EXECUTIVE SUMMARY

DEPARTMENT OF THE TREASURY
OFFICE OF PUBLIC FINANCE

Our audit found that the Office of Public Finance (OPF) has adequate procedures in place to manage the issuance of state-backed debt in accordance with applicable regulations. In making this determination, we identified a weakness in the monitoring of bond issuance costs. We also observed the need for a policy governing the use of bond premiums and the need to improve documentation related to underwriter fees for negotiated bond sales.

AUDIT HIGHLIGHTS

- Bond sales incur issuance costs including bond ratings, legal and trustee fees, and other related expenses. For each sale, estimated costs of issuance are deposited into a trustee bank account from which payments are made to various vendors. The OPF does not have adequate procedures in place to identify and address unexpended balances in these accounts. We identified unspent balances totaling $417,000 in trustee accounts that should be returned to the state and used for sale’s intended purpose or for debt service.

- Investors are willing to pay above par value for bonds when coupon rates are higher than prevailing interest rates. The state has no law, regulation or policy governing the use of premiums. The state uses these premiums to fund projects, to pay future debt service, or to pay issuance costs. Setting aside all or a portion of premiums for debt service reduces the resources needed in future years for interest expense, thereby lowering borrowing costs. We identified eight bond sales that generated $330 million in premiums of which $70 million was set aside for debt service and $254 million was used for projects.

- Proposals for negotiated sales include the underwriter’s anticipated fee structure. We reviewed seven negotiated sales and found actual fees for five were $2.1 million more than those proposed. It is not the OPF’s practice to document the fee approval process or the reason for these increases. While the OPF needs flexibility to make changes in light of fluctuating needs and changing markets, including the ability to adjust compensation as appropriate, these decisions should be adequately documented.

AUDITEE RESPONSE

The department generally concurs with our findings and recommendations.

For the complete audit report, click here.