



OFFICE OF MANAGEMENT & BUDGET

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April 04, 2024

Elizabeth M. Tanner, Esq., Secretary of Commerce
Rhode Island Commerce
315 Iron Horse Way, Suite 101
Providence, RI 02908

Dear Secretary Tanner:

In accordance with Rhode Island General Laws (RIGL) § 42-155-7, the Office of Internal Audit (OIA) conducted its limited scope audit of Rhode Island Commerce Corporation and its quasi-subsiidiaries, Rhode Island Industrial Facilities Corporation and Rhode Island Industrial-Recreational Building Authority. OIA assessed their adherence to the Quasi-Public Corporations Accountability and Transparency Act.

The recommendation included herein has been discussed with members of management, and we considered their response to the audit finding and recommendation in the preparation of this report. OIA may follow up regarding the recommendation included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to the Rhode Island Commerce staff for the cooperation and courtesy extended to the members of our team during this audit.

Respectfully yours,

Andrew Manca
Chief

cc:
Internal Audit Advisory Group
Representative Marvin Abney, Chairman, House Committee on Finance
Senator Ryan Pearson, Chairman, Senate Committee on Finance
Steven Whitney, Senate Fiscal Advisor
Sharon Reynolds Ferland, House Fiscal Advisor

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Introduction

The Office of Internal Audit (OIA) conducted a limited scope review on Rhode Island Commerce Corporation (Commerce) and its quasi-subsiidiaries, including Rhode Island Industrial Facilities Corporation (RIIFC), Rhode Island Industrial-Recreational Business Authority (IRBA), and Small Business Loan Fund Corporation (SBLFC). Additionally, the review included the Rebuild RI Tax Credit Program (RRITC), an incentive initiative managed by Commerce. Presented below is the finding, recommendation, management's response, background, objective, scope, and methodology.

Finding, Recommendation, and Management's Response

FINDING #1: Lack of Competitive Pricing for Each Private Placement Bond

According to the regulations of Rhode Island Division of Purchasing, state agencies are required to follow the Request for Proposals (RFP) procurement process. These rules are implemented to guarantee that all vendors have fair and equal opportunities to engage in business with the state. The RFP process involves issuing a formal request for bids or proposals from potential vendors, which allows for competition and transparency in the selection of contractors.

In governmental bond financing, ensuring compliance with legal and tax requirements is paramount to maintain transparency and integrity in the issuance process. OIA's review of RIIFC's bond issuance practices revealed a lack of evidence regarding the use of the RFP process for selecting bond counsel in private placement bonds. This suggests potential shortcomings in the procurement process, which could undermine the integrity of the contracting process and raise questions about the fairness and transparency of the selection process.

While RIGL § 37-2-70, Professional services, allows for the procurement of bond counsel without the issuance of a RFP, adhering to best practices enhances transparency and competition in such processes.

RECOMMENDATION:

#1A: Adopt best practices by utilizing the RFP process when acquiring bond counsel to ensure fairness, competitive pricing, and transparency in the selection process.

MANAGEMENT'S RESPONSE:

In some instances, the timing and structure of a bond issuance may not be able to accommodate for a public solicitation for bond counsel. Also, in some instances, general counsel for the quasi-public agency can and does offer bond services, eliminating the need for a solicitation. Also, even if no RFP is issued for legal services, § 37-2-70 requires that the chief purchasing officer of the quasi-public agency demonstrate to its board of directors the items set forth in § 37-2-70(a) (1-4). In that regard, transparency is advanced since the board of directors will be consulted in accordance with the Open Meetings Act. In any event, in certain circumstances, a public solicitation may be feasible, and the agency can—at that time—determine if it is practical to pursue.

RESPONSIBLE PARTY:

Justin Medeiros, Rhode Island Commerce Corporation Chief Financial Officer

ANTICIPATED COMPLETION DATE:

N/A

Background

Rhode Island Commerce Corporation

Commerce is an economic development organization for the State of Rhode Island. Its responsibility is to promote economic growth and support businesses in Rhode Island through various initiatives such as incentives, workforce development programs, and marketing efforts to attract investment and encourage entrepreneurship.

Small Business Loan Corporation

SBLFC offers direct, fully secured loans of up to \$500,000 for working capital to existing manufacturing, processing, and selected service businesses. However, applicants seeking to finance the acquisition of land, building(s), and equipment may qualify for loans more than

\$500,000. Its primary goal is to serve as a funding catalyst, encouraging the generation of additional private sector capital. Working in tandem with state financing and economic development programs, SBLFC collaborates to boost growth in high-wage and job-intensive industries, spanning health and life sciences to defense and national security. SBLFC strives to promote the expansion and advancement of these sectors, contributing to the overall economic prosperity of the state.

[Rebuild Rhode Island Tax Credit Program](#)

RRITC, operating under RIGL §42-64.20, fosters economic development by providing financial incentives, including state tax credits up to 30% of project costs, for projects that create jobs, improve infrastructure, and stimulate economic activity. The program encourages collaborative partnerships between the public and private sectors, aiming to enhance competitiveness, drive innovation, and create sustainable employment opportunities across diverse industries in Rhode Island.

[Rhode Island Industrial Facilities Corporation](#)

RIIFC is a public body corporate established in 1967 under RIGL § 45-37.1. Initially created to stimulate industrial development, RIIFC facilitates economic growth by acquiring, constructing, financing, or leasing industrial projects within Rhode Island through the issuance of revenue bonds and notes. The corporation serves as a conduit for companies seeking financing from sources other than itself, fostering economic growth within the state.

RIIFC operates under the governance of Board of Directors, with administrative support provided by Commerce. The corporation's primary function is to issue tax-exempt and taxable revenue bonds on behalf of Rhode Island companies pursuing manufacturing projects. These bonds, sold to private or public investors, can cover up to 100% of the manufacturing project cost, including land, machinery, building expenses, and eligible “soft” costs. Interest rates on these bonds are tax-exempt and determined by the market at the time of issuance.

In addition to tax-exempt bonds, RIIFC offers taxable bonds for businesses aiming to expand into commercial enterprises. These bonds, similar in structure to tax-exempt bonds, finance fixed commercial assets such as land, buildings, machinery, equipment, and related “soft” costs. The project limit for taxable bonds is typically set by the bond purchaser or credit enhancer.

Rhode Island Industrial-Recreational Building Authority

IRBA is a public body corporate established in 1958 under RIGL § 42-34-1. The purpose was to nurture economic growth within Rhode Island by insuring mortgage payments on industrial or recreational projects approved by IRBA. IRBA maintains a first security position in all projects as required by statute. Funds can be used for new building acquisitions, additions, and rehabilitation of existing buildings as well as for new or used machinery and equipment.

Its authority is to insure mortgage payments for private sector projects up to \$5,000,000, with a total capacity of \$80,000,000. It covers various sectors, including manufacturing, processing, office, retail, and travel facilities, and supports activities including new construction, building acquisition, and machinery purchases. Mortgage insurance premiums are based on outstanding balances and range from 0.75% to 1.00% annually. The IRBA requires first position on all projects and mandates projects to issue mortgages and security agreements to RIIFC as a local development corporation.

Objective and Scope

OIA conducted a performance audit of Commerce, RIIFC, and IRBA to evaluate their adherence to the Quasi-Accountability and Transparency Act, as well as the policies and procedures relevant to the bond issuance eligibility and monitoring.

In addition, OIA conducted a limited scope performance audit of SBLFC and RRITC to evaluate the efficiency, effectiveness, and compliance with applicable laws, rules, and regulations, and to assess the adequacy of internal controls.

During the period from January 1, 2019, through November 30, 2022, SBLFC received 224 applications totaling \$9,008,000 of approved loans. Out of these, OIA selected ten applications for testing, totaling \$3,574,000.

Similarly, from January 1, 2016, through June 30, 2022, RRITC program received 61 projects, of which 54 were approved for the Rebuild Tax Credit, totaling \$164,993,053. OIA selected five out of the 54 approved projects for testing, totaling \$21,570,029.

Methodology

To address the audit objectives, OIA performed the following steps:

- Requested information required under the Quasi-Public Act.
- Obtained an understanding of RRITC and SBLFC processes and program eligibility.
- Researched RI Commerce website for adequate transparency disclosures.
- Examined procedures related to the bond issuance and approval process.
- Tested a sample of the bond application to ensure compliance with applicable processes, procedures, rules, and regulations.

Small Business Loan Fund Corporation Review

OIA reviewed a sample of ten SBLFC loans and determined that the controls in place operated effectively. The following reviews were performed:

- Evaluated pre-qualification and eligibility requirements.
- Reviewed loan document disbursement and filing.
- Verified compliance with required underwriting procedures.
- Assessed performance metrics related to delinquent loans.
- Examined periodic review procedures.

Rebuild Rhode Island Tax Credit Program Review

OIA conducted a data quality review to assess the eligibility of companies approved for the RRITC program. OIA specifically examined the performance metric tracking related to total grants awarded by industry, application completeness, payment issuance, and review process. OIA tested a sample of five RRITC applications and determined that the controls in place operated effectively. The following reviews were performed:

- Reviewed eligibility and compliance.
- Evaluated the program's strategic plan.
- Evaluated authorization controls.