



State of Rhode Island and Providence Plantations
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December 2, 2016

Mr. Peter McNally
Executive Director
I-195 Redevelopment District Commission
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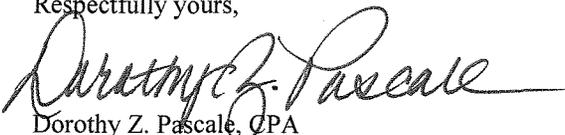
Dear Mr. McNally:

The Office of Internal Audit has completed its limited scope performance audit of the I-195 Redevelopment District Commission. The audit was conducted in accordance with Rhode Island General Law (RIGL) §35-7-3. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

Rhode Island General Law §35-7-3(b), entitled *Audits performed by bureau of audits*, states that, "Within twenty (20) days following the date of issuance of the final audit report, the head of the department, agency or private entity audited shall respond in writing to each recommendation made in the final audit report." Accordingly, management submitted its response to the audit findings and recommendations on December 1, 2016, and such response is included in this report. Pursuant to this statute, this Office may follow up regarding recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the staff of the I-195 Redevelopment District Commission for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,


Dorothy Z. Pascale, CPA
Chief

c- Michael DiBiase, Director, Department of Administration
Elizabeth Roberts, Secretary, Executive Office of Health and Human Services
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Marvin L. Abney, Chairperson, House Finance Committee



Executive Summary

Why the Office of Internal Audit Did This Review

The I-195 Redevelopment District Commission is required to have a performance audit conducted every five years by the Office of Internal Audit in accordance with the Quasi-Public Accountability and Transparency Act [RIGL §42-155(7)]. This statute enables the Chief of the Office of Internal Audit to subcontract the audit to an outside CPA firm. The firm CliftonLarsonAllen (CLA) won the bid for the audit.

Background Information

The I-195 Redevelopment District Commission was created in late 2011 to serve as the responsible authority for the sale, marketing and oversight of land made available in Downtown Providence, Rhode Island as a result of the relocation of Interstate 195.

To Strengthen Internal Controls, the Office of Internal Audit Recommends the Following:

- Strengthen policies relating to land sales
- Develop Guidelines Specific to Discretionary Expenses
- Develop Guidelines for the Entry and Approval of Expenses
- Develop an Overall Forecast and Strategic Plan
- Develop Formal Compensation Evaluation Studies

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Introduction

The mission of the I-195 Redevelopment District Commission (the "Commission") is "to foster economic development on the I-195 land and beyond and generate job creation opportunities that embrace the city's demographics by creating an environment that encourages high value users to build well-designed structures that enhance the value of surrounding neighborhoods and augment the sense of place."

Overview

The audit was performed in order to assess whether the I-195 Redevelopment District Commission is achieving economy, efficiency and effectiveness in the employment of all available resources to achieve the mission and to determine whether the Commission is compliant with the Quasi-Public Accountability and Transparency Act [RIGL §42-155(7)].

Recommendations and Management Responses

Strengthen Policies Relating to Land Sales

The Commission was created to promote job opportunities for citizens of Rhode Island through sale of land to growing businesses. The Commission's statute ("Interstate Route 195 Completion and Surplus Land Program") does not provide much guidance or structure around the activities or incentives to be employed to foster sales, redevelopment and promotion of jobs. Although the Commission has established and promulgated rules and regulations, there have not been any policies developed to supplement the legislation or regulations approved by the Board.

We find little structure as to the level of negotiation (e.g., percentage of current market values, or other incentives) that can be utilized in capturing a return of some of the \$42,000,000 issued to support the Commission. We recognize the Commission has created and posted on its website a "Developers Tool Kit" to assist those interested in the parcels available for sale. This "Tool Kit" provides potential investors information about:

- Zoning
- Permitting
- Fees
- Approval times
- Development framework

The "Tool Kit," however, does not address our concern regarding the negotiation process or lack of policies or procedures. Without established standard operating procedures regarding sales activities or incentives, the Commission reputation, loss, and fiduciary risks may increase to a level unacceptable to management. Further, without standard operating procedures for employees to follow, the Commission may not be operating at its full potential to adhere to the overall mission of land sales to promote job opportunities.

Recommendation:

- 1) The Commission consider drafting a general policy statement which outlines some guidance and parameters for the Board's approval regarding the extent of incentives that can be

deployed without further Board approval or sanction. Further, a general policy providing some guidance about acquisition of land and what circumstances would make those transactions favorable should be considered and included. In addition, any items that the Commission may deem necessary to determine valuation and part of the sales process (e.g., appraisal requirements, land value studies, etc.) should be included. Lastly, leases and lease terms should be included in these policies as well.

Management's Response:

With respect to Commission guidance for Board approval regarding incentives, the only incentive within the purview of the Commission are funds from the I-195 Redevelopment Project Fund. With this in mind, any application for funding from the Fund must comply with the Rules and Regulations for the I-195 Redevelopment Project Fund and is subject to review by the Commission as well as the Executive Office of Commerce. We believe the rules stipulated in the Rules and Regulation, not least of which are the review requirements, are rigorous and provide sufficient control and oversight for the allocation of funds.

A recommendation was made to provide guidance about acquisition of land and what would make those favorable. Very recently, the Commission adopted in September 2016 "Procedures for Review of Projects." These procedures direct the applicant through a detailed two level process by which proposed projects are heard by the Commission and these Procedures are attached. Moreover, to date all binding purchase and sale agreements have been approved by the Commission in a public meeting and we intend to continue such precedent. Additionally, it has been practice, but not a requirement, for staff to commission a fair market value appraisal of a particular site prior to transacting.

Responsible Party: I-195 Redevelopment District Staff

Anticipated Completion Date: Completed November 2016

Develop Guidelines Specific to Discretionary Expenses

The I-195 Redevelopment District Commission's expense policy is in place to assist employees in reporting expenses incurred while conducting business activities related to the mission of the organization. The policy should have clearly developed guidelines regarding the entry and approval of expenses. However, due to the limited size of the organization, there is currently limited documentation regarding the guidelines for reporting expenses. Upon review of the expense policy, it was determined that the language used is vague with minimal detail around the guidance of reporting expenses. Without documentation of the guidelines for entering and approving expenses, there is potential risk in having an unwanted expense be incurred by the organization that does not follow mission objectives.

Recommendation:

- 2) The current expense policy should be enhanced to include:
 - Expense classifications
 - Mileage rate reimbursement and clarification
 - Approval requirements and thresholds for expense types and amounts

- Receipt requirements
- More specific language for expense thresholds or other guidance to better define "keep cost low"
- Allowable and unallowable expenses

Management's Response:

The I-195 Redevelopment District's employee handbook is currently under revision and District staff will take all recommendations into consideration.

Responsible Party: I-195 Redevelopment District Staff

Anticipated Completion Date: March 2017

Develop Guidelines for the Entry and Approval of Expenses

Best practices for expense reimbursement dictate that appropriate backup for expenses is necessary to ensure that discretionary expenses are not used as a means to circumvent payroll taxes. Upon review of expenses, it was determined that a discretionary allowance provided in a former employee's employment contract did not seem appropriate. Multiple other expense sheets submitted by the employee were reviewed, and it was determined that they did not provide support for the discretionary allowance expenses for business purposes, but, rather, plugged in an expense amount for mileage equivalent to \$500 which could not be substantiated with any corresponding detail or support.

Since mileage costs are all reimbursable per the policy, this amount seems to be beyond what was intended in the agreement.

The employee contract detail related to the statement that allows the discretionary allowance is vague and does not provide clear guidance as to how the expenses related to the allowance should be reported. Without additional guidance of the terms and conditions for reporting the discretionary allowance, the risk of unallowable expenses can occur.

Recommendation:

- 3) The terms in the employee contract should be modified to request appropriate supporting documents relating to any discretionary expenses.

Management's Response:

The employee contract was amended November of 2016 which removed the discretionary allowance.

Responsible Party: I-195 Redevelopment District Staff

Anticipated Completion Date: Completed November 2016.

Develop an Overall Forecast and Strategic Plan

RIGL 42-155-4(a) (4) states that the Commission's mission includes the adoption of "a list of measurements by which performance of the corporation and the achievement of its goals may be evaluated. Each corporation shall, at least once every three (3) years, publish a self-evaluation based on the stated measurements;" However, The Commission may not be documenting revenue and employment opportunity growth as support for achieving the objectives of the organization's mission.

This is due to the fact that the strategic plan does not provide much detail regarding actual revenue/sale amounts or job opportunity growth for 2016. While a strategic plan for 2016/17 does exist, it lacks any actual revenue or employment opportunity projections or estimates. Without documentation of growth or projections of revenue or employment opportunities, there is risk that the Commission may not be adhering to the overall mission of land sales to promote job opportunities.

Recommendation:

- 4) There is no long-term projection/forecast or detail to substantiate key performance indicators (KPIs) in the sale or leasing revenues associated with the parcels. I-195 should consider a minimum five-year revenue projection and forecast for tracking of performance and identified KPIs. Further, since the statute specifically sunsets the Commission as of the year 2032, an overall forecast and strategic plan should be considered to support the long-term viability and performance evaluation/assessment for revenue and transactions through the Commission's life cycle.

Management's Response:

While we concur with the recommendation for a five-year forecast of revenue and key performance indicators, staff has refrained from preparing one with any degree of granularity due to how speculative any forecast would be, given the fact the Commission has not completed even its first land transaction yet. However, given the statutory requirements for some self-evaluation measurements, staff will revisit this in mid-2017.

Responsible Party: I-195 Redevelopment District Staff

Anticipated Completion Date: First quarter of 2018

Develop Formal Compensation Evaluation Studies

Per RIGL §42-155-6(2) of the Quasi-Public Corporations Accountability and Transparency Act, the Commission is required to have compensation evaluation studies available to the public. However, upon review of the Commission's website, it was noted that the compensation evaluation studies were not available for the public to view. Because compensation evaluation studies are not performed or maintained internally with the Commission, citizens of the state of Rhode Island are unable to determine if the compensation paid to quasi-public employees are reasonable.

Recommendation:

- 5) Formal documentation is developed for reporting items required by the Quasi-Public Corporations Accountability and Transparency Act, specifically compensation evaluation studies. It is also recommended that these reports be posted on the organization's website so that they can be viewed by the public.

Management's Response:

We understand a compensation evaluation study is necessary to comply with the Quasi-Public Corporations Accountability and Transparency Act and plan to proceed with such a study.

Responsible Party: I-195 Redevelopment District Staff

Anticipated Completion Date: April 2017

Objective and Scope

The objective of the activity under review was to assess whether the I-195 Redevelopment District Commission is achieving economy, efficiency and effectiveness in the employment of all available resources to achieve the mission and to determine whether the Commission is compliant with the Quasi-Public Accountability and Transparency Act (RIGL §42-155(7)).

The OIA used an external audit firm, CliftonLarsonAllen LLP (CLA), to supplement its staff during the performance of this audit. CLA performed the detailed audit work and was selected using a competitive bidding process.

The primary areas that the audit focused on were:

- Charitable activities of the agency
- Travel and entertainment expenses
- Advertising expenses

Methodology

As part of our audit work, the OIA gained an understanding of existing controls in place at the Commission for performance management. To address our audit objective, we performed the following:

- Reviewed, documented and gained an understanding of meeting minutes.
- Depicted work flows.
- Identified process control and mission-centric risks.
- Assessed the risks.
- Reviewed the third-party vendor contracts.
- Assessed compliance with contractual terms and necessity of contract to mission achievement.
- Determined and evaluated methodology to compensate third-party vendor.
- Noted control or efficiency deficiencies.
- Recommend corrective actions.