



# OFFICE OF MANAGEMENT & BUDGET

## *Office of Internal Audit*

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February 21, 2025

Dylan Zelazo, Executive Director  
Rhode Island Health and Educational Building Corporation  
33 Broad Street, Suite 200  
Providence, RI 02903

Dear Director Zelazo:

In accordance with Rhode Island General Laws (RIGL) § 42-155-7, the Office of Internal Audit (OIA) conducted its audit of the Rhode Island Health and Educational Building Corporation (RIHEBC). OIA assessed RIHEBC's adherence to the Quasi-Public Corporations Accountability and Transparency Act (RIGL § 42-155). Additionally, OIA completed a performance review of RIHEBC's controls regarding their bond issuance process.

The audit findings and recommendations included herein have been discussed with members of management, and their feedback was considered in the preparation of this report. OIA may follow up regarding the recommendations included in this report within one year following the date of issuance.

We would like to express our sincere appreciation to RIHEBC's staff for the cooperation and courtesy extended to the members of the OIA team during this audit.

Respectfully,

Andrew Manca  
Chief

Cc: Internal Audit Advisory Group  
Representative Marvin Abney, Chairman, House Committee on Finance  
Senator Louis DiPalma, 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 of the Rhode Island Health and Educational Building Corporation (RIHEBC). The review focused on assessing the compliance with the disclosure requirements of the Quasi-Public Corporations Accountability and Transparency Act (RI General Laws § 42-155).<sup>1</sup> This process involved requesting information from RIHEBC's staff, researching their website for transparency disclosures, and evaluating whether each document satisfied the statutes of the Act. OIA also conducted a performance audit of the bond application and issuance process. Lastly, OIA collaborated with the Cybersecurity and Infrastructure Security Agency (CISA) to assess the agency's operational cyber resiliency. OIA has found this collaboration beneficial for agencies to ensure cyber preparedness against disruption and potential attacks. This assessment is done independently as an added benefit for agencies. CISA conducts the interviews and relays the results directly to the agency.

Presented below are background on the quasi-public corporation, objective, scope, methodology, audit finding, recommendations and management's responses (including the responsible party and anticipated completion date) relevant to the conducted audit.

### Background

The Rhode Island Health and Educational Building Corporation is a public, quasi-governmental agency established in 1966 to support the financing of capital projects for public non-profit healthcare, educational and cultural institutions within the state of Rhode Island. Its primary mission is to facilitate access to low-cost financing for these organizations, enabling them to improve and expand their facilities and services.

RIHEBC operates by issuing bonds and providing financial assistance to qualifying entities including hospitals, universities, municipalities and other eligible institutions, offering resources to institutions that contribute to their growth and development. RIHEBC's activities focus on supporting projects that benefit the public and contribute to the economic, educational and social development of Rhode Island. Working with state and local officials, as well as non-profit sector partners, RIHEBC aims to ensure that the financial needs of these organizations are met efficiently and in accordance with relevant regulations and best practices.

Prior to issuing bonds, RIHEBC is required to evaluate proposals to ensure an informed selection. It is important to note that quasi-agencies are subject to the State Purchases Act, however, operate under their own legal frameworks and are not subject to the regulatory oversight of the Division of Purchases.<sup>2</sup>

The bond process begins when the borrower submits an application for financing, prompting the executive director of RIHEBC to initiate the bond counsel selection process. The executive director will then issue a request for proposals (RFP) to all approved bond counsels. The RFP will include details of the proposed financing based on the borrower's application and will specify a response deadline of at least one week from the date of issuance. If any bond counsel has questions about

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<sup>1</sup> [webserver.rilin.state.ri.us/Statutes/TITLE42/42-155/INDEX.HTM](http://webserver.rilin.state.ri.us/Statutes/TITLE42/42-155/INDEX.HTM)

<sup>2</sup> [General Provisions \(220-RICR-30-00-1\) - Rhode Island Department of State](#)

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the RFP that could be relevant to other candidates, the executive director will share both the questions and responses either via email or on RIHEBC's website. Once the proposals are received, the executive director will review them, typically utilizing an evaluation matrix, to ensure an informed final decision. This matrix is used to assess key factors, with the executive director ultimately selecting the bond counsel based on two primary considerations: (1) the proposed attorney fees and costs presented in the proposal and (2) the firm's experience with the borrower or similar financing structures.

Following the selection, the executive director will announce the chosen bond counsel and provide a brief overview of the selection process in RIHEBC's monthly report, which is presented to the board of directors at each monthly meeting. The selected bond counsel will then prepare an engagement letter specific to the bond or note. This letter will be signed by the executive director on behalf of RIHEBC and will include a statement confirming that the selected bond counsel will represent RIHEBC as its sole client in the bond or note transaction.

### Objective and Scope

OIA conducted a limited-scope audit of RIHEBC to evaluate its adherence to the Quasi-Public Corporations Accountability and Transparency Act (the Act), as well as the bond process from application submission to bond issuance.

The Act is designed to ensure efficient governance, fiscal responsibility and ethical conduct within quasi-public corporations by imposing reporting requirements, oversight mechanisms and ethical guidelines. By promoting transparency and accountability, the Act seeks to protect public interests, improve operational performance and strengthen public trust in quasi-public corporations.

### Methodology

#### Engagement of External Audit Firm

OIA engaged CliftonLarsonAllen, LLP (CLA), an external audit firm, to augment its internal resources for this audit. CLA was selected through a competitive bidding process. The results of the limited-scope review on the Quasi-Public Corporations Accountability and Transparency Act review and bond issuance process are detailed in this report.

#### Quasi-Public Accountability and Transparency Act Review

To ensure compliance with the Quasi-Public Corporations Accountability and Transparency Act, the following steps were performed:

- Requested information required under the Quasi-Public Corporations Accountability and Transparency Act.<sup>3</sup>
- Researched the Rhode Island Health and Educational Building Corporation's website for adequate transparency disclosures.

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<sup>3</sup> [webserver.rilin.state.ri.us/Statutes/TITLE42/42-155/42-155-6.htm](http://webserver.rilin.state.ri.us/Statutes/TITLE42/42-155/42-155-6.htm)

- Evaluated and identified if each document provided satisfied statutes under the Quasi-Public Corporations Accountability and Transparency Act.

### Bond Process Review

To address the performance audit objectives, the following steps were performed:

- Conducted interviews with relevant personnel from RIHEBC to gain an understanding of their background and operating processes.
- Reviewed policies, procedures, laws and regulations relevant to RIHEBC's bond process.
- Obtained and reviewed a sample of five bonds totaling more than \$310 million issued between July 1, 2022, through June 30, 2024.

### Findings, Recommendations and Management's Response

#### *FINDING #1: Inconsistent Documentation of Bond Counsel Proposal Evaluations*

During the audit, it was noted that RIHEBC had executed proposal evaluation matrixes for only three of the five bond submissions tested while failing to apply this method to the remaining two bonds, despite the substantial value associated with these bonds. The absence of consistent proposal evaluation evidence and documentation, particularly regarding an evaluation matrix, presents a significant concern in terms of both transparency and accountability. Although the executive director confirms he evaluated the proposals submitted by the firms, this selective application raises questions regarding the consistency of the agency's evaluation processes, as well as the rationale behind the decision to document evaluations for some proposals but not for others.

One of the fundamental aspects of an effective and reliable evaluation process is the consistent application of evaluation criteria and its documentation across all submissions. By continuing to employ an inconsistent approach—evaluating some proposals thoroughly while omitting the same level of rigor for others—the agency risks undermining the integrity of its selection process and could face challenges in justifying its decision-making.

#### *RECOMMENDATION:*

**#1A:** Review and update current policies to standardize clear procedures for evaluating proposals, including specific criteria, scoring and evaluation methodologies. Ensure these guidelines are consistently applied across all proposals.

**#1B:** Ensure that all evaluation materials, including scoresheets, evaluations and proposals are documented and retained to provide clear evidence of the evaluation process.

#### *MANAGEMENT'S RESPONSE:*

Management would like to note that RIHEBC's internal written policies provide the Executive Director with the sole decision to select bond counsel after evaluation of proposals and such internal policies do not require the creation of evaluation matrixes. RIHEBC employs a bond counsel selection process whereby the qualifications of bond counsel are thoroughly vetted through an SOQ process to create a list of approved bond counsel. RIHEBC then solicits proposals

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from the approved bond counsel list only for proposed fees and other information specific to each transaction. Evaluation matrixes are sometimes created by RIHEBC's financial advisors solely as a convenience to the Executive Director. Management is uncertain how the documentation is "inconsistent" when matrixes are not required.

Despite the above, RIHEBC intends to review current policies and update policies, if necessary, to standardize clear procedures for evaluating proposals, including specific criteria, scoring and evaluation methodologies and to ensure these guidelines are consistently documented across all proposals.

RIHEBC is not conceding that the criteria were not consistently applied in the two cases where matrixes were not in our files. We do concede that we were unable to provide the requested matrix and intend to document this better in the future.

### *RESPONSIBLE PARTY:*

Dylan Zelazo, Executive Director

### *ANTICIPATED COMPLETION DATE:*

December 31, 2025