

**RHODE ISLAND STUDENT LOAN AUTHORITY
(A RELATED ORGANIZATION OF THE
STATE OF RHODE ISLAND)**

**REPORTING IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS AND THE
FEDERAL SINGLE AUDIT ACT**

FOR THE YEAR ENDED JUNE 30, 2014

RHODE ISLAND STUDENT LOAN AUTHORITY

CONTENTS

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>.....	1-2
Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133.....	3-5
Schedule of Expenditures of Federal Awards	6
Notes to Schedule of Expenditures of Federal Awards	7-8
Schedule of Findings and Questioned Costs	9-10

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

To the Board Members
Rhode Island Student Loan Authority

We have audited, 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, the financial statements of the Rhode Island Student Loan Authority (a related organization to the State of Rhode Island), as of and for the year ended June 30, 2014, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rhode Island Student Loan Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rhode Island Student Loan Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rhode Island Student Loan Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rhode Island Student Loan Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Marcum LLP

Providence, Rhode Island
September 30, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY OMB CIRCULAR A-133**

To the Board Members
Rhode Island Student Loan Authority

Report on Compliance for Each Major Federal Program

We were engaged to audit the compliance of the Rhode Island Student Loan Authority (the Authority), with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended June 30, 2014. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 Authority's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances.

Because of the matter described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

Basis for Disclaimer of Opinion

We did not audit the Authority's compliance with requirements for the Federal Family Education Loans Program (Lenders) (CFDA 84.032). Those requirements govern student loan repayment functions performed by Nelnet, Inc. and Great Lakes Educational Loan Services, Inc. Nelnet, Inc. and Great Lakes Educational Loan Services, Inc.'s compliance with requirements related to

Our report does not include the results of the other auditors' examination of Nelnet Inc.'s and Great Lakes Educational Loan Services' compliance with such requirements, as information regarding the scope of procedures performed on loans serviced on behalf of the Authority is not available.

Disclaimer of Opinion on the Major Federal Program

Because of the significance of the matter discussed in the Basis for Disclaimer of Opinion, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on compliance with the requirements referred to above that are applicable to the Authority's major program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Rhode Island Student Loan Authority 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 our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Rhode Island Student Loan Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Nelnet, Inc. and Great Lakes Educational Loan Services, Inc.'s Internal control over compliance related to Federal Family Education Loans Program (Lenders) for the year ended June 30, 2014 was reported by other auditors in accordance with U.S. Department of Education's January 2011 Attestation Engagement Guide, *Lender Compliance Attestation Engagement Guide for Lenders Holding Federal Family Education Loan Program Loans* for the year ended December 31, 2013. Our report does not include the results of the other auditors' testing of the Federal Family Education Loan Program's internal control over compliance, as information regarding the scope of procedures performed on loans serviced on behalf of the Authority is not available.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Rhode Island Student Loan Authority as of and for the year ended June 30, 2014 and the related notes to the financial statements, which comprise the Authority's financial statements. We issued our report thereon dated September 30, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects in relation to the financial statements as a whole.

Marcum LLP

Providence, Rhode Island
March 18, 2015 (Except for the Report on the
Schedule of Expenditures of Federal Awards Required
By OMB Circular A-133 which is dated September 30, 2014)

RHODE ISLAND STUDENT LOAN AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

<i>Federal Grantor</i> <i>Pass-Through grantor</i> <u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<i>U.S. Department of Education:</i>		
Direct Programs:		
Federal Family Education Loans	84.032	\$ 392,989,999
Federal Interest Benefit	84.032	<u>1,173,542</u>
<i>Total Expenditures of Federal Awards</i>		<u>\$ 394,163,541</u>

See notes to schedule of expenditures of federal awards.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the Rhode Island Student Loan Authority under programs of the federal government for the year ended June 30, 2014. The information in the schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the Rhode Island Student Loan Authority, it is not intended to and does not present the financial position, changes in net position or cash flows of the Rhode Island Student Loan Authority.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is presented using the accrual basis of accounting.

NOTE 3 – FEDERAL INTEREST BENEFIT AND SPECIAL ALLOWANCE PAYMENTS

Interest benefits and special allowance payments are received from the United States Department of Education (DOE) on eligible student loans pursuant to the provisions of Titles IV, Sections 682.300 and 682.301 of the Guaranteed Student Loan Program.

The DOE pays interest on the unpaid principal balance that accrues before the student loan goes into repayment, including any period in which the borrower has an authorized deferment.

Special allowance payments are received on all eligible student loans beginning when the loan is disbursed. The amount of the special allowance is based upon the difference between the interest rate of the student loans and a market interest rate established by the United States Department of Education. In 2014, the Authority paid \$17,050,822 in special allowance payments to the United States Department of Education.

NOTE 4 – DISCLAIMER OF OPINION

The Student Aid and Fiscal Recovery Act of 2009, Title II of the Health Care and Education Reconciliation Act of 2010, provided that after June 30, 2010, no new student loans will be made under the Federal Family Education Loan (FFEL) Program. Beginning July 1, 2010, all new subsidized and unsubsidized Stafford Loans made to students, PLUS loans made to parents and to graduate/professional students, and consolidation loans made to borrowers, will be made under the Federal Direct Student Loans (Direct Loan) program (CFDA 84.268). Effective July 1, 2010, the Authority no longer issued loans under the FFEL program.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2014

NOTE 4 – DISCLAIMER OF OPINION (CONTINUED)

The Authority has contracted with Nelnet Inc. and Great Lakes Educational Loan Services, Inc. (the loan servicers) to provide full service on the administration of the Authority's FFEL program loan portfolio. The loan servicers are required to be in compliance with the compliance requirements specified in Section 3 of the *Lender Servicer Financial Statement Audit and Compliance Attestation Guide*, issued by the DOE and Office of the Inspector General, dated January 2011. The Authority monitors the loan servicers to the extent deemed necessary.

While the contracted service providers referred to above have been subject to audits of their compliance with the requirements applicable to their operations, specific information regarding loans serviced on behalf of the Authority is not available. Accordingly, our auditors have not been able to obtain the audit evidence required to express an opinion on compliance and internal controls and have issued a disclaimer in their report dated March 18, 2015.

RHODE ISLAND STUDENT LOAN AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

SECTION I – SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	<i>Unmodified Opinion</i>		
Internal control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiency(ies) identified not considered to be material weaknesses?	_____ Yes	_____ <u>X</u> None reported	
Non-compliance material to financial statements noted?	_____ Yes	_____ <u>X</u> No	

Federal Awards

Internal control over major federal program:			
Material weakness(es) identified?	_____ Yes	_____ <u>X</u> No	
Significant deficiency(ies) identified not considered to be material weakness(es)?	_____ Yes	_____ <u>X</u> None reported	

Type of auditors' report issued on compliance for major federal programs:	<i>Disclaimer of Opinion</i>		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?	_____ Yes	_____ <u>X</u> No	

Identification of major federal program:

<u>Federal Program/Cluster</u>	<u>CFDA No.</u>
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Federal Family Education Loans	84.032
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Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$300,000</u>
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Auditee qualified as low risk auditee?	_____ Yes	_____ <u>X</u> No
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RHODE ISLAND STUDENT LOAN AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2014

II. FINDINGS RELATED TO AUDIT OF FINANCIAL STATEMENTS

None reported

III. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARD PROGRAMS

None reported

IV. PRIOR YEAR FINDINGS

None reported