

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

**REPORTING IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS AND
OFFICE OF MANAGEMENT AND BUDGET UNIFORM GUIDANCE**

FOR THE YEAR ENDED JUNE 30, 2016

RHODE ISLAND STUDENT LOAN AUTHORITY

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**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 the 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, 2016, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2016.

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 for 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, RI
September 30, 2016

**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 THE UNIFORM GUIDANCE**

To the Board Members
Rhode Island Student Loan Authority

Report on Compliance for Each Major Federal Program

We have audited the Rhode Island Student Loan Authority's (the Authority), compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Rhode Island Student Loan Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

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 the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over its compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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.

In accordance with guidance provided in the June 2016 OMB Compliance Supplement, our consideration of internal control over compliance has excluded controls performed by the Authority's third-party loan servicers. Nelnet, Inc. and Great Lakes Educational Loan Services, Inc. (the Servicers) performed loan servicing and federal program compliance services for the Authority's federal loan portfolio for the year ended June 30, 2016. The Servicers' compliance with requirements related to functions performed on behalf of the Authority for the year ended June 30, 2016, including related internal control, has been examined by other auditors in accordance with the U.S. Department of Education's January 2011 *Lender Servicer Financial Statement Audit and Compliance Attestation Guide* (Lender Servicer Audit Guide) for the year ended December 31, 2015. The Authority has obtained representations from the Servicers that they have engaged auditors to perform the audits required under the Lender Servicer Audit Guide for the immediate subsequent audit period.

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.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Rhode Island Student Loan Authority as of and for the year ended June 30, 2016 and the related notes to the financial statements, which comprise the Authority's financial statements. We issued our report thereon dated September 30, 2016, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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, RI

March 22, 2017 (Except for the auditors' opinion on the Schedule of Expenditures of Federal Awards which is dated September 30, 2016)

RHODE ISLAND STUDENT LOAN AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

Federal Grantor Pass-Through Grantor Program Title	Pass-Through			Expenditures
	Federal CFDA Number	Entity Identifying Number	Passed Through to Subrecipients	
U.S. Department of Education				
Direct Programs:				
Federal Family Education Loans	84.032			\$ 331,740,092
Federal Interest Benefit	84.032			<u>666,987</u>
Total Expenditures of Federal Awards				<u><u>\$ 332,407,079</u></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, 2016

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Rhode Island Student Loan Authority under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

The Rhode Island Student Loan Authority has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 – FEDERAL STUDENT LOAN PROGRAMS

The federal student loan programs listed subsequently are administered by the Rhode Island Student Loan Authority, and balances and transactions relating to these programs are included in the Rhode Island Student Loan Authority's basic financial statements. Loans outstanding at the beginning of the year and loans made during the year are included in the federal expenditures presented in the Schedule. The balance of loans outstanding at June 30, 2016 consists of:

CFDA Number	Program Name	Outstanding Balance at June 30, 2016
84.032	Federal Family Education Loans	\$ 275,603,110

NOTE 5 – 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.

RHODE ISLAND STUDENT LOAN AUTHORITY

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2016

NOTE 5 – FEDERAL INTEREST BENEFIT AND SPECIAL ALLOWANCE PAYMENTS (CONTINUED)

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 addition to special allowance payments received by the Authority, DOE will calculate and require repayment of excess special allowances based on changes in the portfolio. In 2016, the Authority repaid \$11,791,716 in special allowance payments to the United States Department of Education.

RHODE ISLAND STUDENT LOAN AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2016

SECTION I – SUMMARY OF AUDITORS’ RESULTS

Financial Statements

Type of auditors’ report issued: *Unmodified Opinion*

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weaknesses? _____ Yes X None reported

Non-compliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major federal program:

Material weakness(es) identified? _____ Yes X No

Significant deficiency(ies) identified not considered to be material weakness(es)? _____ Yes X None reported

Type of auditors’ report issued on compliance for major federal programs: *Unmodified Opinion*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ Yes X No

Identification of major federal program:

<u>Federal Program/Cluster</u>	<u>CFDA No.</u>
Federal Family Education Loans	84.032

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low risk auditee? _____ Yes X No

RHODE ISLAND STUDENT LOAN AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2016

II. FINDINGS RELATED TO AUDIT OF FINANCIAL STATEMENTS

None reported

III. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARD PROGRAM

None reported

IV. PRIOR YEAR FINDINGS

None reported