
STATE OF RHODE ISLAND
REFUNDING BOND AUTHORITY
MANAGEMENT COMMENTS

JUNE 30, 2001 AUDIT

Ernest A. Almonte, CPA, CFE
Auditor General
State of Rhode Island and Providence Plantations
General Assembly
Office of the Auditor General



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STATE OF RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

December 19, 2001

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

SPEAKER John B. Harwood, Chairman

Senator William V. Irons
Senator Dennis L. Algieri
Representative Gerard M. Martineau
Representative Robert A. Watson

We audited the financial statements of the Rhode Island Refunding Bond Authority for the year ended June 30, 2001 and have issued our report thereon dated September 26, 2001. In accordance with *Government Auditing Standards*, we have also issued a report dated September 26, 2001 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Our report on the Authority's compliance and internal control over financial reporting indicated no matters that we considered to be reportable conditions or material instances of noncompliance. However, during our audit, we noted certain matters involving compliance, internal controls, and other operational matters that are presented herein. These comments and recommendations are intended to enhance compliance with laws, regulations and contracts, improve internal control, or result in other operational efficiencies.

Sincerely,

Ernest A. Almonte, CPA, CFE
Auditor General

RHODE ISLAND REFUNDING BOND AUTHORITY

MANAGEMENT COMMENTS – FISCAL YEAR ENDED JUNE 30, 2001

GENERAL FUND EQUITY AND RECOVERY OF ADMINISTRATIVE COSTS

The Authority should clarify the intended use of amounts accumulated in its General Fund. This fund, which was established to account for the administrative operating activities of the former RI Public Buildings Authority, had a balance totaling \$284,088 as of June 30, 2001 (\$100,000 of this balance is reserved for self-insurance). By various bond resolutions, the State is required to fund the administrative costs of the Authority. Interest income is retained within the fund and consequently causes the balance to increase each year.

The Authority should seek to clarify the following issues by consulting with legal counsel regarding what is permitted by the various bond resolutions:

- should operating expenses of the Authority be reimbursed net of investment income – currently investment income is retained within the fund and all operating expenses are reimbursed by the State?
- could the fund balance in the general fund be used to eliminate reimbursement from the State for the administrative expenses of the Authority (or at least until such time as the balance has been reduced to zero)?
- should the accumulated amounts in the general fund be returned to the State?
- is there a current need for the \$100,000 self insurance reserve that was established by the former Public Buildings Authority?

RECOMMENDATIONS

1. Clarify issues involving investment income, accumulated fund balance and reimbursement of administrative expenses recorded within the general fund.
2. Reconsider the need for the self-insurance reserve.

Auditee Views

Treasury staff will review these issues prior to possible Board consideration.

CONSTRUCTION FUND

The Construction Fund was created to account for the receipt and disbursement of revenue bond and note proceeds for construction and equipment acquisition. Since all such projects have been completed, the Authority should close this Fund (total assets were \$21,053 as of June 30, 2001) by transferring the remaining assets to the appropriate fund or account of the Authority. The Authority should consult with legal counsel to assure that this is accomplished consistent with the terms of the corresponding bond resolutions.

RECOMMENDATION

3. Close the Construction Fund; transfer remaining funds consistent with the terms of the corresponding bond resolutions.

Auditee Views

The Authority concurs with this recommendation. RBA counsel has reviewed bond resolutions and completed the documentation necessary for closing the fund. In November 2001 Treasury staff requested that the trustee close the Construction Fund and transfer the balance to the 1998 Revenue Fund.

FUNDS REMAINING AFTER DEFEASANCE

Some of the Authority's bonds were defeased in a prior year and the proceeds were placed in an escrow account to cover all future debt service. These bonds were called during fiscal 2001 and \$21,469 remains in the escrow account. The Authority should ascertain the proper disposition of these funds (which are not reflected in the Authority's financial statements because the bonds had previously been defeased).

RECOMMENDATION

4. Ascertain the proper disposition of funds remaining in an escrow account after bonds were called.

Auditee Views

The Authority concurs with this recommendation. RBA counsel has reviewed the Escrow Agreement and, in November 2001, Treasury staff requested that the residual funds held in escrow be remitted back to the RBA.

ARBITRAGE COMPLIANCE

The Authority must comply with federal regulations governing the calculation and rebate of any arbitrage earnings from the proceeds of its tax-exempt bond issues. It may be beneficial

for the Authority to engage a firm with specific expertise concerning arbitrage matters to ensure compliance with these requirements.

RECOMMENDATION

5. Seek outside assistance in advising the Authority on arbitrage compliance issues and calculating any arbitrage liabilities on an annual basis.

Auditee Views

The Authority concurs with this recommendation and is currently having the State's financial advisor review historical calculations on the Authority's debt obligations.