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AUDITOR GENERAL  
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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

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

September 28, 2007

Honorable Frank T. Caprio, Chairman  
Rhode Island Refunding Bond Authority  
Room 102 State House  
Providence, RI 02903

Dear Chairman Caprio:

We have completed our audit of the Rhode Island Refunding Bond Authority for the fiscal year ended June 30, 2007. We have the following management comments which are intended to enhance controls over financial reporting or ensure compliance with laws, regulations and contracts.

#### DEBT SERVICE TRANSACTIONS RECORDED BY THE AUTHORITY'S TRUSTEE

A trustee has been appointed to perform various functions, including recording debt related transactions of the Authority. Trustee agreements and bond covenants delineate the funds and accounts of the trustee that should receive and disburse funds on behalf of the Authority.

We observed that two debt service transactions of the Authority were not recorded consistent with these provisions. Rental payments made by the State to the Authority coincide with the scheduled debt service payments of the Authority. One semi-annual interest payment was made by the State but not recorded within the trustee accounts established for the Authority. In addition, one annual principal payment was made within an Authority account but was not routed through the appropriate debt service principal bank account.

While the Authority met scheduled interest and principal payments on its debt, failure of the trustee to record this activity in the proper accounts could impact financial reporting since trustee activity is summarized and becomes the basis for the Authority's financial statements.

#### RECOMMENDATION

1. Ensure debt related transactions are recorded consistent with the provisions of the bond covenants and trustee agreements governing the Authority's bond issuances.

Honorable Frank T. Caprio, Chairman

Page 2

September 28, 2007

*Auditee Views:*

*The auditee concurs with this recommendation.*

#### GENERAL FUND NET ASSETS

Administrative costs of the Authority are recorded within the General Fund including any investment related income of that fund. The Authority's General Fund has accumulated \$322,812 in net assets as of June 30, 2007 which appears to be in excess of normal operating needs. Because administrative costs are funded by the State and investment earnings accumulate within the General Fund, a portion of these accumulated earnings should be used to offset future debt service payments required of the State.

#### RECOMMENDATION

2. Apply a portion of the net assets recorded in the general fund towards future debt service payments.

*Auditee Views:*

*The auditee concurs with this recommendation.*

Sincerely,



Ernest A. Almonte, CPA, CFE  
Auditor General

- c: Joint Committee on Legislative Services  
Board of Directors – Refunding Bond Authority