

KPMG Peat Marwick

Certified Public Accountants

IN CITY COUNCIL

1/6 6 1987

READ
WHEREUPON IT IS ORDERED THAT
THE SAME BE RECEIVED.

Peat Marwick CLERK

CITY OF PROVIDENCE, RHODE ISLAND

Management Letter
and
Single Audit Report

June 30, 1986

CITY OF PROVIDENCE, RHODE ISLAND

Management Letter
and
Single Audit Report

June 30, 1986

CITY OF PROVIDENCE, RHODE ISLAND

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CITY OF PROVIDENCE, RHODE ISLAND

Management Letter

June 30, 1986

Certified Public Accountants

Peat Marwick Main & Co.
40 Westminster Street
Providence, RI 02903

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

We have examined the general purpose financial statements of the City of Providence, Rhode Island, for the year ended June 30, 1986, and have issued our report thereon dated December 12, 1986. Our report on the general purpose financial statements was qualified due to the following:

- Uncertainties regarding outstanding litigation and claims
- Pension costs are recorded in a manner which is not in conformity with generally accepted accounting principles
- The combined financial statements do not include a general fixed asset group of accounts

As part of our examination we made a study and evaluation of the system of internal accounting control of the City to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit for Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office. On page 22 we have reported separately on the results of our study and evaluation of internal accounting and administrative controls used in administering Federal financial assistance programs. The results of our study and evaluation of internal controls other than those used in administering Federal financial assistance programs are presented herein on pages 4 to 18. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- Revenue/receipts
- Purchases/disbursements
- Payroll

Our study and evaluation included the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of auditing procedures necessary for expressing an opinion on the general purpose financial statements of the City of Providence. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the City of Providence is responsible for establishing and maintaining a system of internal accounting control. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the City of Providence, taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed certain conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the City of Providence, Rhode Island, may occur and not be detected within a timely period. Such conditions are referred to herein as "material weaknesses." In addition, we have noted and commented upon nonmaterial weaknesses for which corrective action by management may be practicable in the circumstances.

Finally, a supplementary schedule of the City's Federal financial assistance programs and our auditors' report thereon is included beginning on page 41.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our examination of the 1986 general purpose financial statements, and this report does not affect our report on the general purpose financial statements dated December 12, 1986.

This report is intended solely for the use of management and applicable Federal regulatory agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City of Providence, Rhode Island, is a matter of public record.

*Peat Marwick Main & Co.
By J.M. Ciancib, Partner*

December 12, 1986

CITY OPERATIONS

A. STATUS OF PRIOR YEAR COMMENTS

Bank Accounts

While most frequently used bank accounts are reconciled to accounting control balances on a regular basis, there are still problems in the following areas:

- Certain accounts are not monitored.
- Probate Court bank accounts are not reconciled to underlying accounting records.
- Problems with the Police Department and Municipal Court bank account.

See current year comment No. 3.

Accounting Systems

As noted in current year comment No. 1, the City is in the process of redesigning its data processing systems, including developing appropriate charts of accounts and funds format to meet financial reporting needs.

Property Taxes and Other Receivables

The subsidiary ledgers of certain accounts receivable are now reconciled to the general ledger or other control totals during the year.

Data Processing Operations

As previously noted, the City is in the process of completely redesigning its data processing functions. This should continue to be a high priority. See current year comment No. 2.

Employee Retirement System

According to City officials, the Law Department of the City has a complete copy of the ERS plan document.

Internal Controls - Payroll

Significant improvement was noted between the time when an employee begins to work and the the time when the payroll department is notified of this event.

Fixed Assets

Some progress has been made in preparing comprehensive fixed asset records for the City. See current year comment No. 5.

CITY OPERATIONS, CONTINUED

Purchasing System

Based on our examination, significant improvement was noted in formalizing certain purchasing policies and procedures.

Accounting Professional Staff

Management has recently hired additional accounting and EDP staff to perform accounting/EDP functions.

B. CURRENT YEAR COMMENTS

Material Weaknesses

1. ACCOUNTING SYSTEMS

Finding

Many of the accounting systems of the City are inadequate for providing useful and timely financial information. The accounting systems of the Employee Retirement System and certain Federal Programs are extremely cumbersome and suffer from insufficient charts of accounts. As a consequence, a number of man hours must be spent by the Controller's Office and other departments assembling financial information for financial statement and management purposes.

Recommendation

As noted in comment No. 2, the City is in the process of implementing new data processing systems. Concurrent with this project, appropriate charts of accounts and funds format should be developed which will meet all financial reporting needs. Particular attention needs to be devoted soon to ensuring that transactions will be processed properly on enhanced charts of accounts.

2. DATA PROCESSING OPERATIONS

General Comment

The City is currently in the process of developing a comprehensive new data processing system, including software and hardware. The objective is for the new system to handle the needs of all user departments within the area of general City operations. This is an important project and should be given the highest priority. Our review of the current Data Center operations as it existed at June 30, 1986 noted areas of concern for which corrective action is recommended. City management should also ensure that the new data processing system is designed with these considerations in mind as well.

CITY OPERATIONS, CONTINUED

a. Finding - Data Center Physical Environment

The physical environment of the old computer department is deficient as a result of minimal fire control and detection equipment.

Recommendation

Improved fire protection equipment should be acquired for the computer room.

b. Finding - Documentation Standards

The quality of documentation varies from system to system. Due to their age, the overall quality of program level documentation is lacking in certain systems. This makes maintaining and enhancing these systems very difficult.

Recommendation

As noted previously, the City is converting to new EDP software systems. Concurrent with that project the City should obtain and maintain systems documentation meeting generally accepted documentation standards.

The following are considered to be nonmaterial weaknesses for which corrective action may be practicable.

3. BANK ACCOUNTS

a. Finding - Account Control

Many of the City's bank accounts are not under the control of the Controller's and Treasurer's Office. These include many accounts in the Department of Planning and Development, Federal Programs Department, Parks Department, as well as many accounts which were not receiving the attention of management.

Recommendation

Consideration should be given to consolidating the various disbursements functions. This could potentially result in significant efficiencies.

In addition, all unmonitored accounts should be closed out or assigned to a specific person or department. A list of these accounts has been provided to management.

CITY OPERATIONS, CONTINUED

b. Finding - Probate Court Accounts

The bank accounts maintained by Probate Court were not being reconciled to the underlying accounting records. Accordingly, the possibility exists for errors to be undetected.

Recommendation

Probate bank accounts should be reconciled on a regular basis by a person who is independent of the recordkeeping and disbursements function.

c. Finding - Police Department/Municipal Court

The Police Department and Municipal Court use a separate bank account to deposit parking fines and other collections. This bank account is not under the control of the Controller's Office and is not controlled on the General Fund general ledger. Deposits are held in a safe and deposited to this account only once per week. Then the week's collections are remitted to the Collector's Office. Police Department Municipal Court personnel have signatory authority over the account. Personnel handling such cash and accounts are not bonded.

It was also noted that the bank account statement was not being reconciled to underlying accounting records.

Recommendation

To improve internal controls it is recommended that Municipal Court collections be deposited daily. Persons handling cash and deposits should be bonded. A bank reconciliation of this account should be performed monthly.

d. Finding - Employee Retirement Revolving Account

A formal bank reconciliation of the retirement fund revolving account is not performed. Additionally, this account is not recorded in the accounting records.

Recommendation

Each month a formal bank reconciliation of this account should be performed, and the account should be recorded on the ERS general ledger.

4. PROPERTY TAXES

Finding - Credit Balances

Credit balances which result from overpayments of taxes are refunded to taxpayers as they occur; however, the credits are not removed from the property taxes receivable detail until year end.

CITY OPERATIONS, CONTINUED

Recommendation

We suggest that overpayments of taxes be purged from the property taxes receivable detail as refunds are made in order to accurately reflect the property taxes receivable and revenue account balances.

5. FIXED ASSETS

Finding

Although the City maintains a fixed asset ledger which serves as a recordkeeping function for fixed asset purchases, this ledger does not facilitate the preparation and maintenance of a fixed asset group of accounts as required by generally accepted accounting principles.

Recommendation

The City should undertake the establishment of comprehensive fixed asset records. The City should also implement controls and procedures enabling it to maintain control over fixed assets. These procedures should include:

- Control over the proper input into the records for additions, sales, abandonments, and transfers.
- Periodic inventory of fixed assets by location.

PROVIDENCE WATER SUPPLY BOARD

A. STATUS OF PRIOR YEAR COMMENTS

RECONCILIATION OF SUBSIDIARY LEDGERS TO THE GENERAL LEDGER

The accounts receivable and accounts payable subsidiary ledgers agreed to the general ledger at June 30, 1986.

No progress has been made on the fixed asset detail subsidiary ledger. See current year comment No. 5.

INVENTORY CONTROL

No progress has been made. See current year comment No. 1.

SEGREGATION OF DUTIES

No progress has been made. See current year comment No. 2.

INTERFUND ACCOUNT

No progress has been made. See current year comment No. 3.

ACCOUNTS RECEIVABLE COLLECTIONS

Progress has been made in that an improvement was noted in the amount of past-due accounts. However, more improvements could be made. See current year comment No. 4.

FIXED ASSET RECORDS

Progress has been made in that the continuing property record (CPR) (subsidiary ledger) and the general ledger are now updated from the same source. However, more improvements could be made. See current year comment No. 5.

ACCOUNTING STAFF

No progress has been made. See current year comment No. 6.

B. CURRENT YEAR COMMENTS

1. INVENTORY CONTROL

Finding

Due to the time lag occurring between the posting of inventory transactions to the inventory subsidiary ledger and to the general ledger there can be a difference between these two records. This occurs because each record is posted from a different source.

PROVIDENCE WATER SUPPLY BOARD, CONTINUED

Recommendation

Both the subsidiary ledger and the general ledger inventory balance should be updated from the same information and at the same time. The subsidiary ledger should be reconciled periodically to the general ledger and any differences should be investigated and corrected.

2. SEGREGATION OF DUTIES

Finding

Data processing personnel are responsible for the majority of adjusting entries made to the general ledger. This results in reduced internal controls because there is no review of these entries by an independent employee.

Recommendation

Proper segregation of duties requires that data processing personnel be precluded from originating adjusting entries. At a minimum all such entries should be reviewed and approved by an individual independent of the data processing function.

3. INTERFUND ACCOUNT

Finding

Since the Water Supply Board does not have its own cash account all cash receipts and disbursements are handled through the general fund of the City. These transactions are recorded in an interfund account on the WSB books and on the City's books. These two accounts must be reconciled to assure that the cash transactions recorded in the general fund are accurately being recorded on the WSB books.

Recommendation

The due to/due from interfund balances should be reconciled on a regular basis.

4. ACCOUNTS RECEIVABLE COLLECTIONS

Finding

During fiscal 1986 an improvement was noted in the amount of past-due accounts. However, the WSB does not receive detailed aging reports on a regular basis and does not have any formal policies and procedures with respect to collections.

PROVIDENCE WATER SUPPLY BOARD, CONTINUED

Recommendation

Aging reports should be developed to provide useful information as to the amount and extent of past-due receivables. These reports should be obtained regularly; at least monthly.

Specific policies and procedures should be adopted to formalize collection procedures and the responsibility per collections should be assigned to a specific person.

5. FIXED ASSET RECORDS

Finding

Utilities are required to maintain records which can be summarized into accounts prescribed by the Public Utilities Commission (PUC) for required periodic reporting. The utility plant accounts are extensive in number and contain considerable detail with regard to costs to be capitalized. The extent of the detail indicates the importance of the utility plan to the regulatory body. With this in mind, we noted the following deficiencies in the fixed asset area:

- The continuing property record (CPR) (subsidiary ledger) has not been reconciled to the general ledger for the past three years.
- The assets that were capitalized under the work order system did not include all costs to be capitalized under the Public Utilities Commission's guidelines.
- Retirements of miscellaneous fixed assets such as vehicle and office equipment are not being monitored or retired on the general ledger or the CPR.

Recommendation

Since the utility plant accounts are the basis for the rate-making formula, it is imperative that an accurate detail of all fixed assets be maintained. The most crucial steps in the maintenance of the CPR includes the following:

- Accurate capture of all costs to be capitalized under the PUC guidelines.
- Periodic reconciliations between the CPR and the general ledger should be performed in order to insure that the utility plant accounts are accurate.
- A system should be implemented which would capture all retirements of fixed assets. Documentation should be required when an asset is retired and a responsible individual should approve all retirements.

PROVIDENCE WATER SUPPLY BOARD, CONTINUED

6. ACCOUNTING STAFF

Finding

The Water Supply Board's accounting and financial requirements have grown significantly in recent years. Management's goal of installing new data processing and accounting systems will also add to the need for qualified accounting expertise on the staff.

Recommendation

The Water Supply Board should add qualified accounting staff to help meet current and future operating needs.

7. GENERAL LEDGER

Finding

As a result of implementing a new data processing system, no general ledger was generated during the year, and consequently no reconciliations between the general ledger and the subsidiary ledger were performed. A general ledger was provided as of June 30, 1986.

Recommendation

The general ledger should be produce monthly and the balances should be reconciled to the subsidiary ledger. This provides management with timely financial information.

8. CLASSIFICATION OF EXPENSES

Finding

During our review of expenses we noted several invoices which were misclassified, as well as items that should have been capitalized.

Recommendation

More care should be exercised in the coding of expenses and a written capitalization policy should be adopted to insure that capital assets are not being expensed in error. Proper classification of expenses is a prerequisite for meaningful financial statements.

PROVIDENCE CIVIC CENTER AUTHORITY

1. ACCOUNTING POLICIES

Finding

As noted in the prior year's management letter, there was a lack of formalized accounting policies and procedures in the following areas:

- Employee performance appraisal
- Record retention

Also, during the current year's audit we found that disaster recovery procedures do not exist. In the event of a system failure or disaster (fire, vandalism, etc.), the Authority would be burdened with time consuming and expensive data reconstruction costs.

Recommendation

We recommend that formal accounting policies be adopted for each of the above items. Formal accounting policies enhance the accuracy, reliability and efficiency of the processing of financial data. All policies should be approved by the Authority and should include the following:

- Develop a formalized evaluation process for all employees in order that job performance can be properly monitored and improved. We understand that management is currently gathering information which will assist in developing formal evaluations.
- Determine required record retention needs based upon cost effectiveness and institute a formal policy to reflect these requirements.
- Document a disaster recovery plan. Back-up files should be stored off-premises to aid in the system recovery. The Plan should list all vital contacts and required technical information.

Management Response

We concur with the above comments but note that development of a formal evaluation process is not feasible at this time due to staffing limitations. In addition, we request that you provide us with more detailed information regarding record retention requirements and disaster recovery plans, so that we can implement your recommendations.

PROVIDENCE CIVIC CENTER AUTHORITY, CONTINUED

2. SEGREGATION OF DUTIES

Finding

As noted in the prior year there is a lack of segregation of duties regarding the processing of checks received in accounting. The same individual is responsible for recording the cash receipts and completing the deposit slip. The probability of errors or irregularities is increased when the record keeping and custody functions are not separated.

Recommendation

In order to provide stronger control over cash receipts, we recommend that another accounting clerk prepared a daily listing of checks received daily. This list would then be forwarded to the controller, who would compare it to the validated deposit slip on a daily basis.

Management Response

We concur with the above recommendation.

3. RESTRICTIVE ENDORSEMENTS

Finding

Checks received in the accounting department are not being restrictively endorsed upon receipt. This lack of endorsement lessens the preventive controls over checks being misappropriated.

Recommendation

We recommend that all checks be restrictively endorsed "for deposit only - Providence Civic Center Authority" to ensure that proper control is maintained over the Authority's cash.

Management Response

We concur with the above recommendation.

PAYROLL

4. SEGREGATION OF DUTIES

Finding

There is a lack of segregation of duties in the payroll area as evidenced by the payroll clerk accumulating the payroll information, submitting it to the payroll center and reviewing the output. In addition, the clerk is also responsible for distributing payroll checks during the periodic payroll payoff. This lack of segregation of duties would result in errors or irregularities initiated by the payroll clerk going undetected.

PROVIDENCE CIVIC CENTER AUTHORITY, CONTINUED

Recommendation

We recommend that the Controller assume responsibility for reviewing the reasonableness of payroll amounts and individuals included in the payroll. The periodic payroll payoff should be distributed by yet another member of management independent of the payroll process.

Management Response

We concur with the above recommendation.

5. MISSING CONTROLS OVER THE ACCURACY OF PAYROLL

Finding

No comparison is being performed between the data submitted to the payroll center and the data (payroll register and checks) received back from the center. This may result in erroneous information being processed and going undetected.

Recommendation

We recommend that a comparison be performed between input data submitted to the payroll center and output data received back from the center. This could be accomplished through batch totals of critical data such as gross and net payroll.

Management Response

We concur with the above recommendation.

6. NONMONETARY EXCHANGES

Finding

As noted in the prior year and current year audits, the Civic Center entered into various nonmonetary transactions. The following is a summary of the items received in exchange for the advertising:

- Leased automobiles
- Radio advertising
- Hotel services
- Equipment

PROVIDENCE CIVIC CENTER AUTHORITY, CONTINUED

Recommendation

We understand that nonmonetary exchanges are a customary method of doing business in the entertainment and advertising industries but we recommend that detailed procedures be established to ensure that all nonmonetary transactions are properly recorded in the accounting records and reviewed by the Authority. This will provide additional accountability over the use of advertising space within the facility and the adequacy of prices (exchanges) charged.

Management Response

We concur with the above recommendation and further note that we will implement it when a new marketing person is hired since this is a function which we feel should be performed by the marketing department.

7. FIXED ASSETS

Finding and Recommendation

On January 1, 1986, management discontinued the use of an outside service bureau to maintain their fixed asset detail ledgers. As of June 30, 1986, an alternative system was not yet implemented, resulting in extensive manual calculations at year end in order to close the books. We recommend that the Authority consider implementing a personal computer fixed asset system so as to reduce the time burden placed upon the accounting staff and to provide timely and accurate depreciation expense amounts on an interim basis. A second and less costly alternative would be to maintain a manual subsidiary ledger. The ledger should contain the following information for each individual fixed asset item:

- Description
- Date of acquisition
- Cost
- Salvage value
- Useful life
- Depreciation method

Management Response

We concur with the recommendation and further request that you provide us with a proposal for these additional bookkeeping services.

8. RECONCILIATIONS

Finding

One of the basic controls in any accounting system is that of reconciliation. This process assures that the total of the specific detail item actually agrees to an account's general ledger balance. This process, typically, occurs on a monthly basis and requires that any significant differences be identified, investigated and corrected.

PROVIDENCE CIVIC CENTER AUTHORITY, CONTINUED

During our examination, we noted that several key accounts had not been reconciled for up to six months. This resulted in an excessive strain on the accounting staff at year end in order to complete the reconciliations. In addition, the lack of reconciliations resulted in a misstatement of the operating cash account on an interim basis.

Recommendation

We cannot overemphasize the importance of timely reconciliations since they provide management with reliable and accurate information. Further, we suggest that the reconciliations be performed on a monthly basis and that they be reviewed by an appropriate level of management.

Management Response

We concur with the above recommendation and further note that we should be current by mid-May to early June.

9. GENERAL MATTERS

Finding

There appears to be an excessive workload placed upon accounting personnel. This has resulted in extensive delays in the reconciliation of key accounts and the circumvention of internal controls in the payables cycle in order to process cash disbursements on a timely basis. In addition, this situation may increase the potential for human error, mistakes in judgment and carelessness.

We understand that management is current seeking to resolve this problem through hiring an additional person for the accounting department, with which we concur. Management should also consider the need for evaluating personnel workloads and job descriptions so that the most efficient use may be made of the new hire. Finally, this individual should be considered to address segregation of duties problems and other deficiencies in internal controls, which have been mentioned in this letter.

Recommendation

Management Response

We concur and note that an additional person has been hired in the accounting department.

PROVIDENCE REDEVELOPMENT AGENCY

The following are our findings and recommendations concerning the accounting records and operations of the Providence Redevelopment Agency (PRA). These conditions are considered to be material weaknesses.

Finding - Accounting Records

As noted in the prior year, many problems exist with the accounting records of the PRA. In general, the records suffer from lack of management review and scrutiny. Among the specific problems are the following:

- Certain bank accounts were not reflected on the accounting records. These funds related to closed programs and PRA personnel were not monitoring the status of these accounts.
- Detail records of "good faith deposits" from persons or businesses performing projects on PRA property contain many stale items dating back many years. The recorded balances appeared to represent amounts which in some cases should have been returned to the depositors because the work had been completed.

The PRA's policy with respect to the amount and method of paying interest on such deposits are unclear. The PRA sometimes relies on an outside party to calculate the interest to be paid without recalculation of the amount.

Interest income and interest expense for good faith deposits is not recorded on the accounting records. Accordingly, the accounting records do not present the true financial position of PRA funds and obligations.

- Certain accounting errors were detected in the records. These related to the capitalization of certain disbursements which should have been recognized as expenditures.
- The nature of the accounting records is not conducive to preparation of annual operating financial statements. Revenue and expenditure accounts are maintained on a cumulative basis rather than on a fiscal year basis.
- Journal entries to the accounting records are not approved by a responsible official. There is no policy for regular preparation of comprehensive, useful financial reports to management.
- The activity of the "revolving fund" which is used to allocate expenditures to different projects should be carried on the accounting records. Transfers into and out of the revolving fund should be recorded on a cumulative journal.

PROVIDENCE REDEVELOPMENT AGENCY, CONTINUED

Recommendation

The extent of these findings is an indication that the PRA (and the Department of Planning and Development) need additional qualified accounting staff to maintain and operate the accounting records of the Department and all of its funds.

A plan should be adopted to correct the problems noted. Consideration should be given to development of an accounting system which will meet the combined needs of the PRA funds and the other Federal grants administered by the Department of Planning and Development.

Management Response

Goodfaith Deposits - Subsequent to year end June 30, 1986 a significant number of old goodfaith deposits have been written off.

Accounting System - The implementation of the new EDP accounting system will encompass the accounts of the PRA and address the weaknesses cited in the finding.

CITY OF PROVIDENCE, RHODE ISLAND
Comments Relating to Federal Financial Assistance Programs

Single Audit Report

June 30, 1986

Certified Public Accountants

Peat Marwick Main & Co.
40 Westminister Street
Providence, RI 02903

AUDITORS' REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS
RELATED TO MAJOR AND NONMAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

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

We have examined the general purpose financial statements of the City of Providence, Rhode Island for the year ended June 30, 1986 and have issued our report thereon dated December 12, 1986. Our report on the general purpose financial statements was qualified due to the following:

- Uncertainties regarding outstanding litigation and claims
- Pension costs are recorded in a manner which is not in conformity with generally accepted accounting principles
- The combined financial statements do not include a general fixed asset group of accounts

Our examination was made in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the City of Providence is responsible for the City's compliance with laws and regulations. In connection with the examination referred to above, we selected and tested transactions and records that included, but were not limited to, transactions and records relating to each major Federal financial assistance program and certain nonmajor Federal financial assistance programs. The purpose of our testing of transactions and records was to obtain reasonable assurance that the City of Providence, had, in all material respects, administered its major Federal financial assistance programs and executed the tested transactions in compliance with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the City's general purpose financial statements. Such laws and regulations include those pertaining to Federal financial reports and claims for advances and reimbursements.

Our testing of transactions and records selected from major Federal financial assistance programs disclosed instances of noncompliance with certain laws and regulations. All instances of noncompliance that we found, and the programs to which they relate, are identified in this report with internal control findings under the captions "Compliance Findings" on pages 25 to 39. Our comments are arranged by function/department of the City.

In our opinion, subject to the effect of the ultimate resolution of those instances of noncompliance referred to in the preceding paragraph, for the year ended June 30, 1986, the City of Providence, Rhode Island, administered each of its major Federal financial assistance programs in compliance, in all material respects, with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures.

Further, the results of our testing of transactions and records referred to in the second paragraph of this report indicate that for the transactions and records tested the City of Providence complied with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures or on the City's general purpose financial statements, except as described in the sections labeled "Compliance Findings." These instances of noncompliance were considered by us in evaluating whether the general purpose financial statements are presented fairly in conformity with generally accepted accounting principles. Our testing was more limited than would be necessary to express an opinion on whether the City of Providence administered the nonmajor Federal financial assistance programs in compliance, in all material respects, with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures. With respect to the transactions and records that were not tested by us, nothing came to our attention to indicate that the City of Providence had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

Peat Marwick Main & Co.

December 12, 1986

Certified Public Accountants

Peat Marwick Main & Co.

40 Westminister Street
Providence, RI 02903

**AUDITORS' REPORT ON INTERNAL CONTROLS -
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

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

We have examined the general purpose financial statements of the City of Providence, Rhode Island for the year ended June 30, 1986 and have issued our report thereon dated December 12, 1986. Our report on the general purpose financial statements was qualified due to the following:

- Uncertainties regarding outstanding litigation and claims
- Pension costs are recorded in a manner which is not in conformity with generally accepted accounting principles
- The combined financial statements do not include a general fixed asset group of accounts

As part of our examination, we made a study and evaluation of the internal control systems, including applicable internal accounting and administrative controls used in administering Federal financial assistance programs, to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards; the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments.

On page 2, we have reported separately on the results of our study and evaluation of internal accounting and administrative controls other than those used in administering Federal financial assistance programs. The results of our study and evaluation of internal accounting and administrative controls used in administering Federal financial assistance programs are presented herein with our compliance findings on pages 25 to 39. For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering Federal financial assistance programs in the following categories:



Accounting Controls

- Payroll
- Accounts payable and expenditures/expenses
- Revenue/receipts

Administrative Controls

- Eligibility
- Davis Bacon Act
- Cash management
- Cost allocation
- Other general requirements

Our study and evaluation included all of the applicable control categories listed above.

The management of the City of Providence is responsible for establishing and maintaining internal control systems used in administering Federal financial assistance programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used in administering Federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to Federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering Federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

During the year ended June 30, 1986, the City of Providence expended 79.4 percent of its Federal financial assistance under major Federal financial assistance programs. With respect to internal control systems used in administering major Federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering nonmajor Federal financial assistance programs, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Accordingly, our examination would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor Federal financial assistance programs.

Our study and evaluation described in the two preceding paragraphs were more limited than would be necessary to express an opinion on the internal control systems used in administering the major and nonmajor Federal financial assistance programs of the City of Providence. Accordingly, we do not express an opinion on the internal control systems used in administering the major and nonmajor Federal financial assistance programs of the City of Providence. However, our study and evaluation and our examination disclosed certain conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to a Federal financial assistance program may occur and not be detected within a timely period. Such conditions are herein referred to as "material weaknesses" and appear in this report with compliance findings under the captions "Internal Controls Over Federal Financial Assistance Programs". Our comments are arranged by function/department of the City.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in 1) our examination of the 1986 general purpose financial statements and 2) our examination and review of the City's compliance with those laws and regulations for which noncompliance could have a material effect on the allowability of program expenditures. This report does not affect our reports on the general purpose financial statements and on the City's compliance with laws and regulations dated December 12, 1986.

This report is intended solely for the use of management and applicable Federal regulatory agencies and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the City of Providence, Rhode Island, is a matter of public record.

Robert M. ...

December 12, 1986

THE DEPARTMENT OF PLANNING AND DEVELOPMENT

The following is a summary of the findings from our financial and compliance audit of the grants administered by the Department of Planning and Development (DPD).

The findings are presented in 3 parts:

- A. PRIOR YEAR FINDINGS
- B. COMPLIANCE FINDINGS
- C. INTERNAL CONTROLS OVER FEDERAL FINANCIAL ASSISTANCE PROGRAMS

A. PRIOR YEAR FINDINGS

1. TRAVEL ALLOWANCES

Condition

The DPD paid employees approximately \$24,700 as allowances for automobile usage and benefits. There was no documentation to support the expenditures which were charged to the Community Development Block Grant (CDBG).

Status

Documentation to support these expenditures still does not exist. See current year comment No. 1.

Grantee's Response

The expenditures amounting to \$24,700 for auto expense have been reimbursed by the City to CDBG funds.

2. IMPROPER COST ALLOCATIONS

Condition

Approximately \$67,000 was charged to the CDBG for non-DPD City employees working in the Office of the Mayor without supporting documentation evidencing that these employees were working on Federal programs.

Status

Supporting documentation for these charges still does not exist. See current year comment No. 2.

THE DEPARTMENT OF PLANNING AND DEVELOPMENT, CONTINUED

Grantee's Response

These charges have been repaid by the City to CDBG funds.

3. HOME IMPROVEMENT PROGRAM COSTS

Condition

The Home Improvement Program was curtailed as of fiscal year end June 30, 1985; however, the staffing levels of persons assigned to the Program remained essentially the same.

Status

This finding has been closed by the grantor agency.

4. SUBGRANTEE AUDIT REPORTS

Condition

Several subgrantee audit reports were not submitted for fiscal 1985. All subgrantees using DPD funds are required to submit annual audited financial statements and audit reports.

Status

This finding has been closed by the grantor agency. However, HUD will continue to monitor the City's enforcement of annual audit requirements of contracts with subgrantees.

5. UMTA SECTION NO.3

Condition

The UMTA Grant No. RI-03-0007 administered by the DPD had an excess cash balance at June 30, 1985. It appears that such funds were not disbursed in a timely manner after drawdowns.

Status

This condition has not reoccured.

Grantee's Response

The disbursements of the UMTA funds was delayed due to a change in the method of paying vouchers that was instituted at the Controllers office of the City. This problem will not reoccur.

DEPARTMENT OF PLANNING AND DEVELOPMENT, CONTINUED

B. COMPLIANCE FINDINGS

1. TRAVEL ALLOWANCES

Finding

Employees of the DPD were paid approximately \$21,000 as allowances for automobile usage and benefits. There is no documentation that exists to support the expenditures which were charged to the CDBG.

Recommendation

Proper documentation should exist for all costs charged to the CDBG (i.e., expense reports for mileage reimbursements).

Grantee's Response

A study of the vouchers submitted for fiscal year beginning July 1, 1986 indicate a basis for allowance of some expenditures which are being submitted to the Grantor Agency for its consideration.

2. IMPROPER COST ALLOCATIONS

Finding

Certain payroll costs of non-DPD City employees working in the Office of the Mayor were allocated to DPD and charged to the CDBG. No documentation exists which supports activities. Further, there is no approved indirect cost allocation plan. The amount of such costs in question was approximately \$94,000 during fiscal year 1986.

Recommendation

Allocation of indirect costs in the absence of an indirect cost allocation plan is improper. Further, documentation should exist which supports all costs allocated to Federal grants.

Grantee's Response

The costs are no longer being charged to CDBG funds. The \$94,000 will be reimbursed by the City to CDBG funds.

THE DEPARTMENT OF PLANNING AND DEVELOPMENT, CONTINUED

3. SUBGRANTEE AUDIT REPORTS

Finding

A Subgrantee audit report has not been submitted for South Providence Revitalization for year end June 30, 1986:

All subgrantee contracts using DPD funds for administration purposes must have annual audited financial statements and audit reports prepared in conjunction with OMB Circular A-128.

Recommendation

DPD should continue to ensure that subgrantees submit annual audited financial statements and audit reports on a timely basis.

Grantee's Response

This audit report is due on July 15, 1987.

Summary of DPD questioned costs:

<u>Grant</u>	<u>Compliance Finding Reference</u>	<u>Amount</u>
CDBG B-85-MC-44-0003	1	\$ 21,000
CDBG B-85-MC-44-0003	2	<u>94,000</u>
		\$ <u>115,000</u>

DEPARTMENT OF PLANNING AND DEVELOPMENT, CONTINUED

C. INTERNAL CONTROLS OVER FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Material Weaknesses

1. ACCOUNTING SYSTEMS

Finding

DPD personnel are responsible for the management of several different grants and funds. These include CDBG activity, various other Federal grants, the funds administered by the Providence Redevelopment Agency, and the Providence Local Development Corporation (PLDC). Currently, each activity has its own set of accounting records, all of which are inadequate. A brief summary of the inadequacies of the accounting records follows:

CDBG and Other Federal Grants:

- Revenue and expenditure general ledger accounts are not utilized.
- Charts of accounts are inadequate to provide useful information.

Providence Redevelopment Agency:

- Detail revenue and expenditure accounts are not utilized.
- Other comments are included elsewhere in this report under the heading Providence Redevelopment Agency.

PLDC:

- The PLDC does not utilize a general ledger, however, all other required accounting records are maintained.

General Comments:

- The accounting and financial control functions appear to be too decentralized and disorganized.
- Many of the accounting records are not reviewed by management for proper presentation.
- More qualified accounting personnel are needed.
- It is difficult to produce useful and timely financial reports to management under the current accounting systems.
- A unified approach to cost allocation should be adopted.

DEPARTMENT OF PLANNING AND DEVELOPMENT, CONTINUED

Recommendation

A plan should be adopted to correct the accounting system deficiencies described above.

Grantee's Response

A new computerized system will encompass all suggested changes to improve the weaknesses cited in the finding.

2. COMPETITIVE BIDDING PROCESS

Finding

In one case it was noted that the original bid amount was reduced by the contractor to the amount of funds available for the project within that year. Accordingly, the contractor deleted specific items of work to be performed on the contract. Subsequently, multiple change orders were processed for the items previously deleted as funds became available in subsequent years. In essence, a substantial portion of additional work performed on the contract bypassed the competitive bidding process.

Recommendation

Competitive bidding requirements should be strictly enforced on qualifying CDBG programs.

Grantee's Response

This finding was previously addressed. The competitive bidding process is scrupulously followed for all purchases.

PROVIDENCE INDUSTRIAL DEVELOPMENT CORPORATION

During the year ended June 30, 1986, the operations of the Providence Industrial Development Corporation (PIDC) were brought under the management of the City of Providence Department of Planning and Development. The accounts and funds of PIDC are included in the combined financial statements of the City as a special revenue fund. PIDC administers a grant from the U.S. Department of Commerce Economic Development Administration (EDA).

A. COMPLIANCE FINDINGS

1. FEDERAL REPORTS

Finding

PIDC did not file its semi-annual reports on progress and financial status of the Revolving Loan Fund to the EDA by the required deadlines. Further, the reports appeared to lack the following information: (a) statement of actions taken to correct delinquent loans; (b) an assessment of the Revolving Loan Fund's collateral position with respect to the loan portfolio, status of actions to protect the assets, and the value of collateral as a percentage of the portfolio; and (c) a statement of evaluation of the effectiveness of the Revolving Loan Fund program in terms of both EDA administration and implementation by the grantee.

PIDC did not file its quarterly Federal Cash Transaction Reports within 15 business days after the end of each quarter. Additionally, the reports were not completed in accordance with the instructions and, therefore, do not properly reflect the true cash balances and all activity within the appropriate period.

Recommendation

The quarterly cash reports should be reconciled to the accounting records (general ledger) prior to submission. The preparer should make sure that all activity concerning grant funds has been recorded. Semi-annual progress and financial status reports should include all required information.

Grantee's Response

These reports have historically been filed by the former executive director. Other employees were not involved in any facet of preparation. The reports were filed late because the former director left without advising anyone regarding the due dates and it was upon receipt of a delinquency notice that anyone realized that a required report had not been filed.

PROVIDENCE INDUSTRIAL DEVELOPMENT CORPORATION, CONTINUED

The work papers for each report will now have the historic value of the collateral and an opinion as to its present value. This item has never been questioned by the EDA on any previously submitted report.

The lateness of the Federal Cash Transaction Reports reflects the same problems mentioned above. Future reports will use reconciled cash figures.

B. INTERNAL CONTROLS OVER FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Nonmaterial Weaknesses

1. SEGREGATION OF DUTIES

Findings and Recommendations

Segregation of duties is somewhat limited by the number of office personnel. The staff size, although adequate for efficient operation of PIDC, prohibits the optimal segregation of accounting functions. We recognize that this weakness is common in many business organizations the size of PIDC, and we therefore propose no recommendation for improvement, except to stress the importance of close scrutiny of financial transactions by management. In addition, PIDC should consider having an original daily list of customer remittances prepared by someone who has no responsibility for or access to cash and accounts receivable accounting records. This list would then be matched to and filed with the daily deposit slip.

Grantee's Response

The importance of segregation of duties is acknowledged. It is not possible to accomplish due to the lack of personnel. However, it may be possible for one employee to list the daily remittances and another to complete the daily deposit slip. This will be done when it is practical to do so since one employee is not always in the office.

2. ACCOUNTING AND BUSINESS RECORDS

Finding

Insurance policies, grant contracts, the loan ledger, and other important documents are stored in cabinets which are not locked at night. This exposes PIDC to possible unnecessary loss of the documentation.

Recommendation

We recommend that these records be more adequately secured (e.g., locked in a fireproof cabinet).

Grantee's Response

The records will be locked in a fireproof cabinet.

REVENUE SHARING

INTERNAL CONTROLS OVER FEDERAL FINANCIAL ASSISTANCE PROGRAM

Revenue sharing expenditures in Providence are processed through the same system of internal controls utilized for the City's General Fund. Our comments regarding this system of internal control appear on pages 3 to 7. The following current year comments appearing therein are specifically applicable to Revenue Sharing Funds:

Comment No.

Subject

2a.

Data Processing Operations

PROVIDENCE SCHOOL DEPARTMENT

A. STATUS OF PRIOR YEAR COMMENTS

Bank Account Reconciliation

There are still problems in this area. See current year comment #1.

Maintenance of Restricted Program Records

No progress has been made in this area. See current year comment #2.

Allocation of Copy Room Expenses

New copying equipment has arrived and has been installed. The School Department is presently programming the system with applicable department codes.

Physical Inventory - Textbooks

Physical inventory was taken at June 30, 1986.

B. CURRENT YEAR COMMENTS

Material Weakness

1. BANK ACCOUNT RECONCILIATIONS

Finding

Reconciliations of the following restricted bank accounts were either improperly performed or not performed on a timely basis.

- 15-8109720
- 15-8104481
- 15-8002446
- 15-8106700
- 15-8100692
- 15-8109746
- 15-8106684
- 15-8011959
- 15-8109712
- 15-8106247
- 15-801567

At June 30, 1986 outstanding check lists for many of these accounts had to be created since they were not maintained throughout the year. In order to ensure early detection of clerical and other types of errors and omissions, prompt reconciliation of cash accounts is critical.

PROVIDENCE SCHOOL DEPARTMENT, CONTINUED

Recommendation

We again recommend that qualified personnel independent of the cash receipts and cash disbursement functions should perform the monthly reconciliations for restricted cash accounts. These reconciliations should be reviewed by an appropriate official to ensure the following:

- The reconciliations are performed on a timely basis.
- The reconciled balance is agreed to the general ledger cash account balance and the balance in the School Department's cash ledger books.
- The reconciliations include all deposits in transit and outstanding checks as reconciling items.
- All miscellaneous variances are promptly investigated and entries made to correct any errors or omissions.

Nonmaterial Weaknesses

2. MAINTENANCE OF RESTRICTED PROGRAM RECORDS

Finding

Detailed general ledgers are not maintained to record the activity of the restricted programs. Control over funds is recorded on a cash basis through the use of various cash ledger books maintained by the Federal Programs Department of the Controller's Office. In many instances the cash ledgers are maintained on the funding agencies' grant year/period which differs from the School Department's June 30 fiscal year. This causes great difficulty in summarizing the activity of the restricted programs on an accrual basis.

Recommendation

In order to facilitate School Department reporting for the various restricted programs, we recommend that an appropriate general ledger system be developed which summarizes all balance sheet and revenue and expenditure items on an accrual basis for each major title or grant program. This will result in increased efficiency in completing the various regulatory reports and in compiling information for the annual financial statements.

PROVIDENCE SCHOOL DEPARTMENT, CONTINUED

3. CASH AND CASH EQUIVALENTS

Finding

During our testwork on cash balances we noted that \$3,725,000 of Repurchase Agreements and Commercial paper matured during February 1986. These amounts were deposited in a non-interest bearing checking account and were not reinvested in income producing investments.

Also, during our audit testwork we noted that various general ledger cash and related accounts were not closed at June 30, 1986. The proper closing of accounts facilitates the timely preparation of general purpose financial statements.

Recommendation

We recommend that idle cash be invested in some type of income generating investment and that all cash and other related general ledger accounts which require closing at year end be closed on a timely basis.

PARKS DEPARTMENT

The Parks Department administers two grants from the National Endowments for the Arts; the City Arts and the Folk Arts programs. It also administers an Institute of Museum Services General Operating Support Grant.

A. PRIOR YEAR FINDINGS

1. INSTITUTE OF MUSEUM SERVICES GENERAL OPERATING
SUPPORT GRANT (G008303215)

a. Unexpended Cash

Condition

Unexpended cash in the amount of \$82 had not been returned to the grantor agency upon completion of the grant.

Status

This amount was remitted to the Institute of Museum Services during fiscal year 1986.

b. Travel Allowances

Condition

Approximately \$400 of auto allowances were paid to employees of the Park without supporting documentation to verify the eligibility of the expenditures.

Status

This finding is currently still open.

PARKS DEPARTMENT, CONTINUED

2. NATIONAL ENDOWMENT FOR THE ARTS GRANTS

Condition

The financial status report as of June 30, 1985 was not filed for the City Arts and Folk Arts program. The 1985 performance report was also not filed for the City Arts program.

Status

According to city personnel the 1985 reports have been filed. See current year finding No. 1.

B. COMPLIANCE FINDINGS

1. NATIONAL ENDOWMENT FOR THE ARTS GRANTS

Finding - Grant Reporting

The financial status reports as of June 30, 1985 and June 30, 1986 were filed, however, they could not be located for the City Arts and Folk Arts program (Grant Nos. 22-5350-435 and 32-5530-00130, respectively). The 1985 and 1986 performance reports also could not be located for the City Arts program.

Recommendation

Financial status reports and performance reports should be maintained by personnel at all times.

Grantee's Response

Copies will be maintained in the future.

PARKS DEPARTMENT, CONTINUED

C. INTERNAL CONTROLS OVER FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Material Weaknesses

1. GENERAL LEDGERS

Finding

A formal general ledger system is not maintained for the National Endowment for the Arts, the City Arts and Folk Arts programs. The accounting records consist of a loosely maintained cash receipts and disbursements log.

Additionally, there is a lack of segregation of duties between operations and accounting personnel. The same individual who submits and approves expenditures also maintains the accounting records and submits Federal financial reports.

Recommendation

We recommend that formal accounting records be developed and maintained. This should include a general ledger that reflects assets, liabilities, fund balance, revenues and expenditures. This will help to ensure that all accounting transactions are properly recorded and reflected in the financial statements. Management should also determine whether there are persons adequately trained in accounting to maintain these records.

Finally, the City should consider centralizing the accounting and disbursements records currently maintained by the Parks Department into the accounting records of the Department of Planning and Development or the City Controllers Department.

Grantee's Response

A general ledger is currently being set up for the various grants where all transactions will be properly recorded. Additionally, the Parks Department has added the position of Chief Fiscal Officer who will assume overall authority over a centralized financial system.

CITY OF PROVIDENCE, RHODE ISLAND

Supplementary Schedule
of Federal Financial Assistance

June 30, 1986

Certified Public Accountants

Peat Marwick Main & Co.
40 Westminister Street
Providence, RI 02903

**AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION -
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE**

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

We have examined the general purpose financial statements of the City of Providence, Rhode Island, for the year ended June 30, 1986, and have issued our report thereon dated December 12, 1986. Our report on the general purpose financial statements was qualified due to the following:

- Uncertainties regarding outstanding litigation and claims
- Pension costs are recorded in a manner which is not in conformity with generally accepted accounting principles
- The combined financial statements do not include a general fixed asset group of accounts

Our examination of such general purpose financial statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination was made for the purpose of forming an opinion on the general purpose financial statements of the City of Providence, Rhode Island, taken as a whole. The supplementary information included in the accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. Such supplementary information has been subjected to the auditing procedures applied in the examination of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Peat Marwick Main & Co.

December 12, 1986



CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Federal Financial Assistance

For the year ended June 30, 1986

<u>Federal Grantor/Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>	<u>Financial Statements Reference</u>	<u>Questioned Costs</u>	<u>Audit Findings Reference</u>
Major Federal financial assistance programs:					
U.S. Department of Housing and Urban Development (HUD):					
Community Development Block Grant	14.219	\$ 7,183,779	(a)	\$ 115,000	(1)
U.S. Department of Treasury - Revenue Sharing	21.300	4,404,577	(f)	-	(3)
U.S. Department of Transportation Urban Mass Transportation Capital Improvement Grant	20.500	2,565,753	(d)	-	(1)
U.S. Department of Education Chapter I (passthrough grant from State of Rhode Island)	1420.51600	3,507,857	(e)	-	(2)
Title VII - passthrough - from Federal Government	Various	996,229	(e)	-	(2)
	G008202858 and G008303655	365,010	(e)	-	(2)
Nonmajor Federal financial assistance programs:					
HUD:					
Urban Development Action Grant (UDAG)	14.221	411,982	(b)	-	(1)
Jobs Bill		212,284	(a)	-	(1)
U.S. Department of Commerce Economics Development Administration (EDA) Grant	11.300	414,200	(b)	-	(1)
U.S. Department of Transportation Urban Mass Transportation Capital and Operating Assistance Grant	20.507	69,117	(d)	-	(1)
U.S. Department of Interior National Park Service Urban Park and Recreation Recovery Program	-	3,589	(c)	-	(1)
National Endowment for the Arts:					
Folk Arts	-	7,316	(c)	-	(4)
City Arts	-	355	(c)	-	(4)
Federal Emergency Management Assistance: - Hurricane Gloria					
	748-or-00759008	446,453		-	
U.S. Department of Education: Passthrough grants from Rhode Island					
Chapter II	1420-51000-501	535,939	(e)	-	(2)
Title VI	1430	539,802	(e)	-	(2)
Area Vocational Aid	-	207,131	(e)	-	(2)
Vocational Education	5-1440-552-555	148,057	(e)	-	(2)
CETA	SYETP 84-612	7,052	(e)	-	(2)
Providence Plan Section IV	1415-10500-501	584,463	(e)	-	(2)
Basic Education Program	-	328,703	(e)	-	(2)
Adult Education	-	126,724	(e)	-	(2)
U.S. Department of Education:					
Asbestos Removal	-	484,000	(e)	-	(2)
Magnet Schools	-	172,928	(e)	-	(2)
Miscellaneous:					
	-	245,826	(e)	-	(2)

CITY OF PROVIDENCE, RHODE ISLAND

Schedule of Federal Financial Assistance, Continued

The following is a cross reference of the grant expenditures presented to the applicable June 30, 1986 City of Providence financial statements:

- (a) These expenditures appear on the Combining Statement of Revenues and Expenditures for Special Revenue Funds (Schedule 4) of the City of Providence Annual Financial Report and on the Combining Statement of Revenues and Expenditures of the Department of Planning and Development financial statements.
- (b) These UDAG and EDA grant expenditures are not considered to be expenditures for financial accounting purposes. Rather, such amounts are considered to be loans to third parties and such loans appear on Schedule 3 of the City of Providence Annual Financial Report.
- (c) These expenditures are included in the Miscellaneous Grant expenditures on Schedule 4 to the City of Providence Annual Financial Report.
- (d) These expenditures appear on the Combining Statement of Revenues and Expenditures for Capital Project Funds (Schedule 7) of the City of Providence Annual Financial Report.
- (e) These expenditures are included in the Other Educational Funds expenditures on Schedule 4 of the City of Providence Annual Financial Report.
- (f) These expenditures appear on Schedule 4 of the City of Providence Annual Financial Report.
- (g) These expenditures are included in Schedule 2 of the City of Providence Annual Financial Report.

The following is a cross reference of the City's Federal financial assistance programs to the applicable audit findings in this report:

- (1) These grants/programs are administered by the Department of Planning and Development which is discussed on pages 25 to 30 of this report. Questioned costs are summarized on page 28.
- (2) Education-related grants/programs are administered by the School Department which is discussed on pages 34 to 36 of this report.
- (3) Federal Revenue Sharing findings appear on page 33 of this report.
- (4) These grants/programs are administered by the Parks Department which is discussed on pages 37 to 39 of this report.

THE COMMITTEE ON
FINANCE

Recommends

Be Received

Rose M. Mandover

Clerk

July 30, 1987

KPMG