WEAKNESSES (page 6 of the report). The audit states "In our opinion, the City of Providence, Rhode Island complied, in all material respects, with the requirements that are applicable to its major federal programs for the year ended June 30, 2004, and " We noted no matters involving the internal control over compliance and its operations that we considered to be material weaknesses".

The other part of the Single Audit, the Management Comments, was issued under separate cover this year, and total eleven comments. Comment one dealt with two accounts that former employee's names were still on and that a procedure should be put in place to ensure former employee's names are removed immediately. The City Controller has already completed the audit recommendation for comment one. Three of the eleven comments had to do with the timing of deposits and endorsing of checks at the Park's Department. The Superintendent and Operation Department are also addressing these comments. The fifth comment dealt with a significant amount of cash being left unattended at the Municipal Court. Comments six and seven dealt with the need to tighten procedures at the Civic Center on having no employee receivables and purchasing controls. The Civic center has reported that both areas of concern have been addressed. Comment eight dealt with timing issues in getting loan documents into the loan files at Planning and Development. Comment nine was critical of interest being adjusted for tax-

payers that have had excellent payment records, but have now missed a payment date and were not penalized with additional penalties. The City policy towards delinquent tax-payers who have not been late in making payments in the past will not change despite the audit recommendation that interest should be assessed. Comments ten and eleven deal with funding status of the pension system and the need to assess the cost of long term healthcare cost for retirees that will become part a liability on the financial statements in fiscal 2008. I have instructed the City actuary to determine this amount which I estimate to be over \$500,000,00 and should funded actuarially over thirty years, in a similar manner as the pension contribution. We are also addressing the funding of the pension system, as the amount contributed in fiscal 2005 will exceed 90% of what the actuary recommended and was 85% in fiscal 2004.

Any questions you may have on the either the Federal Compliance Report or Mangement Comments please give me a call.

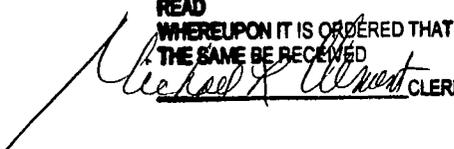
Sincerely,



Alex Prignano  
Director of Finance

Cc Jim Lombardi  
City Council Members

**IN CITY COUNCIL**  
**MAR 3 2005**

**READ**  
**WHEREUPON IT IS ORDERED THAT**  
**THE SAME BE RECEIVED**  
 **CLERK**

---

**McGladrey & Pullen**

Certified Public Accountants

**CITY OF PROVIDENCE, RHODE ISLAND**

**FEDERAL FINANCIAL AND COMPLIANCE REPORT  
FISCAL YEAR ENDED JUNE 30, 2004**

**CITY OF PROVIDENCE, RHODE ISLAND**

**FEDERAL FINANCIAL AND COMPLIANCE REPORT**

**TABLE OF CONTENTS**

---

**REPORT REQUIRED BY THE FEDERAL SINGLE AUDIT ACT AND  
OMB CIRCULAR A-133**

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program, Internal Control over Compliance in Accordance with OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards .....	1-2
Schedule of Expenditures of Federal Awards .....	3-5
Schedule of Findings and Questioned Costs .....	6-8
Summary of Prior Year Audit Findings .....	9-11

---

**REPORT REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Basic Financial Statements in Accordance with Government Auditing Standards .....	12-13
--	-------

---

# McGladrey & Pullen

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Honorable Mayor and  
Members of 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 its major federal programs for the year ended June 30, 2004. The City of Providence, Rhode Island's major federal programs are identified in the summary of independent auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the City of Providence, Rhode Island's management. Our responsibility is to express an opinion on the City of Providence, Rhode Island's compliance based on our audit.

The City of Providence, Rhode Island's basic financial statements include the operations of the Providence Public Building Authority, both a major fund and a blended component unit of the City. Our audit described below did not include the operations of the Providence Public Building Authority.

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 of Providence, Rhode Island'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 of Providence, Rhode Island's compliance with those requirements.

In our opinion, the City of Providence, Rhode Island complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2004.

***Internal Control Over Compliance:*** The management of the City of Providence, Rhode Island 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 of Providence, Rhode Island'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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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 noncompliance with the applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

***Schedule of Expenditures of Federal Awards:*** 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, 2004, and have issued our report thereon, based on our report dated January 19, 2005. We did not audit the financial statements of the Providence Public Building Authority, which is both a major fund and a blended component unit of the City, which financial statements reflect 22%, 2% and 13%, respectively, of the assets, net assets and revenues of the business-type activities of the City. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Providence's basic financial statements. The accompanying schedule of expenditures of federal awards 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.

This report is intended solely for the information and use of the City Council, the management of the City of Providence, Rhode Island and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

New Haven, Connecticut  
January 19, 2005

CITY OF PROVIDENCE, RHODE ISLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2004 (in thousands)

Federal Grantor Pass-Through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<b>U.S. Department of Agriculture:</b>		
Passed Through the State of Rhode Island, Department of Education:		
Food Distribution	10.550	\$ 623
National School Breakfast Program	10.553	2,149
National School Lunch Program	10.555	7,835
Summer Food Services Program for Children	10.559	508
<b>Total U.S. Department of Agriculture</b>		<u>11,115</u>
<b>U.S. Department of Housing and Urban Development:</b>		
Direct Programs:		
Community Development Block Grant	14.218	7,712
Emergency Shelter Grant	14.231	218
Home	14.239	3,301
Housing Opportunities for Persons with AIDS	14.241	491
HUD - Neighborhood Initiative Project	14.246	550
Lead Based Paint Hazard Control	14.900	1,654
<b>Total U.S. Department of Housing and Urban Development</b>		<u>13,926</u>
<b>U.S. Department of Interior:</b>		
Direct Program:		
National Park Service	15.921	15
<b>U.S. Department of Justice:</b>		
LLEBG	16.592	372
Executive Office for Weed and Seed	16.595	351
Public Safety Partnership and Community Policing Grants	16.710	143
Drug Free Communities Support Program Grants	16.729	18
<b>Total U.S. Department of Justice</b>		<u>884</u>
<b>U.S. Department of Labor</b>		
Passed Through the State of Rhode Island, Department of Labor:		
WIA Adult	17.258	939
WIA Youth Activities	17.259	1,202
WIA Dislocated Workers	17.260	476
<b>Total U.S. Department of Labor</b>		<u>2,617</u>

See notes to schedule.

CITY OF PROVIDENCE, RHODE ISLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued  
 For the Year Ended June 30, 2004 (in thousands)

Federal Grantor Pass-Through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<b>U.S. Department of Transportation:</b>		
Direct Program:		
Highway Planning and Construction	20.205	<u>5</u>
<b>U.S. Department of Environmental Protection:</b>		
Direct Program:		
Brownfield Pilots Cooperative Agreements	66.811	<u>250</u>
<b>U.S. Department of Emergency Management Assistance:</b>		
Direct Program:		
Hazard Migration	83.557	<u>5</u>
<b>U.S. Department of Education:</b>		
Direct Programs:		
Teacher Leadership Program in Literacy	84.215	304
Passed Through the State of Rhode Island, Department of Education:		
Title I - Grants to Local Educational Agencies	84.010	23,359
Special Education Grants to State	84.027	6,314
Vocational Education - Basic State Grants	84.048	1,423
Special Education Preschool Grant - Project Expand (Section 619)	84.173	219
Safe and Drug-Free Schools and Communities State Grants	84.186	616
School to Work Opportunities	84.278	43
Innovative Education Program Strategies	84.298	634
Technology - Literacy Challenge Fund Grant	84.318	651
Comprehensive School reform Demonstration	84.332	168
Arts in Education	84.351	28
School Renovation	84.352	423
Title III LEP - English Language Acquisition Grant	84.365	498
Title II - Improvomg Teacher Quality	84.367	<u>3,753</u>
<b>Total U.S. Department of Education</b>		<u><u>38,433</u></u>

See notes to schedule.

CITY OF PROVIDENCE, RHODE ISLAND

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, Continued  
 For the Year Ended June 30, 2004 (in thousands)

Federal Grantor Pass-Through Grantor Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<b>U.S. Department of Health and Human Services:</b>		
Passed Through the State of Rhode Island, Department of Health and Human Services:		
Consolidated Knowledge Development and Application Program	93.230	235
<b>Total U.S. Department of Health and Human Services</b>		<u>235</u>
<b>U.S. Department of Homeland Security:</b>		
Direct Programs:		
Emergency Management Performance Grants	97.042	135
State and Local All Hazards Emergency Operations Planning	97.051	13
Citizens Corps	97.053	9
<b>Total U.S. Department of Homeland Security</b>		<u>157</u>
<b>Total Federal Expenditures</b>		<u>\$ 67,642</u>

**Notes to Schedule of Expenditures of Federal Awards**

Expenditures

Expenditures are recognized on the modified accrual basis of accounting.

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 2004.

Home Program (CFDA #14.239)

The City passes through 100% of the Home Program funding to the Providence Neighborhood Housing Corporation. 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.

**CITY OF PROVIDENCE, RHODE ISLAND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2004**

---

**I. SUMMARY OF INDEPENDENT AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: unqualified

Internal control over financial reporting:

- Material weakness(es) identified?             Yes        X   No
- Reportable condition(s) identified that are not considered to be material weaknesses?        X   Yes             None reported
- Noncompliance material to financial statements noted?             Yes        X   No

**Federal Awards**

Internal control over major programs:

- Material weakness(es) identified?             Yes        X   No
- Reportable condition(s) identified that are not considered to be material weaknesses?             Yes        X   None reported

Type of auditor's report issued on compliance for major programs: unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?             Yes        X   No

**Identification of Major Programs**

CFDA Numbers	Program Name or Cluster
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
Child Nutrition Cluster	10.553/10.555/10.559

Dollar threshold used to distinguish between type A and type B programs        \$ 2,000,000  

Auditee qualified as low-risk auditee?             Yes        X   No

CITY OF PROVIDENCE, RHODE ISLAND

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued  
For the Year Ended June 30, 2004

---

II. FINDINGS RELATING TO THE FINANCIAL STATEMENT AUDIT AS  
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS

A. Reportable Conditions in Internal Control

IC04-1. Financial Reporting

Finding:

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 adjustments were being made 90 days after year-end.

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.

Recommendations:

We recommend this situation 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.

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

**CITY OF PROVIDENCE, RHODE ISLAND**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued  
For the Year Ended June 30, 2004**

---

**Management Response:**

Management recognizes there was a need for post closing adjustments after June 30, however, this was just the second year using the new Lawson and Govern software systems and there was a significant improvement from the prior year. However, the City Controllers Office was also implementing a new pension payroll system which required significant time and resulted in adjustments being made well after June 30<sup>th</sup>. Now that there will be no major software modules being implemented, next fiscal year should be much improved.

**IC04-2. Capital Assets**

**Finding:**

The City does not account for its Construction in Progress in the City's capital asset ledger.

**Recommendation:**

The City should ensure that Construction in Progress 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 concurs that there needs to be procedures in place to track and account for construction in process in the Capital Asset system. Currently, most of the construction in progress comes from projects being financed through the Providence Public Building Authority, which has its own external auditors and accounting system. M&P, along with the City Controller and PPBA Director will meet to best determine how to track and account for these assets.

**III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS**

**A. Internal Control**

None reported.

**B. Compliance**

None reported.

**CITY OF PROVIDENCE, RHODE ISLAND**  
**SUMMARY OF PRIOR YEAR AUDIT FINDINGS**  
**For the Year Ended June 30, 2004**

**CF03-01. Special Education Cluster**  
**Title II – Improving Teacher Quality**

**Finding:**

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

**Corrective Action Plan:**

As of July 1, 2003 fiscal year the Providence School Department implemented a policy requiring certification of assignment for all employees funded by Special Education Cluster and Title II.

**CF03-2. Title I – Grants to Education Agencies**

**Finding:**

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.

**Corrective Action Plan:**

The Providence School Department have codified policies and procedures for this process that have facilitated the rankings, auditing and validating of the ranking reports.

**CF03-03. Special Education Cluster**

**Finding:**

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.

**Corrective Action Plan:**

The Providence School Department established procedures to ensure accuracy of reporting to the State was addressed through the development of a system that identifies IEP due dates on a monthly basis. This ensures that IEPs do not expire. Staff is also required to review student folders to ensure that IEPs are appropriately filed and current.

**CF03-04. Title I – Grants to Educational Agencies**

**Finding:**

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. Examinations of underlying documentation did not support data contained in the aforementioned report.

**Corrective Action Plan:**

Defined policies and procedures relative to the district process of determining comparability have been designed and implemented.

**CF03-05. Child Nutrition Cluster**

**Finding:**

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.

**Corrective Action Plan:**

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.
2. Meal counts by category have been taken more accurately at the point of service with a new computer system in place for the next school year.
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.
5. The school district has started putting more supervision on the problem schools and is in compliance with all U.S.D.A. regulations.

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

To the Honorable Mayor and  
Members of 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, 2004, and have issued our report thereon dated January 19, 2005. We did not audit the financial statements of the Providence Public Building Authority (PPBA), which is both a major fund and a blended component unit of the City, which represents 22%, 2% and 13%, respectively, of the assets, net assets and revenues of the business-type activities of the City. 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.

***Internal Control Over Financial Reporting:*** In planning and performing our audit, we considered the City of Providence, Rhode Island's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Providence, Rhode Island's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and responses as items IC04-1 to IC04-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting 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 is a material weakness.

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

We also noted other matters involving the internal control over financial reporting which are not deemed to be reportable conditions we have reported to management of the City of Providence, Rhode Island in a separate letter dated January 19, 2005.

This report is intended solely for the information and use of the City Council, the management of the City of Providence, Rhode Island and federal and state awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

New Haven, Connecticut  
January 19, 2005

# McGladrey & Pullen

Certified Public Accountants

To the Honorable Mayor and Members of the  
City Council  
City of Providence, Rhode Island

During the course of our audit of the basic financial statements of the City of Providence, Rhode Island as of and for the year ended June 30, 2004, certain observations were made, which were not considered reportable conditions and accordingly not reported in our compliance and internal control reports, by our engagement team which may be of interest to you. These observations are as follows:

1. **Observation:**

Based on information received, it was noted that the City has former employees which are still considered authorized check signers on City accounts at various banks.

**Recommendation:**

Only employees approved by the City Council should be authorized check signers. All former employees should be removed from this function and a system in place in which once an employee leaves employment of the City, they are removed as an authorized check signer. The City should implement a procedure in which they routinely verify authorized check signers with its various financial institutions.

**Management's Response:**

The City maintained two accounts in which former employees were not removed as authorized check-signers. The Providence Off Street Parking Corporation maintained one of the accounts which due to lack of recent meetings, allowed former members to continue to be authorized check-signer. This was corrected at its December 20<sup>th</sup> meeting. The second account was an investment account at Citizens in which a former finance department employee had the ability to invest and transfer funds. The employee's name will be removed from that account. The City Controller will begin annually checking accounts to insure only current employees are listed as authorized signers.

2. **Observation:**

The Parks Department (including Casino, North Burial Ground and Tennis Courts) receives checks as payments for services. The checks are not restrictively endorsed upon receipt. These departments forward all the checks to the Controller's office to be endorsed.

**Recommendation:**

The various departments should restrictively endorse checks upon receipt.

**Management's Response:**

The Park's Department will order the necessary endorsement stamps which will allow employees to restrictively endorse checks at the time of receipt.

**3. Observation:**

Cash receipts are not always deposited in the bank on a daily basis at the tennis courts. The cash is generally taken to the employee's house and deposited in the morning.

**Recommendation:**

Cash at the tennis courts should be deposited at the end of each day. Any undeposited cash should be kept on site in a locked safe or location.

**Management's Response:**

The Park's Department will establish a policy concerning payments and threshold amounts to determine frequency of deposits. The possibility of installing a night deposit box will also be investigated.

**4. Observation:**

The Casino receives daily cash collections for its use. These collections are deposited only once or twice a month.

**Recommendation:**

The Casino should deposit the collections each day or keep them in a safe each day until they can be deposited.

**Management's Response:**

The Casino will deposit on no less than on a weekly basis and will establish a \$1,000 threshold for when deposits must be made.

**5. Observation:**

The Municipal Courts collect cash daily for court fees, fines, tickets, etc. During a routine walkthrough, it was noticed that there was a significant amount of cash on the cashier's desk unattended.

**Recommendation:**

The cashier should keep the cash collected in a locked cash register. Any money received through the mail should also be kept in a safe until it can be deposited.

**Management's Response:**

The Municipal Court will be going through training and will be establishing new procedures when they begin using a new vendor ACS, which will implement a new software collection package, new hand-held ticket writing devices, parking meter collection and maintenance services. ACS is already on location and making recommendations for the Court.

**6. Observation:**

The Civic Center has various employees that have the ability to pay bills on behalf of the City. During a routine walkthrough, it was noticed that there were employees paying personal bills through the Civic Center and setting up a receivable on the Civic Center's books.

**Recommendation:**

The employees should never be allowed to borrow money from the City in this manner. The City should have a policy and internal control safeguards with the Civic Center to prevent employees from paying their bills with the City's money.

**Management's Response:**

The City agrees this should not occur. The Civic Center Finance Director has represented that this was a mistake made by the accounting department by not billing a management employee for private phone use. The employee when notified corrected the situation and paid the Civic Center the private use portion of his phone bill. The City has notified the Civic Center Finance Director and Authority Chairman about not allowing employees to have personal bills paid by the Civic Center and then reimbursed.

**7. Observation:**

The Civic Center has various employees that have the ability to approve purchase orders. During a routine walkthrough, it was noticed that there were purchase orders and invoices that were not properly prepared or approved.

**Recommendation:**

The Civic Center should have a policy for properly approving invoices, such as requiring the purchasing agent to sign all purchase orders. A policy for stamping invoices paid should also be established to ensure that invoices are not paid more than once.

**Management's Response:**

The Civic Center has notified the City that the situation has been corrected as one individual has now been assigned to do all purchasing with the Director of Finance for the Civic Center reviewing and approving all purchase orders before being sent.

**8. Observation:**

The Planning and Developing Department has various promissory notes outstanding. A sample of thirty-six loans were selected for testing. It was noted that nine out of the 36 loans selected did not have a signed promissory note in the loan file.

**Recommendation:**

The Planning and Developing Department should have a procedure in place whereby an original, signed promissory note for all loans is placed in the loan file upon inception of the loan.

**Management's Response:**

All loans are closed by outside attorneys. All loan documents are executed at the closing. The closing attorneys sometimes are late or fail to return the executed loan documents to the Department of Planning and Development. The Planning Department is now monitoring the loan files and makes periodic follow up calls to the attorneys, reminding them to return the executed documents.

**9. Observation:**

The Tax Department collects interest on delinquent tax payments. The Tax Department makes adjustments to taxpayer's interest based on their payment history.

**Recommendation:**

Interest should not be adjusted to taxpayer's accounts based on their payment history as interest is governed by Ordinance and is owed to the City.

**Management's Response:**

Though interest due on delinquent tax-payers is determined by City Ordinance, it has been a long standing policy of the City Collector's Office to forgive penalties for tax-payers that request such action if they have not been delinquent in the past and missed a quarterly payment for the first time. The Tax Collector also has a policy for waiving interest and establishing payment plans for those who can document financial hardship or illness that has caused loss income. These request are accompanied by written documentation. The new Govern software system has the ability to generate reports that indicate interest waived. The City Collector and Finance Director will establish a policy on the amount the City Collector can waive without approval from the Finance Director and reports will be reviewed by the Finance Director on a periodic basis to determine amounts of interest being waived.

**10. Observation:**

The funded status of the retirement system declined again in fiscal 2004 to approximately 36%. 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 fourth 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.

**Recommendation:**

We recommend that the City begin funding its pension plan as recommended by the actuarial study in order to ensure sufficient assets are available to pay benefits when due.

**Management's Response:**

The City has a plan to fully fund its pension system at the actuarial recommended amount by fiscal 2007. Currently, the fiscal 2005 contribution will establish a funding level of 92% with 96% funding being recommended for fiscal 2006. For three out of the last five years, the actual investment rate of returns did not meet the 8.5% rate of return which is the estimated rate of return of the portfolio. This also contributed to the recent decline in funded status of the plan. Once the system is being funded at 100%, and the actual rate of return on investment moves closer to the assumed rate of return a decrease in the unfunded liability should occur. However, even when the City funds the system at 100%, the procedure used in actuarial calculations will still result in an increase in the unfunded liability for several more years before it begins to decline.

**11. Observation:**

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.

**Recommendation:**

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

**Management's Response:**

The City is currently in the process of having an actuary determine what the potential liability of post-retirement healthcare cost will be in order to determine the amount that will be needed when the requirement of recording this liability occurs in fiscal 2008.

This report is intended solely for the information and use of the City Council and management of the City Providence, Rhode Island and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

*McGladrey & Pullen, LLP*

New Haven, Connecticut  
January 19, 2005

