

**RHODE ISLAND
ECONOMIC DEVELOPMENT CORPORATION
PERFORMANCE AUDIT
DECEMBER 2000**

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Auditor General

State of Rhode Island and Providence Plantations
General Assembly
Office of the Auditor General



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

We have completed a performance audit of the Rhode Island Economic Development Corporation. Our report is contained herein as outlined in the Table of Contents.

Sincerely,

Ernest A. Almonte, CPA, CFE
Auditor General

Rhode Island Economic Development Corporation Performance Audit

TABLE OF CONTENTS

	<u>Page</u>
I. EXECUTIVE SUMMARY	1
II. INTRODUCTION	3
Objectives, Scope, and Methodology	3
Background	3
Noteworthy Accomplishments	6
Organization Chart	7
RIEDC Component Units and Affiliated Units	8
Condensed Financial Data	9
III. FINDINGS AND RECOMMENDATIONS	10
RIEDC ORGANIZATIONAL STRUCTURE	10
DEVELOPMENT OF QUONSET DAVISVILLE	11
Final Master Plan	11
Financing the Development of Quonset Davisville Commerce Park	14
Master Plan For Quonset Davisville Airport	16
DEPARTMENT OF TOURISM	17
Online Tourism Network	17
Welcome Center	18
DESIGNATION OF TAX EXEMPT PROJECT STATUS	19
Rhode Island Industrial Facilities Corporation	20
DISCLOSING BUSINESS ARRANGEMENTS	21
MEASURING AND REPORTING PROGRAM RESULTS	22
Reporting Program Results	25
SLATER CENTERS	25
BUDGETARY PROCEDURES	27
Budget Estimates	27
Budgetary Control – Monthly Financial Statements	28
Finance and Audit Subcommittee	29

**Rhode Island Economic Development Corporation
Performance Audit**

TABLE OF CONTENTS (continued)

	<u>Page</u>
III. FINDINGS AND RECOMMENDATIONS (continued)	
ACCOUNTING FOR DISTINCT ACTIVITIES	30
Welcome Center	30
Quonset Steam Plant	31
PROCUREMENT	32
Adoption of Regulations	32
Consultant Selection Process	32
Contract Administration	35
Solicitation of Competitive Bids and Proposals for Legal Services	36
COMPLIANCE WITH THE OPEN MEETINGS ACT	37
BOARD MEMBERSHIP	38
ORGANIZATIONAL TRANSFERS	39
COOPERATIVE AGREEMENTS	40
FIXED ASSETS	40
CASH DISBURSEMENTS	41
IMPREST CHECKING ACCOUNT	42
FEDERAL PROCUREMENT PROGRAM	42

Executive Summary

Performance Audit – RI Economic Development Corporation

The organizational structure of the RIEDC should be evaluated to ensure it best meets the State's economic development needs and can support the financial requirements of that effort. Although established as an independent quasi-public corporation, the RIEDC has an insufficient revenue stream to support its activities. RIEDC's Quonset Davisville Port and Commerce Park generates revenue from rental income, utility sales, and other sources, but property management costs equal or exceed those revenues. RIEDC benefits from the flexibility afforded independent quasi-public agencies but is still dependent upon the State appropriation process to fund its efforts.

Proceeds from the sale of land at Quonset Davisville are restricted for further infrastructure improvements, while lease revenues are available to support current operations of the RIEDC. Consequently, RIEDC finds itself in a dilemma regarding whether to follow a policy that benefits the future funding of infrastructure improvements or utilizes lease revenue to complement or reduce the dependence on State appropriations. On one occasion, a lease was structured with front-loaded payment provisions to alleviate operating shortfalls in the near term. Additionally, RIEDC has significant long-term capital needs that clearly cannot be met from revenues generated by its current operations.

Since 1996, the RIEDC has conducted a series of studies, at a cost of about \$1 million, to determine the best uses of its Quonset Davisville facility. Most recently, a consultant was retained to identify and develop alternative strategic principles, guide the selection of a final list of principles, utilize the principles to prepare a final master plan, and develop an implementation strategy. Completion of the final master plan should also mark the end of the planning phase for the development of Quonset Davisville. The RIEDC should then move forward with the development of Quonset Davisville.

Development of the industrial park at Quonset Davisville is important to the economic future of the State, and therefore warrants a continued investment by the State. Successful development and sale of the remaining 818 acres at Quonset Davisville requires that infrastructure improvements be made, including demolition of old buildings at the site and construction of new roads and utilities. To finance this development, the RIEDC has identified \$20.7 million in remaining 1996 general obligation bonds, land sales of \$39.1 million, and federal funds for the balance. However, before any significant land sales can occur, infrastructure costs must be incurred to prepare these sites for development. To continue this development, the RIEDC must identify all available sources of financing. Possible sources include borrowing secured by the land; existing borrowing capabilities of the RIEDC and its related entities; and additional general obligation bonds.

The RIEDC also should seek funding for the on-line tourism network program known as Tourism 2000, which is intended to unify RIEDC's Tourism Department with the seven independent regional tourism districts in the State. The project includes a centralized inquiry fulfillment/reservation system; the development of new tourism products; and the creation of a statewide centralized database that links all of the regional tourism districts. The RIEDC should provide to the General Assembly a funding request that will include a complete explanation and

Executive Summary

Performance Audit – RI Economic Development Corporation

documentation of the planned expenditures for Tourism 2000, as well as other expected sources of funds besides State appropriations.

RIEDC should adopt formal criteria for conferring tax-exempt status to projects. This status exempts materials and equipment used during construction from the State sales tax. Further, economic impact analyses should be performed for each project financed by the Rhode Island Industrial Facilities Corporation to ensure there is a net financial benefit to the State.

We also found that the RIEDC could improve its monitoring of companies required to report employment data which is often the basis for lease credits or stipulated as part of the RIEDC's financing of a project. Additional analysis should be performed to ensure that all the tax incentive initiatives result in a net gain to the State.

Quarterly reporting of program results should be made to RIEDC Board members to better apprise them of the Corporation's efforts and provide an additional means of measuring the Corporation's performance.

In 1997, the General Assembly created the Slater Technology Fund to support the commercialization of technology; since fiscal 1998, \$3 million has been annually appropriated for this purpose. Responsibility for administering the Fund has been vested in the Economic Policy Council, whose governing board is comprised of 20 members from both the private sector and government. The Council and the RIEDC are now contemplating the transfer of responsibility for both administering the Fund and managing the program to the RIEDC, which has the requisite professional staff in place. The Council's staff would be responsible for evaluating the program to ensure it is meeting its goals. This would utilize the Council's expertise in measuring performance, developing economic policy, and conducting research.

Improvement is needed in budget preparation and budgetary control procedures for the RIEDC. This will ensure that both the short- and long-term aspects of its finances are adequately addressed. This is critically important because the RIEDC is largely supported by State appropriations and may have unique long-term capital needs that cannot be met from its existing operating budget. In addition, the RIEDC has operating components (such as the Welcome Center and the Steam Plant) that should be accounted for separately to allow management to effectively evaluate their actual costs and benefits.

The RIEDC should strengthen its procurement practices by promulgating agency-specific purchasing regulations in accordance with the Administrative Procedures Act. The RIEDC should also comply with applicable State law when soliciting consultant services that are reasonably expected to exceed \$20,000. Also, the RIEDC should solicit proposals for outside legal and printing services on a consistent basis.

Other recommendations in our report address enhancing compliance with the reporting requirements of the Open Meetings Act, strengthening controls over fixed assets, and improving the administration of the federal procurement program. Overall, the report contains 52 recommendations to improve the operations of the RIEDC.

II. INTRODUCTION

OBJECTIVES, SCOPE AND METHODOLOGY

We conducted a performance audit of the Rhode Island Economic Development Corporation (RIEDC) to determine if it was operating efficiently and effectively. Our audit was conducted in accordance with *Government Auditing Standards*. The period covered by our audit was primarily the fiscal year ended June 30, 2000. Where relevant, we extended our audit procedures to other fiscal years.

Our audit focused on evaluating the practices and procedures employed by the RIEDC in administering its operations and financial matters. Our objective was to identify practices and procedures that could be improved or made more efficient. To achieve our audit objective, we reviewed relevant policies and procedures, interviewed responsible personnel, and performed tests and other audit procedures as considered necessary in the circumstances.

The scope of our audit included the following entities which are separate corporations but are affiliated with the RIEDC: the Small Business Loan Fund Corporation, the Rhode Island Industrial Facilities Corporation, and the Rhode Island Industrial Recreational Building Authority. Our scope also included the Quonset Davisville Management Corporation, which serves in an advisory capacity to the RIEDC Board.

The scope of our performance audit did not include the activities of the Rhode Island Airport Corporation or the Rhode Island Partnership for Science and Technology, which are component units of the RIEDC. While meeting the financial statement reporting criteria which defines the Airport Corporation as a component unit, the Airport Corporation's operations are separate and, for the most part, unrelated to those of the RIEDC. The Rhode Island Partnership for Science and Technology is inactive at this time. The scope of our audit also did not include the activities of the Urban Enterprise Equity Fund.

The role and relationship of these entities is explained in the Background section which follows.

BACKGROUND

The Rhode Island Economic Development Corporation was created in 1995 as the result of a merger by the General Assembly of the former Rhode Island Port Authority and Economic Development Corporation and former Department of Economic Development.

The purpose of the RIEDC is to “promote and encourage the preservation, expansion, and sound development of new and existing industry, business, commerce, agriculture, tourism, and recreational facilities in the state, which will promote economic development.”

The RIEDC has a permanent twelve-member Board of Directors (there is currently one vacancy). The Governor is an ex officio member and chairperson. Eight public members are appointed by the Governor with the advice and consent of the Senate. Two members of the

House of Representatives are appointed by the Speaker of the House, one from the minority party. Two members of the Senate are appointed by the Senate Majority Leader, one member from the minority party. One additional public member can be appointed on an interim basis under certain circumstances.

The RIEDC has offices in Providence and North Kingstown. The Providence operations include all administrative functions, as well as tourism, market and sales development, and financial services. The North Kingstown operations include the Quonset Davisville Port and Commerce Park, and the management (for the State) of the development of the proposed Exeter Research and Technology Park at the site of the former Ladd Center in Exeter.

Economic development efforts are carried out through entities which are either a part of, or affiliated with, the RIEDC.

	<u><i>Role of the RIEDC</i></u>
<u>Core Units:</u>	
Quonset Davisville Management Corporation (QDMC)	← Advisory board to the RIEDC regarding management of the Quonset Davisville Port and Commerce Park
<u>Component Units:</u>	
Small Business Loan Fund Corporation (SBLFC)	← Administered by RIEDC
Rhode Island Airport Corporation (RIAC)	← Financing provided through the RIEDC but operations are separate and unrelated to the RIEDC
Rhode Island Partnership for Science and Technology (RIPSAT)	← Largely inactive at this time; staff support provided by the RIEDC
<u>Affiliated Units:</u>	
Rhode Island Industrial Facilities Corporation (RIIFC)	← Staff support provided by the RIEDC
Rhode Island Industrial-Recreational Building Authority (RIIRBA)	← Staff support provided by the RIEDC
Urban Enterprise Equity Fund (UEEF)	← Staff support provided by the RIEDC

RIEDC has a wide variety of programs available to it designed to stimulate economic growth by assisting Rhode Island businesses. Some of these initiatives include:

- ❑ ***tax incentives*** such as Enterprise Zone tax credits, as well as other tax incentive programs available to businesses through the Division of Taxation (e.g., corporate income tax reductions for new job creation, investment tax credits, research and development expense credits, and job training tax credits);

- ❑ ***financial services*** such as taxable and tax-exempt revenue bonds issued by RIEDC and RIIFC and loans to smaller businesses from the SBLFC;
- ❑ ***job training*** through a partnership with the Rhode Island Human Resource Investment Council that offers training grants, tax credits for employee training, and other job training assistance;
- ❑ ***incentive-based leases*** with certain companies that result in reduced lease payments if specific job creation thresholds are met; and,
- ❑ ***sales tax exemptions*** for materials and equipment used in constructing a project if (a) the companies participate in financing issued by RIEDC or RIIFC, or (b) the RIEDC Board passes a resolution granting tax-exempt status to the company's project.

At September 1, 2000, actual personnel totaled 132, with 67 employees assigned to RIEDC's Providence office and 65 employees assigned to the Quonset Davisville facility. An organization chart for the RIEDC is on page 7.

Quonset Davisville Port and Commerce Park

The Quonset Davisville Port and Commerce Park is a 3,047-acre site in North Kingstown, which was formerly two distinct military bases and is now owned and operated by the RIEDC. The RIEDC has undertaken to develop the site as a means of creating jobs and providing other economic benefits for the State.

The Quonset Point Naval Air Station was officially decommissioned by the United States Navy in April 1974. The State responded by creating the Port Authority and the Department of Economic Development to acquire, develop and reuse the facility. Over the next six years, the State paid approximately \$12 million to acquire about 2,000 acres of land at Quonset.

The Davisville Construction Battalion Center was decommissioned by the Navy in 1994. The RIEDC has subsequently acquired 703 acres for approximately \$62,000. This property has been transferred in phases to the RIEDC, with the final parcel scheduled to be received in 2001.

The majority of the property in Quonset has been either sold or leased, but much of the recently-acquired Davisville property still needs to be developed. There are currently more than 125 businesses operating at the Quonset Davisville Port and Commerce Park. Potential future development of the facility is dependent upon determining the appropriate use of the port area and improving the infrastructure of the Commerce Park.

In 1994, the former Department of Economic Development issued a request for proposals to fully explore the opportunities to develop a container port facility at Quonset Davisville. The firm selected to assist in this effort submitted a port proposal in 1996, but this plan was rejected. In August 1997, this firm informed the RIEDC Board that it intended to partner with a company that specialized in operating marine terminals. During the ensuing months, the partnership terms were negotiated and preliminary information regarding a port development proposal was compiled.

In May 1998, the RIEDC Board voted to enter into a lease option and port development agreement with the partnership. Under the terms of this agreement, the partnership would submit a proposed port development plan for RIEDC's review and approval. This plan was required to include input from the stakeholder process that had recently been established by the Governor, and also to comply with State environmental and economic development policies.

The partnership submitted its proposed port development plan to the RIEDC board for its review in July 1999. In September 1999, pursuant to the terms of the agreement, the RIEDC Board voted to reject the partnership's proposed port development plan thereby terminating its agreement with the partnership. Some of the major concerns regarding the partnership's plan included the lack of detailed information about financing, costs, and permitting timeframes.

After rejection of the partnership's proposal, the RIEDC engaged a consultant in September 1999 to conduct a feasibility study regarding establishment of a modern containerport and intermodal terminal facility. The consultant recommended development of a modern containerport occupying 170 acres at Quonset.

In April 2000, the RIEDC began a process of developing a strategic plan for the park, including the port. A consultant has now been retained to guide the selection of a final set of principles, utilize these principles to assist in preparing the final master plan, and develop an implementation strategy.

NOTEWORTHY ACCOMPLISHMENTS

The Small Business Loan Fund Corporation had net income of approximately \$1.5 million in fiscal 1998 and \$1.2 million in fiscal 1999. This has expanded the amount of funding available for lending to small businesses.

A defaulted property in Smithfield was sold to a pharmaceutical manufacturer for \$20 million (utilizing a \$25 million bond refinancing) thereby enabling the State to recoup approximately 80 percent of its outstanding liability for this property. That facility was recently acquired by a major chemical company as the center for its biopharmaceutical operations.

RIEDC sold 9 acres of land at Quonset Davisville in fiscal 2000 for a total of \$487,750. Since September 1997, 26.5 acres have been sold and 82.7 acres leased at Quonset Davisville.

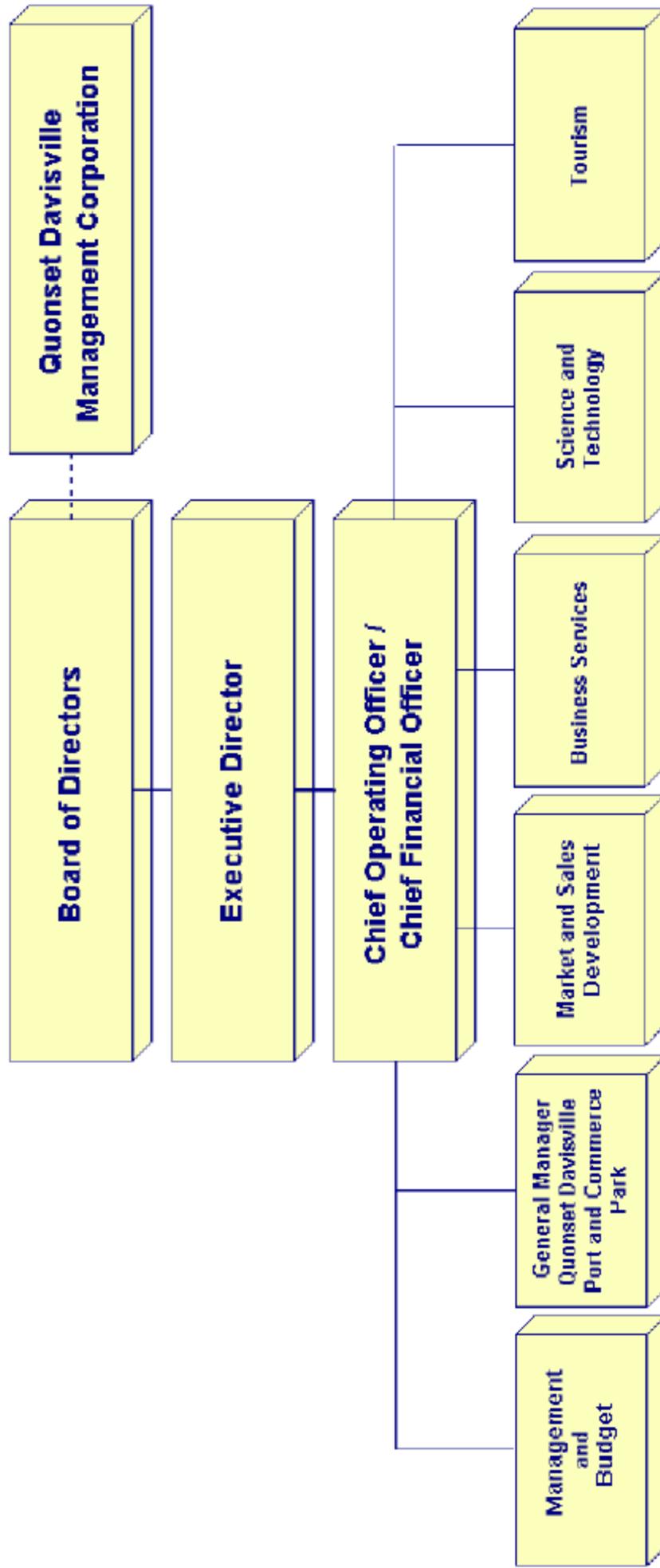
The federal Job Corps agreed to establish a new training center at the former Ladd Center in Exeter (the proposed Exeter Research and Technology Park) per the terms of a lease signed in August 2000.

The Division of Tourism was elevated to a separate department within RIEDC. This should allow it to better advocate for programs important to the tourism industry.

Rhode Island Economic Development Corporation

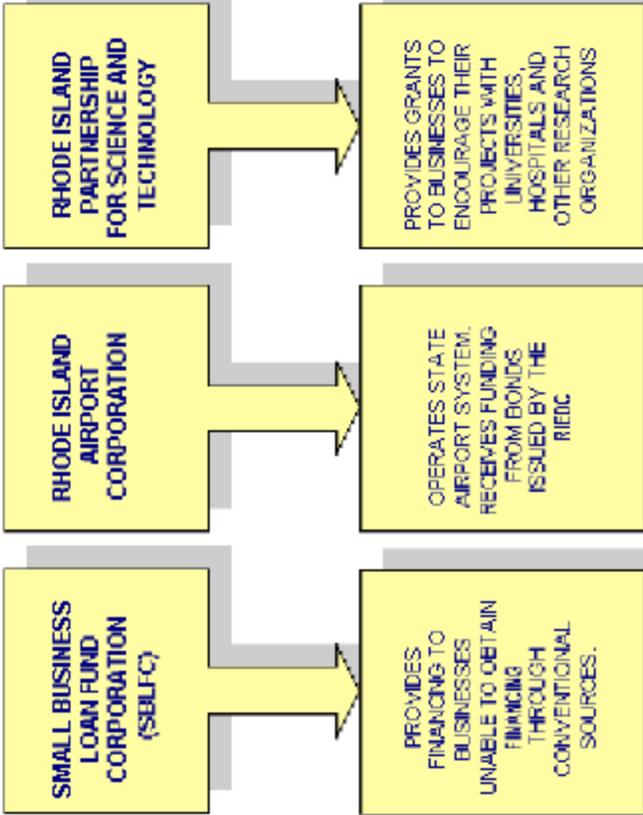
Functional Organization Chart

July 1, 2000

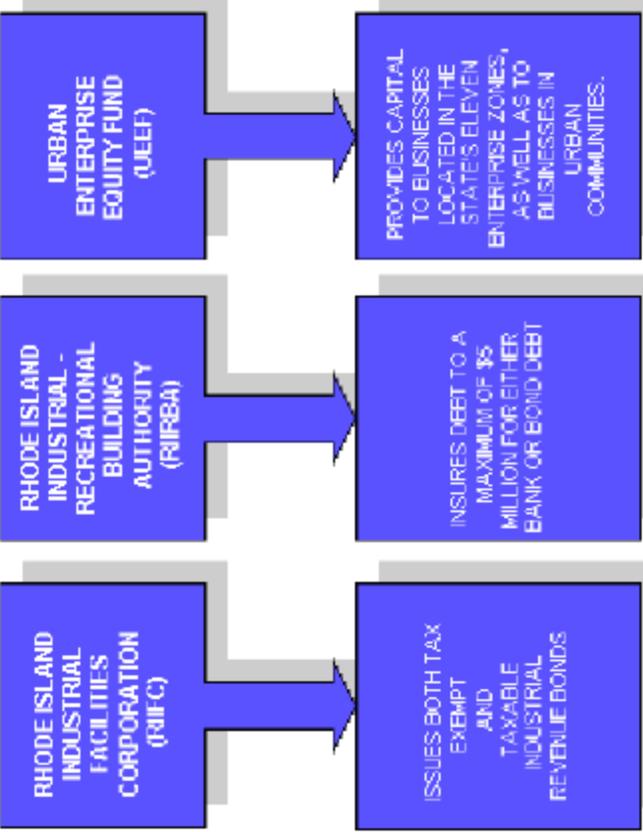


Rhode Island Economic Development Corporation

COMPONENT UNITS



AFFILIATED UNITS



Rhode Island Economic Development Corporation

Condensed Financial Data

	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Fiscal 2001 (Budget)</u>
Income:			
State appropriation	\$ 7,913,963	\$ 8,265,913	\$ 7,676,807
Rentals, fees, utilities and services	5,037,155	5,032,937	7,030,086
Gain on sale of properties	375,963	163,092	0
Investment and other income	1,131,129	802,215	835,397
Grants	184,161	307,621	395,000
Total income	14,642,371	14,571,778	15,937,290
Expenses:			
Administration and property management	12,860,101	13,575,967	14,229,223
Utilities	1,150,126	1,155,058	803,067
Depreciation and amortization	961,541	1,063,117	760,000
Grant related expenses	184,161	307,621	395,000
Total expenses	15,155,929	16,101,763	16,187,290
Other:			
Recovery of bad debt	160,555	6,000	0
Loss on Alpha Beta project	(1,300,000)	(551,538)	0
Distribution from RIIFC	200,000	200,000	250,000
Net income (loss)	\$ (1,453,003)	\$ (1,875,523)	\$ 0

Notes:

- (1) Includes RIEDC's General Fund and the RI Economic Development Assistance Fund. These amounts do not include the activities of the RI Airport Corporation, the RI Partnership for Science and Technology or the Small Business Loan Fund.
- (2) Fiscal 1999 and 2000 condensed data are from the Corporation's audited financial statements for those years.
- (3) Data for fiscal 2001 reflects the Corporation's current budget for the fiscal year.

III. FINDINGS AND RECOMMENDATIONS

RIEDC ORGANIZATIONAL STRUCTURE

The RIEDC was created in 1995 by merging the former Department of Economic Development and the former Rhode Island Port Authority and Economic Development Corporation. The objectives of that merger included streamlining the State's economic development efforts by vesting this responsibility with one entity and also having the revenues generated by Quonset Davisville eventually lessen the need for State appropriations to finance economic development efforts. Further, this type of governing structure was expected to provide greater flexibility for conducting marketing and recruitment efforts related to attracting new businesses and the ability to respond more quickly to both customer needs and rapidly-changing economic conditions.

Although established as a separate quasi-public corporation, the RIEDC, aside from activity at Quonset Davisville, has an insufficient revenue stream to support its activities. While Quonset Davisville generates revenue from rental income, utility sales, and other sundry items, property management costs equal or exceed those revenues. Projected fiscal 2002 revenues generated by Quonset Davisville operations are \$6.73 million while expenditures are \$6.78 million.

Decision-making at the RIEDC is sometimes affected by short-term financial needs. For example, the RIEDC has adopted a policy of restricting all proceeds from land sales for infrastructure improvements, and thus only revenue from leased property can be used for operating expenses. Since 1997, three times as much land has been leased (82.7 acres) than has been sold (26.5 acres). RIEDC officials stated that companies often prefer to lease rather than own because this makes it easier to either expand or downsize operations. Nonetheless, the current situation presents the RIEDC with a dilemma: should the policy be to encourage companies to *lease* land, which is advantageous from an operating revenue standpoint, or to *purchase* land, which benefits the RIEDC's infrastructure improvement program? Additionally, on one occasion, lease terms were structured with front loaded payment provisions to alleviate operating shortfalls in the near term. Structuring lease terms in this manner only creates further shortfalls at the end of the lease term.

The RIEDC enjoys some of the benefits afforded independent quasi-public agencies but is still dependent upon the State appropriation process to fund its efforts. Further, RIEDC has significant long-term capital needs which clearly cannot be met from revenues generated by its current operations. The costs to fully develop Quonset Davisville by investing in necessary infrastructure are detailed in another section of this report. General obligation bond financing has been authorized for some of these costs, but even then, the timing of issuance is affected by the State's debt management issues and ultimately controlled by the State.

A further complication is that funding for the development of the port and waterfront at Quonset Davisville is not included in the RIEDC's proposed fiscal 2002 budget, even though these costs were estimated in an October 2000 white paper to be \$3.8 million for fiscal 2002. The RIEDC is the lead agency for this project but does not have the internal financial resources

to support costs of this magnitude, so it is unclear which source(s) of revenue may be used to fund this endeavor.

In many respects, the missions of (a) conducting business attraction, retention, and expansion efforts, (b) promoting tourism, and (c) developing and managing Quonset Davisville are all related to economic development and may best be coordinated by a single agency that is not in competition with other entities vested with similar purposes. In particular, the fact that the RIEDC is primarily responsible for promoting economic development and tourism, and is also the owner of the state's largest commerce park, lends credence to the argument that many efficiencies can be achieved and effectiveness enhanced by having all of these functions managed and coordinated by a single entity. In this respect, the merger of the two entities in 1995 was successful. Financially, however, the merger has been less successful because the RIEDC is not self-supporting and has significant long-term capital needs which cannot be met with its own resources.

The organizational structure of the RIEDC should be reevaluated to ensure it best meets the State's economic development needs and can support the financial requirements of that effort. This is critically important as the RIEDC entertains further development of the commercial port at Quonset Davisville. The scope of the port project, which could span many years and require significant funding, may warrant a separate governing structure for Quonset Davisville. However, a separate governing structure for the port could lessen the State's ability to effectively control and manage all its economic development efforts within one entity. These, and other factors, should be given due consideration in reevaluating the organizational structure of the RIEDC.

RECOMMENDATION

1. Reevaluate the organizational structure of the RIEDC to ensure it meets the State's economic development needs and can support the financial requirements of that effort.

Auditee Views

RIEDC management defers consideration of this recommendation to the RIEDC Board.

DEVELOPMENT OF QUONSET DAVISVILLE

Final Master Plan

The RIEDC has conducted a series of studies since 1996 to determine the best uses for Quonset Davisville. In December 1997, a consultant retained by the RIEDC completed a draft master plan designed to guide the RIEDC in uniting the sites of the two former military installations at Quonset and Davisville, and developing them into a port and commerce park. The draft master plan consists of land use and traffic circulation plans, as well as an implementation program to accommodate additional industrial and commercial development over a 15-20 year period.

According to the consultant, the draft master plan was based on a “market approach as well as an understanding of environmental and fiscal constraints and opportunities.” The RIEDC uses this draft master plan “to coordinate the expansion of existing and the location of new businesses in a consistent and strategic manner,” and to program phased infrastructure development as needed.

The draft master plan provides for industrial and commercial development of vacant and developable land, based on a detailed market analysis. The market analysis reached the following conclusions:

- ❑ a wide variety of industrial distribution firms with different site requirements can be served at Quonset Davisville;
- ❑ the ability to accommodate rail-oriented users will be a major competitive advantage in attracting industrial and distribution firms, since few other parks in the region provide rail access;
- ❑ the inclusion of commercial facilities (such as hotels and retail operations) will enhance the competitive position of the site;
- ❑ Quonset Davisville is currently at a competitive disadvantage due to inadequate highway access; and
- ❑ the site’s competitive position will begin to improve when off-site rail improvements are nearing completion, off-site highway connector improvements commence construction, and on-site infrastructure improvements are in progress.

The plan provides for expansion of roadway, rail, and utility services, and assumes continued growth of flight operations at the Quonset State Airport.

In May 1998, the Governor created a stakeholders process to develop consensus on a proposed container port at Quonset Davisville. The stakeholders process resulted in the compilation of relevant data, information and analyses on the development of a port at Quonset Davisville; a discussion of issues related to port development; and a foundation on which federal and State permitting processes can build. This group issued a report in March 1999 which contained a number of principles to guide development of a port, including:

- ❑ best possible use of the existing infrastructure;
- ❑ least amount of dredging and fill necessary to develop a port;
- ❑ preservation, protection, and, where possible, restoration of the function and value (including water quality) of impacted ecosystems;
- ❑ preference for private financing of a container port, based on long-term contractual commitments;

- ❑ creation of quality, high paying jobs;
- ❑ preservation of the role and functionality of the airport; and
- ❑ sensitivity to existing businesses and jobs.

In September 1999, the RIEDC asked its transportation consultant to conduct a “thorough and objective review in order to determine the feasibility of establishing a modern containerport and intermodal terminal facility at the Quonset Davisville Port and Commerce Park.” The consultant’s study concentrated on a physical review, economic review, and market testing.

In a report dated July 31, 2000, the consultant recommended that a container facility occupying about 170 acres at Quonset would be feasible. The port would serve as an intermodal container transfer facility at which vessels and cargoes would be expeditiously received, handled and dispatched. Establishment of the port would also create opportunities for the establishment of:

- ❑ distribution and logistics service centers;
- ❑ cargo consolidation operations;
- ❑ maintenance repair facilities; and
- ❑ sales/customer service offices.

According to the report, the use of a high degree of automation and productivity as well as effective use of land would minimize, if not entirely avoid, the environmental and quality of life issues often associated with older, inefficient transportation facilities.

In April 2000, the RIEDC issued a request for letters of interest and qualifications to provide strategic planning services. The project scope included researching and developing a knowledge of pertinent documents and regulations, identification and development of alternative principles and guiding the selection of a final list of principles, utilizing the principles to assist the previous consultant in preparing the final master plan, and development of an implementation strategy based upon the principles of the completed master plan. A consultant has now been retained to provide these strategic planning services.

We believe the completion of the strategic plan, which will be in the latter part of 2001, should also mark the completion of the planning phase for the development of the Quonset Davisville Port and Commerce Park. By that time, this phase will have spanned five years and the cost of these studies will total approximately \$1,000,000.

The boards of the Quonset Davisville Management Corporation (an advisory board to the RIEDC) and the RIEDC should then hold public hearings to invite comment on the final master plan, adopt the final master plan (with any revisions resulting from the public hearings), and move forward with the development of Quonset Davisville. Even under optimal conditions, it is

likely to be 2015-2020 before the Quonset Davisville Port and Commerce Park is fully and finally developed, considering the potential need for an environmental impact statement, demolition and construction, infrastructure improvements, etc.

RECOMMENDATION

2. Move expeditiously to complete and implement the final master plan to develop Quonset Davisville.

Auditee Views

RIEDC management concurs with this recommendation. The Boards of the Quonset Davisville Management Corporation and the RIEDC will hold public hearings to invite comment on the final master plan and then adopt the final master plan.

Financing the Development of Quonset Davisville Commerce Park

<u>Quonset Davisville Commerce Park</u>		
<u>District</u>	<u>Total Acres</u>	<u>Acres to be Developed</u>
West Davisville	308	118
Executive Park	129	75
North Davisville	230	152
Davisville Waterfront	269	141
Commerce Park	447	248
Kiefer Park	154	50
Quonset Park	242	34
Quonset Waterfront	127	0
Allen Harbor	91	0
Calf Pasture	198	0
Golf Course	138	0
Airport	538	0
Open Space	176	0
Total	<u>3,047</u>	<u>818</u>

Successful development and sale of the remaining 818 acres at Quonset Davisville requires infrastructure improvements be made, as well as upgrades to highway access to the park and port. Enhancements to rail service at Quonset Davisville are also needed to fully capitalize on the unique multi-modal transportation capabilities of the park.

Financing for the highway and rail improvement components of the development plan are in place through a combination of federal funds and general obligation bond financing for the required state match.

The Rhode Island Department of Transportation has undertaken a project to improve access between Quonset Davisville and Route 4. Design of a four-lane highway is underway, but

construction has not begun. Costs for the design and construction of the road will be funded with federal funds and general obligation bonds for the required state match. While construction of a relocated Route 403 will improve access to and from Quonset Davisville, a direct link between Route 4 and Route 95 is also needed. Currently, in order to access Route 95 southbound, traffic on Route 4 north must exit onto local roads. Similarly, traffic on Route 95 north must utilize these same local roads to reach Route 4 southbound and then access Quonset Davisville via Route 403.

Rail improvements costing approximately \$100 million are underway. The federal government and the State will share these costs equally – the State share through authorization of \$50 million in general obligation bonds.

Financing for the necessary infrastructure improvements to the Commerce Park is less certain. These infrastructure improvements include demolition of old buildings at the site and construction of new roads and utilities. RIEDC has estimated that infrastructure costs of \$137 million will have to be incurred to improve the land for sale. However, an estimated \$75 million in development costs for the Davisville Waterfront area will not be needed until the 2014-2017 period. Development of this area and the related costs will likely be impacted by any future port development. Consequently, the estimated amount needed in the near term for infrastructure costs is just under \$62 million.

To finance this \$62 million development project, the RIEDC has identified \$20.7 million in remaining 1996 general obligation bond funds, land sales of \$39.1 million, and federal funds for the balance. Some of these funds have already been used for the Phase I development.

PHASE	FISCAL PERIODS	TOTAL COSTS
1	1998-2002	\$ 22,160,400
2	2002-2005	7,320,710
3	2006-2009	26,863,200
4	2010-2013	5,633,720
TOTAL		\$ 61,978,030

We confirmed the reasonableness of the estimated proceeds from land sales by utilizing data contained in the 1997 draft master plan (which estimated slightly over 900 acres were available for development at that time), and updating it for all land transactions that have occurred since then. We determined that 26.5 acres have been sold and 82.7 acres leased since 1997, resulting in approximately 818 acres currently available for development. The RIEDC used recent average prices to determine the amount likely to be realized from land sales and we were able to confirm the reasonableness of these prices.

There are potential hindrances in this development plan. First, before any significant land sales occur, infrastructure costs for road development, demolition of existing buildings, and utility placement must be incurred to prepare these sites for development. Second, land sales may not be sufficient to fund the entire build-out of the park because tenants frequently lease land, rather than buy it. Three times as much land has been leased than has been sold since 1997.

To continue the development of the industrial park at Quonset Davisville, the RIEDC must identify all available sources of financing. Because RIEDC needs to finance the infrastructure improvement up front before much of the land can be sold, some borrowing or line of credit secured by the land could potentially be used to provide funding for the infrastructure improvements. Other options may also exist within the borrowing capabilities of the RIEDC and its related entities. Finally, additional general obligation bond funds could be authorized to complete the infrastructure improvements.

	Amount (millions)	Purpose
1978	\$ 25	acquisition, demolition and infrastructure requirement
1996	\$ 22	demolition and infrastructure
1997	\$ 50	state matching funds for federal rail improvements
2000	\$ 11.6	amount to match federal highway funds for Phase I of the Route 403 relocation

The decision to seek additional general obligation bond authorizations obviously has to be considered in light of (1) general obligation bond funding already authorized for the project, (2) the State's debt capacity, and (3) other projects competing for general obligation bond funding.

Two other former military bases in New England have received significant bond financing from their respective state governments. The Devens Commerce Center in Massachusetts received \$100 million in bonding capacity in 1995. In May 2000, Devens reportedly had 73 workplaces employing 3,000 people. The Pease International Tradeport in New Hampshire received \$250 million in bonding capacity in 1999. Pease expects to have 3,745 new jobs by the end of 2000.

The development of the industrial park at Quonset Davisville is important to the economic future of the State, and therefore warrants a continued investment by the State. Providing additional State bond funds (complemented by funds from other sources, such as federal funds) would enable the necessary infrastructure work to begin. These bonds would be repaid to the extent possible by the eventual sale of land at Quonset Davisville. Whatever shortfall might remain would in effect become the State's contribution to the development of this project.

RECOMMENDATION

3. Identify and pursue all available sources of financing for the development of the Quonset Davisville Commerce Park, including additional bond financing from the State.

Auditee Views

RIEDC management concurs with this recommendation.

Master Plan For Quonset Davisville Airport

Although Quonset Davisville Airport is considered an integral part of the intermodal transportation system that exists at RIEDC's Quonset Davisville facility, the Rhode Island Airport Corporation (RIAC) actually manages this airport under a leasing agreement with the State Department of Transportation. We learned that the last update of the master plan for the airport occurred in 1987. RIAC's director informed us that an airport system plan will be prepared in 2001 for Quonset Davisville and all of the other outlying airports (i.e., all airports except Green State Airport, whose master plan is currently in the process of being updated) managed by RIAC.

We believe that RIAC's consultants, who will be preparing the airport system plan, and RIEDC's consultants, who will soon begin finalizing the Quonset Davisville Port and Commerce Park draft master plan, need to be acutely aware of how each facility's proposed plans will affect the other's future operations. For example, the size of certain types of aircraft landing at the airport could result in restrictions on the height and location of cranes at the proposed port. Additionally, the draft 1997 master plan anticipated that flight operations at the airport would

continue to grow. Lastly, all four design options outlined in the July 31, 2000 port feasibility study have been identified as having varying degrees of impact on the runways at the airport.

Given the importance of each facility to the long-term economic health of the State, a cooperative and coordinated effort must be undertaken by RIEDC, RIAC, and their respective consultants to maintain open lines of communication--with the ultimate goal of preparing plans that are compatible with the other entity's future operations.

RECOMMENDATION

4. Take appropriate measures to ensure that the master plan for Quonset Davisville Port and Commerce Park, and the airport system plan for Quonset Davisville Airport are compatible.

Auditee Views

RIEDC management concurs with this recommendation.

DEPARTMENT OF TOURISM

Online Tourism Network

A program known as Tourism 2000 is intended to be a statewide online network unifying the Tourism Division at the RIEDC and the seven independent regional tourism districts in the State. The project will include a centralized inquiry fulfillment/reservation system; the development of new tourism products such as statewide vacation packages; and the creation of a statewide centralized database that links all of the regional tourism districts.

The statewide centralized database will include all tourism-related facilities, attractions, and events. This information is currently stored in separate, non-uniform databases at the RIEDC and the seven regional tourism districts.

The centralized database is envisioned as a secure Internet-based system that will allow the State to have its first unified database for all tourism-related facilities, activities and research. The database will be continually maintained by the RIEDC to ensure that information is always current, which in turn will encourage users to visit the web site on a regular basis to learn about new events. An integral part of the project is a password protected extranet that would link the Tourism Division and the regional tourism districts with each other. This will also include searchable directories linking the websites of major attractions, and a special events database searchable by date or type of event.

The centralized database would also establish online visitor computer terminals at satellite locations, such as T. F. Green Airport, the Providence Train Station, the Welcome Center, and the regional visitor centers. Using these terminals, travelers will be able to access information regarding hotels and restaurants (including making reservations) as well as information about local activities.

Tourism 2000 also includes a tourism component called TRIPS, an acronym for Travel Rhode Island Planning Service. This will provide potential visitors with the information necessary to plan and book vacations in Rhode Island. Vacation packages will be developed that promote all regions of the State, as well as packages targeting specific interests such as music festivals, cultural tours, etc. The RIEDC will also be able to track the preferences of likely visitors, and inform tourists via e-mail of events geared to their interests.

The estimated total cost for Tourism 2000 is \$1,000,000 over the first three years, and about \$500,000 annually thereafter. The first year's costs will be for database development, hardware and software costs, and an increased marketing effort. This is estimated at \$250,000, for which State funds will be needed (about \$80,000 of this amount was expended in fiscal 2000). Second-year activities include the implementation of TRIPS and other state/regional products and services; the cost of \$250,000 would be met by funds from the regional tourism districts. Third-year expenditures would be for ongoing promotion and marketing as well as systems maintenance. Funding would come from the districts and the State (a federal grant is also a possibility).

The RIEDC should provide to the General Assembly a funding request that will include a complete explanation and documentation of the planned expenditures for Tourism 2000, as well as other expected sources of funds besides State appropriations.

RECOMMENDATION

5. Provide complete documentation and an explanation of the Tourism 2000 program in a funding request to the General Assembly.

Auditee Views

RIEDC management concurs with this recommendation.

Welcome Center

The Tourism Department of the RIEDC is responsible for operating the Rhode Island Welcome Center on Interstate 95 in Richmond. Eight full-time employees staff the Center, and part-time seasonal workers are employed during peak periods. The Center's staff provides such services as assisting in making hotel reservations; providing directions to Rhode Island attractions; distributing maps and brochures; and selling coffee, lottery tickets, and souvenirs. Additionally, the Center provides 24-hour access to restroom facilities and its employees perform all necessary maintenance functions. The Center served approximately 700,000 visitors during calendar 1999.

The RIEDC's fiscal 2002 budget proposal does not currently include any funding for operating the Welcome Center, indicating that if other funding sources are not found, the Center will cease operations at the end of fiscal 2001. The RIEDC had previously estimated (in a preliminary budget for 2002) that the net cost of operating the Center was \$800,000. This amount included tourism-related promotional materials, such as brochures and maps; however,

other operating costs appeared to be related more to highway operations (e.g., maintaining restroom facilities and performing maintenance functions) than to tourism.

The RIEDC should identify which costs of operating the Center are not related to tourism and determine whether federal or other state funds are available to offset some of these expenditures. For example, the RIEDC could seek financial assistance from the Rhode Island Department of Transportation for those costs deemed highway related. Additionally, the RIEDC could further reduce costs by requesting assistance from the regional tourism districts in providing personnel to operate the Center. The RIEDC should also consider exploring whether any public-private partnerships can be formed.

Under these scenarios, the role of the RIEDC would be limited to providing funding for tourism-related costs, such as maps and brochures. Eventually, the Center could be equipped with an online terminal to provide visitors with information if the Tourism 2000 program described in a previous section of this report is established.

Lastly, the benefits that the Welcome Center provides to the State's tourism industry need to be quantified and evaluated. It is difficult to determine what the appropriate level of funding for the Welcome Center should be without first knowing the economic value of its operation. We were informed that Center employees frequently refer visitors to Rhode Island attractions, events, hotels, and restaurants; however, the economic impact of these referrals on the State's tourism industry cannot presently be measured because no formal tracking system exists to document these efforts.

RECOMMENDATIONS

6. Determine whether other sources of funding are available to offset Welcome Center expenditures.
7. Develop a formal system to track tourism referrals.

Auditee Views

RIEDC management concurs with these recommendations.

DESIGNATION OF TAX-EXEMPT PROJECT STATUS

Section 42-64-20 (c) of the State's General Laws empowers the RIEDC Board, by adopting a resolution, to convey tax-exempt status to a project. This tax-exempt status extends to materials and equipment used during the construction of a project, and can also include replacement items such as computer equipment.

The Board grants tax-exempt status based on the results of an economic impact analysis performed by RIEDC's research unit. The analysis must find that the additional income tax revenue generated by the projected number of new jobs created by the employer will be greater than the loss of sales tax revenue from the materials and equipment used to construct the project.

The RIEDC Board has followed an informal policy of granting status only to those projects that will produce a significant number of jobs. RIEDC informed us that no formal written policies and procedures are currently in place for granting status to projects, even though RIEDC's outside legal counsel recommended at an April 1997 board meeting that written guidelines be developed. RIEDC needs to adopt formal written policies and procedures, including established criteria, for granting tax-exempt status to any project that qualifies.

The established criteria should be inclusive enough to allow the RIEDC Board to grant status in a variety of commonly-encountered situations, such as the creation of a significant number of jobs, attraction of out-of-state companies, and retention of current jobs. RIEDC should also consider establishing job creation eligibility thresholds based on the cost of the proposed project for smaller companies, rather than having to perform an economic impact analysis.

Establishment of formal written policies and procedures would ensure that all qualifying companies have access to this incentive program, which would further benefit the State's economic development efforts and increase income tax revenue.

RECOMMENDATIONS

8. Adopt formal written policies and procedures for granting tax exempt project status.
9. Consider establishing job creation eligibility thresholds based on project cost as the criteria for granting project status to smaller companies

Auditee Views

RIEDC management concurs with these recommendations.

Rhode Island Industrial Facilities Corporation

The Rhode Island Industrial Facilities Corporation (RIIFC) provides low cost financing for industrial and commercial projects through the issuance of tax-exempt revenue bonds and notes. Because RIIFC acquires title to all projects and technically becomes the owner of these projects, borrowing companies receive an additional benefit, namely sales tax exemptions on materials and equipment used in constructing their respective projects. As discussed above, RIEDC's research unit performs economic impact analyses whenever the RIEDC Board is considering granting sales tax-exemption status to a project; however, these analyses have not been performed for RIIFC projects.

An economic impact analysis should be performed for all RIIFC projects to determine whether the projected increase in income tax from the additional jobs created by a particular project will be greater than the projected loss in sales tax revenue. Without knowing this information, RIIFC could potentially undertake projects that could result in a net loss of tax revenue to the State.

Since some projects undertaken by RIIFC are job retention initiatives (i.e., without RIIFC's assistance the company would leave the State), the economic impact analysis in these instances should measure the potential loss of income tax revenues generated from those jobs versus the loss of sales tax revenue.

RECOMMENDATION

10. Perform an economic impact analysis for every RIIFC-financed project.

Auditee Views

RIEDC management concurs with this recommendation.

DISCLOSING BUSINESS ARRANGEMENTS

The Small Business Loan Fund Corporation (SBLFC) was created in 1985 to administer a revolving loan program for small businesses by using funds that were recovered from a grant made to a project that ultimately went bankrupt. The loan-making process is governed by an agreement between RIEDC and the U.S. Department of Commerce's Economic Development Administration (EDA).

Section D.16 (a) of EDA's "Standard Terms and Conditions" dated December 1998 states that "The recipient (in this case RIEDC) shall not make revolving loan funds available to a business entity if the owner of such entity or any owner of an interest in such entity is related by blood, marriage, law or business arrangement to the Recipient or an employee of the Recipient or any member of the Recipient's Board of Directors (in this case SBLFC), or a member of any other Board which advises, approves, recommends or otherwise participates in decisions concerning loans or the use of grant funds."

During our review of SBLFC minutes for fiscal years 1999 and 2000, we noted that an SBLFC Board member abstained from participating in discussions and from voting on four different loan proposals. For one of these loans, the reason for the abstention was listed in the minutes--the Board member was a director of the company that served as senior lender to the loan applicant. No reasons for the other three abstentions were listed in the minutes, but SBLFC officials informed us that the Board member had performed consulting work for these loan applicants.

While this Board member did abstain from the discussions and votes related to these four loans, a "business arrangement" may have existed between the Board member and the loan applicants in each of these instances. Because this term is so broad, we believe that SBLFC should obtain a written determination from the EDA detailing the specific types of "business arrangements" that are prohibited. This will ensure that these four loans were approved in accordance with EDA requirements, and also help guide the Board in its future deliberations.

SBLFC also should include the reason that a board member abstains from discussing and voting on a loan application in the minutes of each meeting where this situation occurs. Lastly,

SBLFC should adopt a policy of requiring all loan applicants to provide assurance in writing that neither they nor any other owners of an interest in their business are related by blood, marriage, law or business arrangement to the RIEDC, its employees, or any member of the SBLFC Board.

RECOMMENDATIONS

11. Obtain a written determination from the EDA detailing the specific types of “business arrangements” that are prohibited.
12. Include the reason that a board member abstains from discussing and voting on a loan application in the minutes of each meeting when this situation occurs.
13. Adopt a policy of requiring all loan applicants to provide assurance in writing that neither they nor any other owners of an interest in their business are related by blood, marriage, law or business arrangement to the RIEDC, its employees, or any member of the SBLFC Board.

Auditee Views

RIEDC management concurs with these recommendations and intends to require loan applicants to duly notify the RIEDC of any relationship and then abide by the regulations of the federal Economic Development Administration.

MEASURING AND REPORTING PROGRAM RESULTS

RIEDC has a wide variety of programs available to it designed to stimulate economic growth by assisting Rhode Island businesses. Some of these initiatives include:

- ❑ *tax incentives* such as Enterprise Zone tax credits, as well as other tax incentive programs available to businesses through the Division of Taxation (e.g., corporate income tax reductions for new job creation, investment tax credits, research and development expense credits, and job training tax credits);
- ❑ *financial services* such as taxable and tax-exempt revenue bonds issued by RIEDC and RIIFC and loans to smaller businesses from the SBLFC;
- ❑ *job training* through a partnership with the Rhode Island Human Resource Investment Council that offers training grants, tax credits for employee training, and other job training assistance;
- ❑ *incentive-based leases* with certain companies that result in reduced lease payments if specific job creation thresholds are met; and,
- ❑ *sales tax exemptions* for materials and equipment used in constructing a project if (a) the companies participate in financing issued by RIEDC or RIIFC, or (b) the RIEDC Board passes a resolution granting tax-exempt status to the company’s project.

One of the main ways to measure the effectiveness of *tax incentives* is to perform a cost-benefit analysis. However, we found that no reports are currently prepared by the State (after the fact) to determine the amount of tax revenue lost as a result of economic development tax incentives. Thus, the cost (in terms of tax revenue the State has foregone) of these tax incentive programs is presently not known. Additionally, attempting to quantify the benefit (i.e., the gain in income tax revenue) of these tax incentive programs, such as by tracking each beneficiary company's job creation efforts, would likely be time consuming and prohibitively expensive.

In conjunction with other applicable State agencies, RIEDC should establish a system that compares actual tax loss with income tax gain so that the effectiveness of the State's various economic development tax incentive programs can be measured. Until such a system is in place, the State and RIEDC will be unable to evaluate which tax incentive programs are the most effective and, conversely, which programs may need to be revamped or even discontinued.

RECOMMENDATION

14. Establish a system that compares tax loss with income tax gain attributable to economic development tax incentive programs so that the effectiveness of these initiatives can be measured.

Auditee Views

RIEDC management concurs with this recommendation.

Regarding the *financial services* that RIEDC provides through bond financing from RIIFC or loans from SBLFC, we believe that the impact of these programs can best be measured by determining the number of new jobs created as a result of the financing or loan, as well as the salary levels. A condition of both RIIFC bond financing and SBLFC loans is that companies submit annual employment reports that list the number of new jobs created and the salary levels.

As part of the standard loan agreement, the recipient agrees to provide the RIEDC with annual employment reports. We examined a sample of loan files and found that not all recipients were submitting these annual employment reports. Similarly, we found that many companies that received bond financing from RIIFC had also not submitted the required information. According to the manager of SBLFC and RIIFC, companies that do not comply with these requirements could technically be declared in default and the interest rates paid by these borrowers could be increased as a result. However, due to the business support nature of RIEDC's mission, the manager felt that declaring companies to be in default and increasing their interest rates would not be an appropriate remedy for this type of noncompliance.

We agree that declaring borrowers in default may be excessive. Alternatively, SBLFC and RIIFC could require recipients to sign waivers allowing RIEDC access to employment reports filed with the State Department of Labor and Training. The data on employment reports is especially critical since the SBLFC is required to report it to the Small Business Administration.

RECOMMENDATION

15. Implement procedures to enhance compliance with reporting requirements.

Auditee Views

RIEDC management concurs with this recommendation.

Companies with *incentive-based leases* are required to periodically submit documentation listing the number of full time equivalent employees and also the calculation used to determine what the amount of their rent credit should be. When we inquired whether the accuracy of the companies' representations had ever been verified, we were informed that only one company had ever been reviewed and that review was performed by the Department of Administration's Bureau of Audits.

The Bureau found that the company had not calculated its job credit in accordance with the methodology required by its agreement with RIEDC, and as a result, the company eventually withdrew its request for a \$65,000 credit. This indicates that RIEDC should conduct periodic reviews on a test basis to verify both the reported employment figures and the accuracy of the rent calculation for all companies that have incentive-based leases.

RECOMMENDATION

16. Conduct periodic reviews on a test basis to verify both the reported employment data and the accuracy of rent calculations for all companies that have incentive-based leases.

Auditee Views

RIEDC management concurs with this recommendation.

Lastly, companies that receive *tax-exempt status* from the RIEDC Board are not presently required to submit annual employment reports, although some companies have voluntarily agreed to provide employment information. We believe that making this a requirement would allow RIEDC to verify whether these companies actually created the projected number of new jobs, and also provide the RIEDC Board with a factual basis for evaluating whether granting tax-exempt status is an effective economic development tool.

RECOMMENDATION

17. Require companies that receive tax-exempt status from the RIEDC Board to submit annual employment reports.

Auditee Views

RIEDC management concurs with this recommendation.

Reporting Program Results

RIEDC prepares a comprehensive annual report that highlights the Corporation's activities during the previous year, including business attraction and expansion efforts, urban initiatives, tourism achievements, business services successes, Quonset Davisville's continued development, and other noteworthy achievements. However, we believe that RIEDC needs to report its results on a more frequent basis so that all interested parties, including Board members, the Legislature, the general public, the business community, and others can be kept apprised of the Corporation's progress.

Specifically, RIEDC should prepare quarterly summary reports to the Board regarding its program results in such areas as the number of jobs created, retained, and lost; land sales and leases at Quonset Davisville, as well as the number of parcels available for sale or lease; all financings including RIIFC bond issues and SBLFC loans; and any other pertinent activities. Quarterly summary reports would serve as a useful tool to keep the Board and other interested parties continually informed about RIEDC's ongoing economic development efforts, and would also provide an additional means of measuring the Corporation's performance.

RECOMMENDATION

18. Prepare quarterly summary reports to the board outlining the Corporation's program results.

Auditee Views

RIEDC management concurs with this recommendation.

SLATER CENTERS

In 1997 the General Assembly created the Samuel Slater Technology Fund (Slater Fund) to support the commercialization of technology. Since fiscal 1998, the General Assembly has annually appropriated \$3 million to the Slater Fund. Responsibility for administering this fund has been vested in the Economic Policy Council (Council) since its creation in 1997. The Council was created by Executive Order 95-10 on March 16, 1995 and its governing board consists of 20 members from both the private sector and government. The Council is co-chaired by the Governor and a public member.

During fiscal years 1998 and 1999, the Slater Fund was used to support a number of initiatives, including:

- ❑ partnerships between higher education and private industry,
- ❑ multi-firm collaborations,

- ❑ seed grants for start-up technology companies, and
- ❑ two centers of excellence (now known as “Slater Centers”) that focused on commercializing research in a particular area of technology at Rhode Island universities. The initial Slater Centers were Cellular Medicine at Brown University and Ocean Technology at the University of Rhode Island.

In fiscal 2000, all of the funds were dedicated to the Slater Centers and three new centers began operations. All of the Slater Centers are now structured as nonprofit corporations and will have annual budgets of approximately \$650,000. Over \$6 million will be invested in each center over the next 10 years, and the goal is to have each center become self-sufficient by the end of that time period. This goal, however, may be difficult for some of these centers because certain types of technology take longer to commercialize than others.

During fiscal 2000, RIEDC played a key role in a number of administrative undertakings for the Slater program. These included the structuring of the Slater centers as nonprofit corporations, the hiring of the five Slater center directors, the development of a contract between the Council and the Slater centers, and monitoring grant recipients. In recognition of this assistance, RIEDC and the Council entered into a memorandum of understanding that authorized a \$50,000 payment from the Slater Fund to RIEDC.

The Council and RIEDC are presently contemplating transferring responsibility for managing the Slater Centers and administering the \$3 million Slater Fund to the RIEDC. Under this model, the Council would be responsible for annual evaluations of the Slater Centers to assure that they are meeting their goals. We believe this would be a prudent course of action for a number of reasons.

The Council’s professional staff consists of three persons, which is not sufficient to administer a program with an annual budget of \$3 million and to oversee the operations of five centers. RIEDC has the requisite professional staff in place to both manage the Slater Centers and administer the Slater Fund. Conversely, the Council has expertise in such areas as measuring performance, developing economic policy, and conducting research, which makes it well suited to monitor the progress of the Slater Centers.

This proposed transfer of responsibilities would also provide better segregation of duties from both a programmatic and an internal control standpoint. From a programmatic standpoint, it is preferable to have one entity charged with managerial and administrative responsibilities, and a separate entity responsible for monitoring performance. To date, this type of segregation of responsibilities has not been in place since both the Council and RIEDC have had some degree of responsibility for managing, administering, and monitoring various programs funded by the Slater Fund.

From an internal control standpoint, this transfer would also make sense. RIEDC presently has a seven-person accounting division, while the Council’s entire staff consists of three employees. The Council’s independent auditor noted in its fiscal 1999 management letter that “due to the limited number of employees of the Council, it is difficult to maintain proper segregation of duties.”

RECOMMENDATION

19. Vest responsibility for managing the Slater Centers and administering the Slater Fund with RIEDC.

Auditee Views

RIEDC management concurs with this recommendation.

BUDGETARY PROCEDURES

Improvement is needed in budget preparation and budgetary control procedures for the RIEDC. This will ensure that both the short and longer term aspects of its finances are adequately addressed. This is critically important because the RIEDC is largely supported by State appropriations and will have unique long-term capital needs (if certain projects are developed) that cannot be met from its existing operating budget. Additionally, its other sources of income are limited and in some instances restricted. For example, proceeds from the sales of land at Quonset Davisville are not intended to be used to support the operating activities of the Corporation but instead are designated to fund further infrastructure improvements at the site.

Budget Estimates

RIEDC's fiscal 2001 budget and the proposed fiscal 2002 budget include financing fees of \$395,000 which are expected to be collected from projects it finances.

We found that these estimates are not well supported and are too dependent on unforeseen future developments that may not materialize. In September 2000, RIEDC fiscal personnel were able to identify only about \$125,000 in financing fees that could be regarded as likely to be realized during the fiscal year. We believe the RIEDC should take a more conservative approach to estimating significant revenue items. Such items should not be included in operating budgets without greater assurance of realization.

The proposed fiscal 2002 budget does not include any funding for development of the port and waterfront at the Quonset Davisville site. Fiscal managers at the RIEDC estimated (in an October 2000 white paper) that these costs will approximate \$3.8 million in fiscal 2002. Since the RIEDC does not have the internal financial resources to support costs of this magnitude, we believe it should determine the critical components for port and waterfront development in fiscal 2002 and request the necessary funding in its State appropriation budget request.

RECOMMENDATIONS

20. Support all revenue estimates included in budget proposals.

21. Determine the amount of fiscal 2002 funding needed for critical components of the port and waterfront development at Quonset Davisville, and include these amounts in the annual State appropriation budget request.

Auditee Views

RIEDC management concurs with these recommendations.

Budgetary Control - Monthly Financial Statements

The Corporation's Division of Fiscal Affairs prepares monthly unaudited financial statements. These statements are distributed to the Corporation's Board of Directors, the QDMC Board of Directors, management of the Corporation (Providence and Quonset Davisville), and State budget officials. In order to provide these interested parties with appropriate data to make important financial and operating decisions, these statements must be clear and accurate. We reviewed these statements for the period ended May 31, 2000, and have the following findings and observations.

Net profit, as presented	\$ 350,560
Less:	
State appropriation for June 2000	(669,600)
SBLF revenue	(741,795)
Net profit (loss), as revised	\$ (1,060,835)

The components of the statements can lead to distorted results. The May 2000 statements included the State appropriation for June 2000 of \$669,600 because the funds had been transferred early by the State. In addition, the statements include the Small Business Loan Fund, whose assets are restricted to future loan use and are not available for operations of the Corporation. Removing these two items from revenue changes the operating results from a profit of \$350,560 to a loss of \$1,060,835.

RECOMMENDATION

22. Revise the monthly financial statements to more accurately reflect the financial position of the RIEDC.

Auditee Views

RIEDC management concurs with this recommendation.

The Corporation is implementing a system of program budgeting in fiscal 2002. This will place greater responsibility on managers to review monthly financial statements as a means of measuring budget-to-actual results each month, and to ensure the data presented is reasonable and materially accurate. It will also require the allocation of operating expenses to various divisions on an equitable basis. We found that this is not currently performed uniformly. For example, the May 2000 statements included depreciation expense of \$183,333 for the fiscal year charged entirely to the Fiscal Affairs Division. However, this amount represented depreciation on all furniture and equipment at the Providence office, and should have been allocated to those divisions actually using these items. Conversely, no amount was budgeted for depreciation

expense at the Quonset Wastewater Treatment Plant, and maintenance expenses were not budgeted for the Ladd property in Exeter.

The monthly financial statements include schedules of operating expenses for each division. Columns are included for the annual budgeted amount for each line item, and the year-to-date results. This would be more useful if the annual budget was apportioned to the period being reported (e.g., the schedules for May would compare actual results for 11 months of the fiscal year against 11/12 of the annual budget for each line item).

Individual line items for the Schedule of Total Expenses should also be revised. The schedule includes a line item for Other Operating Expenses, which encompasses expenses not included in other categories of operating expense. Through May 2000, this line item totaled over \$4 million, or about 45% of total operating expenses for the period. Significant amounts of operating expense currently included in Other Operating Expense should be shown as separate line items. Conversely, some expenses now shown as separate line items, such as bad debts (\$667 for the fiscal year through May 2000), computer supplies (\$12,304), and dues and subscriptions (\$29,842) should be included in the Other Operating Expense category.

RECOMMENDATION

23. Allocate operating expenses to operating units as necessary on an equitable basis.

Auditee Views

RIEDC management concurs with this recommendation.

Finance And Audit Subcommittee

A four-member Finance and Audit Subcommittee to the RIEDC Board of Directors was established during fiscal 2000. The purpose of the subcommittee is to provide effective budgeting, auditing, and financial management oversight to the Corporation. However, meetings scheduled for July 20, 2000, August 24, 2000 and September 21, 2000 were canceled due to lack of a quorum (three of four members must be present for a quorum).

We consider this to be a key subcommittee to the Board since it is responsible for budget preparation and financial monitoring. Continued inability to conduct meetings could hamper the fiscal administration of the RIEDC. One solution would be to increase the number of members to five; a quorum would remain at three but the additional member would increase the likelihood of achieving a quorum for each meeting.

RECOMMENDATION

24. Consider increasing the membership of the Finance and Audit Subcommittee to five to improve the likelihood of achieving a quorum for monthly meetings.

Auditee Views

RIEDC management concurs with this recommendation.

ACCOUNTING FOR DISTINCT ACTIVITIES

The RIEDC has operating components that should be accounted for separately to allow management to effectively evaluate their actual costs and benefits. Two of these are the Welcome Center which is part of the Department of Tourism and the steam plant which is operated at the Quonset Davisville Commerce Park.

Welcome Center

The monthly operating statements do not include separate statements for the Welcome Center. Currently, Welcome Center revenues and expenses are included in four separate accounts in RIEDC's accounting system, and thus the Welcome Center's operating results are not conveniently summarized for review.

We prepared an unaudited schedule of revenues and expenses for the Welcome Center as of June 30, 2000, following the methodology used by the RIEDC. Since no periodic merchandise inventory is taken, all purchases are charged to expense as incurred. We determined that the Welcome Center had total revenues of \$207,198, and total expenses of \$605,391 (based upon direct costs only).

Although we realize that the Welcome Center is primarily a tourism operation and is not intended to earn a profit, we believe it is important for directors and management to be aware of the results of its operations as a means of effectively managing the Center.

<u>Welcome Center – Financial Summary</u>	
Fiscal 2000	
<u>Revenues:</u>	
Sales of merchandise	\$ 124,172
Lottery sales	83,026
Total revenues	<u>207,198</u>
<u>Expenses:</u>	
Merchandise	105,025
Lottery	81,436
Personnel	329,202
Maintenance	89,728
Total expenses	<u>605,391</u>
Net profit (loss)	\$ (398,193)

RECOMMENDATION

25. Prepare separate monthly financial schedules for the Welcome Center.

Auditee Views

RIEDC management concurs with this recommendation.

Quonset Steam Plant

The steam plant is located within the airport district at Quonset. It is owned by the RI Department of Transportation and leased to the RI Airport Corporation, a subsidiary of the RIEDC; however, this facility is staffed and operated by the RIEDC. The plant provides steam for heating purposes to tenants located within the existing steam distribution system. At the present time, there are six such tenants.

<u>Steam Plant – Financial Summary</u>	
Steam Sales	\$ 604,907
Expenses:	
Personnel	396,789
Operating expenses:	
Fuel	524,355
Repairs and maintenance	97,981
Insurance	45,833
Other operating expenses	188,151
Total operating Expenses	856,320
Total Expenses	1,253,109
Net profit (loss)	\$ (648,202)

The plant is operating at about 50% of its firm capacity at peak demand. Thus, a significant capacity is available for the addition of new tenants. The RIEDC sponsored a promotional campaign in the spring of 2000 to interest new tenants in locating within the steam distribution system. The campaign produced some expressions of interest but no actual agreements to this point. Also, another potential user is currently leasing space in the steam district, but has not begun operations due to a lack of financing.

We analyzed the fiscal 1999 revenue and expenditures of the steam plant and found it is incurring an annual deficit in excess of \$648,000, not including depreciation charges that would increase the deficit even further.

The RIEDC is subsidizing the steam plant as a means of attracting new tenants to Quonset. However, the RIEDC should determine the point at which this subsidy is no longer economically beneficial. In the interim, continual monitoring of the financial operations of the steam plant should be performed by the Boards of the Quonset Davisville Management Corporation and the RIEDC. Management should continue its efforts to attract additional users to the steam system.

RECOMMENDATIONS

- 26. Continue to monitor the financial operations of the steam plant. Determine the point at which the subsidy to the steam plant is no longer beneficial.
- 27. Continue efforts to attract additional users to the steam plant, but consider alternatives to continued operation of the facility by the RIEDC.

Auditee Views

RIEDC management concurs with these recommendations.

PROCUREMENT

Adoption of Regulations

Section 37-2-13 of the Rhode Island General Laws requires the “chief purchasing officer” to promulgate purchasing regulations in accordance with the Administrative Procedures Act. Section 37-2-7 draws a distinction between the chief purchasing officer for a state agency, which is defined as the Director of the State Department of Administration, versus the chief purchasing office for a public agency, which is defined as either the executive director or the chief operational officer of a public agency. Because Section 37-2-7 specifically defines RIEDC as a “public agency,” either the executive director or the chief operational officer is responsible for promulgating purchasing regulations for RIEDC.

The Director of the State Purchasing Office informed us that public agencies have the choice of either using the State Purchasing Office for all purchasing functions, or compiling their own internal purchasing regulations which must adhere to the general principles of the State Purchasing Act. Further, the regulations must be promulgated in accordance with the Administrative Procedures Act. This requires agencies to (a) make copies of the proposed regulations available to the public, (b) allow interested persons the opportunity to present their views, and (c) file their regulations with the Secretary of State.

RIEDC uses its own staff to perform the purchasing function and does not use the State Purchasing Office. However, RIEDC has not developed and promulgated its own agency-specific purchasing regulations in compliance with the law. Instead, RIEDC has used the State’s procurement regulations as guidelines, but a number of the requirements outlined in the State’s procurement regulations are either not applicable to RIEDC, or if they are applicable, the agency currently is not following them precisely.

RIEDC’s Quonset Davisville office has developed its own purchasing guidelines with respect to certain purchases unique to that division, such as road materials and steam plant supplies. However, these purchasing guidelines have not been promulgated pursuant to the Administrative Procedures Act.

RECOMMENDATION

28. Promulgate agency-specific purchasing regulations in accordance with the Administrative Procedures Act.

Auditee Views

RIEDC management concurs with this recommendation.

Consultant Selection Process

RIEDC entered into an agreement on July 7, 1998 with a consultant who had performed two previous port-related studies for RIEDC. This contract covered the period from July 1, 1998 through December 31, 1998, and stipulated that the consultant would receive \$1,000 per month

for advisory services regarding port economics and related transportation issues. These advisory services were primarily to be provided by telephone calls, informational letters, and visits by the consultant.

When the RIEDC Board rejected the partnership's port proposal on September 8, 1999 (see Background section of this report), RIEDC's former executive director gave verbal authorization on September 10, 1999 for proceeding with a port feasibility study to this consultant. The consultant and RIEDC entered into a contract extension on October 15, 1999, which included a detailed scope of work for the port feasibility study. This extension identified the consultant as the prime contractor, with three other firms serving as subcontractors.

Chapter 37-2 of the General Laws requires public notice; a solicitation process including a bidder's conference; evaluation criteria; and final selection by the directors of the public agency after negotiating with the highest qualified firm, for all consultant services that are "reasonably estimated to exceed twenty thousand dollars." We reviewed documentation that clearly indicated the estimated cost of the port feasibility study was known to be \$305,000 by RIEDC in mid-September 1999, based on the consultant's draft scope of work. However, we found no documentation supporting the determination of the RIEDC that State law did not have to be followed. Section 37-2-6 requires all such determinations to be in writing, based upon the findings of fact by the public official making the determination, and retained in an official contract file at the agency.

RIEDC informed us that the original agreement signed with the consultant on July 7, 1998 allowed modification to both the scope of work and the payment for services performed as a result of changes in scope. In particular, Section 9 of this agreement stated that RIEDC could, by written order, make changes "within the general scope of this agreement..." According to Section 2 of the original agreement, the services to be provided included:

- ❑ submitting a bi-monthly summary report of trends and developments in the transportation industry;
- ❑ arranging meetings with container ship operators, prospective port customers, and other decision makers;
- ❑ providing a written report describing trade media and other news organizations which could be used to publicize the port project; and,
- ❑ participating in a monthly meeting at RIEDC's offices for the purpose of conducting a briefing on industry developments

We believe that the change from a \$1,000 (later amended to \$2,000) per month agreement for providing information on the transportation industry to a \$305,000 port feasibility study with three subcontractors represented a different scope of work, and was not "within the general scope" of the original agreement. Accordingly, RIEDC should have followed State purchasing law because it was known that these services would exceed \$20,000, and also because the scope of the work had changed so significantly from the original agreement.

RECOMMENDATIONS

29. Comply with Chapter 37-2 when soliciting consultant services that are reasonably expected to exceed \$20,000.
30. Ensure that all determinations required by Chapter 37-2 are documented in writing and kept in an official contract file.

Auditee Views

RIEDC management concurs with this recommendation.

Section 37-2-68 of the General Laws requires the directors of a public agency to negotiate compensation and be responsible for the final selection of all consultant services that are reasonably estimated to exceed \$20,000. We noted a number of instances where RIEDC entered into consulting contracts that could reasonably have been expected to exceed \$20,000, but the minutes did not disclose whether the RIEDC Board had, in fact, negotiated compensation and made the final selection. These instances include the port feasibility study, the stakeholders facilitator contract, and the compensation and classification study.

The Board should also approve any contract amendment in which new or additional fees are reasonably expected to exceed \$20,000. Although this is not a statutory requirement, we believe it is prudent for the Board to be aware of any contract amendments that could have a financial impact upon RIEDC's budget.

For example, an additional contract amendment was signed on September 29, 2000 between RIEDC and the consultant who performed the port feasibility study. RIEDC informed us that the consultant is being engaged to integrate the results of the port feasibility study with the on-going strategic principles study. Under the terms of this amendment, the consultant will be paid \$8,000 per month and could potentially receive a total of \$88,000 between August 2000 and June 2001.

RECOMMENDATIONS

31. Disclose in the minutes the RIEDC Board's deliberations regarding the negotiation of compensation and final selection for all consulting services that are reasonably expected to exceed \$20,000.
32. Consider adopting a policy of requiring board approval for any contract amendment in which new or additional fees are reasonably expected to exceed \$20,000.

Auditee Views

RIEDC management concurs with this recommendation.

Contract Administration

We also noted instances where RIEDC's administration of contracts could be improved. Under the terms of an April 30, 1999 contract amendment, RIEDC agreed to pay the port feasibility consultant \$2,000 per month for services to be provided from March 1, 1999 through August 31, 1999. We found that the consultant billed RIEDC \$2,000 per month for services rendered during January and February of 1999, when no contract amendment was in place.

RIEDC acknowledged that these amounts totaling \$4,000 were incorrectly paid and those two months should have been covered by a contract amendment. We were also informed by RIEDC that the former executive director had verbally authorized the work performed during those two months to ensure a continuity of service with the consultant.

Additionally, this consultant sent its first invoice to RIEDC for services related to the port feasibility study on October 8, 1999. This invoice totaled \$47,322, and covered work performed between September 10, 1999 and September 30, 1999, even though the contract amendment was not signed until October 15, 1999.

Lastly, the completion date for the port feasibility study was officially extended from February 15, 2000 to September 15, 2000 by an agreement signed by the consultant on May 23, 2000. We noted that the consultant received two payments totaling \$13,088 for services performed during the period that a contract extension was technically not in place (i.e., February 16, 2000 through May 22, 2000). The checks to the consultant were dated May 10, 2000 and May 18, 2000.

In another example, four consulting firms responded to the request to provide strategic consulting services for the development of the port at Quonset Davisville. The RIEDC notified one of the firms of its intent to award a contract to that firm. The firm was given an authorization to proceed while a contract was being negotiated. However, the RIEDC and the firm were ultimately unable to agree on a total cost for the contract, and the negotiations were terminated.

RIEDC needs to ensure that signed contracts and/or amendments are in place before authorizing consultants to provide services. Ideally, consultants should only be paid for services performed during periods of time that are covered by a signed contract and/or amendment. Without these controls in place, consultants could be paid for work that was not covered by the scope of a signed contract. Additionally, consultants could perform work without a signed contract in place and then ultimately not be selected to perform the services. These situations can be avoided if basic contract management controls are in place.

RECOMMENDATIONS

33. Ensure that signed contracts and/or amendments are in place before authorizing consultants to provide services. Adopt a policy of not paying consultants for services performed during periods of time when signed contracts and/or amendments are not in place.

Auditee Views

RIEDC management concurs with this recommendation.

Solicitation of Competitive Bids and Proposals for Legal Services

Our audit noted two areas in which the RIEDC has not solicited proposals for outside services on a consistent basis. Each of these areas is discussed separately below.

Legal Services

In March 1994, proposals for outside legal counsel were solicited, and the current outside counsel was selected. This agreement was for fiscal years 1995 and 1996. In 1996, an RIEDC committee interviewed five firms and recommended that the current legal counsel be engaged, again. We found that proposals for legal services have not been sought since 1996.

In addition, no signed engagement letter was found to describe the legal services to be provided by outside legal counsel in fiscal years 1997 and 1998. An engagement letter dated December 15, 1998 was prepared to cover fiscal 1999, but no subsequent letter was prepared for fiscal 2000. The state purchasing law (General Law 37-2-70) requires outside counsel to “enter into a letter of engagement with the state”; the letter “shall not be for more than one year.”

RECOMMENDATIONS

34. Seek proposals for outside legal counsel for the two-year period beginning July 1, 2001. Thereafter, seek proposals for each successive two-year period.
35. Obtain engagement letters for each one-year period, as required by the state general laws.

Auditee Views

RIEDC concurs with these recommendations.

Printing Services

Our audit noted a payment for printing services dated March 9, 2000 in the amount of \$8,395. This procurement was not bid; the purchase order stated “No bids attached. Vendor assigned by [advertising agency retained by RIEDC].”

We were informed that bids for printing services have not been solicited since 1996, and the RIEDC discontinued using the vendor selected at that time after two years. No reason was given to us for this action. The RIEDC should solicit bids for printing services immediately; it should consider using the services of the state Correctional Industries, which operates a printing service, as well.

RECOMMENDATIONS

36. Solicit bids for printing services immediately.
37. Consider using the services of State Correctional Industries.

Auditee Views

RIEDC management concurs with this recommendation.

COMPLIANCE WITH THE OPEN MEETINGS ACT

All board meetings of public agencies are required to be conducted in accordance with the Open Meetings Act. We reviewed the minutes for meetings of the Quonset Davisville Management Corporation (QDMC), and RIEDC Board minutes for fiscal years 1999 and 2000 (through March 2000). The outside legal counsel, who serves as secretary to both boards, prepares these minutes.

We noted only one instance when the public session minutes for these boards listed the vote to convene in executive session as required by Section 42-46-4. In 34 other instances, the vote was listed in the closed session minutes; however, a person reading only the minutes of the public session would not be aware that the board convened into executive session.

RECOMMENDATION

38. List the vote to convene into executive session in the public session minutes for RIEDC and QDMC Board meetings.

Auditee Views

RIEDC management concurs with this recommendation.

We also reviewed the public and executive session minutes for the SBLFC and RIIFC for fiscal years 1999 and 2000 (through March 2000). RIEDC staff prepares SBLFC minutes, while bond counsel prepares RIIFC minutes. These minutes generally complied with the Open Meetings Act; however, we noted two areas where the SBLFC, RIIFC, and the RIEDC Boards did not comply with Section 42-46-4 of the Act.

Section 42-46-4 requires that all votes taken during executive session be disclosed once the board returns to public session; however, executive session votes do not have to be disclosed for the period of time during which disclosure would jeopardize any strategy, negotiation or investigation. Generally, votes taken in executive session were not consistently disclosed by the RIEDC.

The vast majority of these votes were to approve land sales or leases, loans to small businesses, or bond financing; therefore, we believe that many of these votes should have been disclosed immediately in public session. In those instances where State law allows the RIEDC,

SBLFC, or RIIFC Boards to forego disclosing executive session votes in public session, a brief rationale should be included in the executive session minutes.

Boards are also required by Section 42-46-4 to include a statement in the public session minutes specifying the nature of the business to be discussed in executive session. The RIEDC, SBLFC and RIIFC Boards frequently convened into executive session during the time period we tested, but only once did the public session minutes contain a statement specifying the nature of the business to be discussed.

RECOMMENDATIONS

39. Disclose all votes taken in executive session except those related to strategy, negotiation, or investigation.
40. Include a statement in the public session minutes specifying the nature of the business to be discussed in executive session.

Auditee Views

RIEDC management concurs with this recommendation.

Section 42-46-7 allows executive session minutes to be sealed by a majority vote of the board. As a matter of course, the QDMC, SBLFC, RIIFC, and RIEDC Boards vote to keep all executive session minutes sealed. During our review of minutes for all of these boards, we did not note a single instance where executive session minutes were ever unsealed.

As previously noted, Section 42-46-4 states that executive session votes do not have to be disclosed for the period of time during which disclosure would jeopardize any strategy, negotiation or investigation. We believe that these boards should vote to unseal executive session minutes once these types of issues are resolved and disclosure will no longer jeopardize any strategy, negotiation or investigation.

RECOMMENDATION

41. Adopt a policy of periodically reviewing executive session minutes and voting to unseal those executive session minutes for which disclosure would no longer jeopardize any strategy, negotiation or investigation.

Auditee Views

RIEDC management concurs with this recommendation.

BOARD MEMBERSHIP

We found that certain RIEDC management personnel are also members of subsidiary boards related to RIEDC. The Executive Director and the Deputy Director of RIEDC have historically been two of the five SBLFC Board members appointed by the RIEDC Board.

Additionally, RIEDC's former Associate Director of Strategic Marketing Development was a member of the board of directors for the Urban Enterprise Equity Fund (UEEF), which was created by Section 42-64-13.1 of RIEDC's enabling statute.

We believe a segregation of duties should exist between a board's responsibility (i.e., setting policy, approving projects, etc.) and management's responsibility for carrying out the board's directives. This distinction is blurred when management serves dual roles.

We also noted that three individuals sit on both the five-member RIIFC Board and the five-member SBLFC Board; one of these individuals is the Executive Director of RIEDC. Additionally, one public member sits on the RIEDC Board and also chairs the UEEF Board. The UEEF Board reviews applications for funding and then makes its recommendations to the RIEDC Board, which has to affirm any funding decisions made by the UEEF Board.

RIEDC needs to examine whether the same individual should be appointed to more than one RIEDC-related board or whether it would be more prudent to maintain separate memberships for every board.

RECOMMENDATIONS

42. Consider adopting a formal policy that evaluates whether RIEDC employees should serve as members of RIEDC-related boards and, if so, under what guidelines.
43. Examine whether it would be more prudent to maintain separate memberships for each RIEDC-related board, except where required by statute.

Auditee Views

RIEDC management concurs with this recommendation.

ORGANIZATIONAL TRANSFERS

A new Chief Operating Officer/Chief Financial Officer was appointed for the RIEDC. We have noted a number of current functions within the RIEDC that we believe should be transferred to report directly to this individual.

For example, Information Systems is currently within Science and Technology but serves the entire Corporation. This function should be under the COO/CFO. Also, Research Services are currently part of Market and Sales Development; this is a function that also serves multiple areas within the Corporation and should be directly under the COO/CFO.

RECOMMENDATION

44. Transfer the functions of Information Systems and Research Services to report directly to the Chief Operating Officer/Chief Financial Officer.

Auditee Views

RIEDC management concurs with this recommendation.

COOPERATIVE AGREEMENTS

RIEDC presently provides certain State and nonprofit agencies with free or reduced rental space in buildings at its Quonset Davisville facility. Additionally, RIEDC also performs such services as snow removal, landscaping, roof repairs, and other types of maintenance at no cost. Despite these benefits, one agency that receives free space at Quonset Davisville charged RIEDC almost \$16,000 during fiscal 2000 for a service the agency performs as part of its normal mission.

We believe RIEDC should enter into cooperative agreements that define the types of consideration that should be provided by all agencies receiving free or reduced rental space. For example, the agreements could contain provisions that require these agencies, wherever applicable, to waive charges for services performed as part of their normal missions, up to an amount equivalent to the fair market value of the free (or reduced) rent and maintenance provided by RIEDC.

RECOMMENDATION

45. Enter into cooperative agreements defining the types of consideration agencies that receive free or reduced rent at Quonset Davisville should provide RIEDC.

Auditee Views

RIEDC management concurs with this recommendation.

FIXED ASSETS

Previous audits of the RIEDC by independent auditors noted that the agency was not maintaining a complete listing of fixed assets and was not tagging equipment. We did observe that the Providence office has begun to tag equipment; however, a large number of items remain untagged and the Quonset office has not tagged any of its equipment. Each office maintains a separate listing of the equipment at its respective location. The Providence office listing consists mostly of computers and office equipment, while the Quonset listing includes various items of maintenance equipment as well. The Providence listing includes the calculation for depreciation, but the Quonset listing does not.

Current RIEDC policy is to capitalize all equipment purchases over \$250. Computers are depreciated over three years and all other equipment is depreciated over five years. We believe increasing the dollar threshold for the capitalization of assets would help in the recording of depreciation and maintaining a more accurate listing.

Additionally, the equipment listings maintained are not updated to reflect dispositions of equipment. When equipment is no longer used, it is placed in storage at the Quonset facility and subsequently auctioned. The last auction occurred in July 1999. Although the list of items available for sale included several notebook and desktop computers, these computers were still included in the asset listing of the Providence office.

Due to the large number of assets held and the associated risk, we believe a higher priority should be placed on the tracking of all fixed assets. At a minimum, a joint system for both locations should be developed which includes the tagging of all equipment and tracking of asset location.

RECOMMENDATIONS

46. Continue implementation of listing and tagging all equipment. Develop a single fixed asset system for both locations, which includes the calculation of depreciation.
47. Update the equipment listing as necessary to reflect any transfers to the Quonset facility and subsequent disposal.
48. Increase the dollar threshold for the capitalization of equipment.

Auditee Views

RIEDC management concurs with these recommendations.

CASH DISBURSEMENTS

The RIEDC maintains an interest-bearing checking account with a local institution for the payment of Corporation expenses. The RIEDC checks do not include an expiration date and the RIEDC does not have a policy to write off stale-dated checks. We examined the bank reconciliation for May 2000 and found 26 checks that had been outstanding over 18 months.

Proper internal controls over cash include the systematic writing off of stale-dated checks. Checks issued by the State of Rhode Island, for example, have an expiration date of 120 days and stale-dated checks are written off every six months. Use of an expiration date would enhance control over cash by more accurately reflecting available cash, and make the reconciliation process easier.

RECOMMENDATION

49. Revise checks (when printing new check stock) to include an expiration date of 120 days and implement a policy to write off stale-dated checks.

Auditee Views

RIEDC management concurs with this recommendation.

IMPREST CHECKING ACCOUNT

The Rhode Island Industrial-Recreational Building Authority maintains an imprest checking account at a local credit union. The credit union had been charging a fee of \$25 per month for this account; the fee decreased to \$12 per month in May 2000.

The Associate Director for Financial Services considers this account necessary for emergencies and is the only authorized signatory. We noted that only two checks were written against this account in fiscal 2000; neither was for an emergency. In fiscal 1999, one check was written for payment of an electric bill.

Since no emergencies have occurred during the past two fiscal years, we believe maintenance of this checking account is unnecessary. Payment of Industrial-Recreational Building Authority expenses can be made through the Rhode Island Industrial Facilities Corporation, in accordance with a memorandum executed in September 1999 with the State Controller.

RECOMMENDATION

50. Close the imprest checking account maintained by the Rhode Island Industrial-Recreational Building Authority.

Auditee Views

RIEDC management concurs with this recommendation.

FEDERAL PROCUREMENT PROGRAM

The Federal Procurement Program is designed to help small businesses obtain contracts to sell products or services to the federal government. The program provides eligible entities with federal support so that they can provide specialized and professional assistance to individuals and businesses seeking to learn about contracting and subcontracting opportunities with the federal government, or State and local agencies. The assistance generally consists of outreach and counseling services. Costs are shared equally between the RIEDC and the Department of Defense.

The RIEDC is required to submit an application for federal funds and, subsequently, financial status reports, and requests for reimbursement. On the application, the RIEDC is required to disclose how it will spend the funds. We noted the application included the salaries and fringe benefits for 15 employees who spend between 5 and 100 percent of their time on the program. However, there was no documentation to support the percentages claimed on the application and financial status reports.

The RIEDC also claims a portion of both the salary and fringe benefits for one individual who does not work for the RIEDC. This salary amount is also not supported. According to

federal regulation 32 CFR 33.24(c)(2), the value of services furnished by an employer other than the grantee shall be valued at the employee's regular rate of pay *exclusive of fringe benefits*.

We also noted errors in the preparation of the financial status reports.

RECOMMENDATIONS

51. Obtain supporting documentation for the in-kind portion of outlays reported.
Document through time sheets, or other appropriate methods of certification, the amount of salary and fringe benefits for those individuals who spend less than 100% of their time on the procurement program.

52. Submit corrected financial status reports.

Auditee Views

RIEDC management concurs with these recommendations.