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September 26, 2019

Mr. Jesse Saglio

President

Rhode Island Commerce Corporation

315 Iron Horse Way, Suite 101

Providence, RI 02908

Dear Mr. Saglio:

The Office of Internal Audit has completed its limited scope performance audit of the Industrial Recreational Building Authority (IRBA). OIA reviewed IRBA’s compliance with the Quasi-Public Corporations Accountability and Transparency Act as well as the efficiency and effectiveness of operations. The audit was conducted in conformance with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing and by the authority given to the unit as stated in accordance with Rhode Island General Laws (RIGL) § 35-7.1-2(a) – Establishment of office of internal audit. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

RIGL § 35-7.1-10(d), entitled Annual and interim reports, states that, “Within twenty (20) calendar days following the date of the issuance of the management-response copy of the draft audit report, the head of the department, agency, public body, or private entity audited shall respond, in writing, to each recommendation made in the audit report.” Accordingly, management submitted its response to the audit findings and recommendations on September 24, 2019, and such response is included in this report. Pursuant to this statute, the OIA 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 IRBA staff for the cooperation and courtesy extended to the members of our team during this audit.

Respectfully yours,

Dorothy Z. Pascale, CPA

Chief

c—Honorable William J. Conley Jr., Chairperson, Senate Committee on Finance

 Honorable Marvin Abney, Chairperson, House Finance Committee

 Internal Audit Advisory Group

 Steven Whitney, Senate Fiscal Office

 David Trembly, Senate Fiscal Office

 John R. Gowell Jr., Chair, Industrial Recreational Building Authority Board of Directors

**To Strengthen Controls, the Rhode Island Industrial Recreational Building Authority should:**

**Audit Executive Summary**

**Why the Office of Internal Audit Did This Review**

Rhode Island General Law 42-155-7, Audit of quasi-public corporations, requires the Office of Internal Audit (OIA) to conduct a performance audit of all quasi-public corporations once every five years. The OIA established an initial five-year schedule; this audit of the Rhode Island Industrial Recreational Building Authority (IRBA) was performed in compliance with the statue and the established schedule.

The OIA conducted a limited scope audit of the IRBA to review its compliance with the Quasi-Public Corporations Accountability and Transparency Act as well as evaluate whether operations were being administered efficiently and effectively and in accordance with applicable rules and regulations.

**Background Information**

The Rhode Island Industrial-Recreational Building Authority (IRBA) was created for the purpose of nurturing economic growth with Rhode Island by insuring mortgage payments on industrial or recreational projects approved by the authority. The Authority 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 and for new or used machinery and equipment.

* Increase monitoring of bond insurance premium payments.
* Comply with requirements of Quasi-Public Corporations Accountability and Transparency Act.

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# Introduction

The Rhode Island Industrial-Recreational Building Authority (IRBA) was created in 1958 through Rhode Island General Laws (RIGL) §42-34 for the purpose of nurturing economic growth within Rhode Island by insuring mortgage payments for industrial or recreational projects approved by the authority. The Authority maintains a first security position in all projects as required by statute. The insurance policy insures loans up to 90% real estate, 80% machinery and equipment, and 75% tourist-travel recreation projects. The insured funds can be used for new building acquisitions, additions or rehabilitation of existing buildings and for new or used machinery and equipment.

Although the IRBA is governed by a Board of Directors (Board), the Rhode Island Commerce Corporation (“Commerce RI”) provides administrative support and office space to the Rhode Island Industrial Recreational Building Authority. It manages the administration, business and policy decisions of the financial service program to assure compliance with Board actions and policies.

# Recommendations and Management’s Responses

## Increase Monitoring of Bond Insurance Premium Payments

Payments for bond insurance premiums are due on a monthly basis. For the audit period, January 1, 2018 through March 31, 2019, there were four outstanding bonds insured by IRBA, and two had outstanding insurance premium payments due from the borrower on a monthly basis. However, the amounts received from the borrowers are not equivalent to the monthly payment amount, and the balance on the account has continued to increase over the past year. The two bonds have the following:

First bond had past due payments of $2,486 in excess of 90 days

Second bond had past due payments of $4,165 in excess of 60 days.

The monthly bond insurance premiums are not being formally monitored or tracked against invoices. This casual administration results in an increased risk of loss to IRBA when the bond premium outstanding balance is trending upwards, payments are not made in full and past due payment amounts exceed 90 days.

#### Recommendations:

1. Monitor the account and perform annual financial due diligence.
2. Provide notice to the IRBA board to determine further actions if trend continues.

*Management’s Response:* IRBA staff works closely with the RICC Accounting Department staff. Accounting staff verbally notifies IRBA staff when billings are sent and if there is a slow pay situation. IRBA staff makes phone calls to borrowers requesting payment of the insurance premium and/or administrative fees that are well past due. IRBA staff, accompanied by IRBA counsel, recently met with the principal’s of the outstanding bond premiums to discuss their funding of debt service reserve funds, as required by the trust indenture. We also discussed timely payment required fees as well as timely submission of financial statements. Credit memos (annual reviews) detailing annual reviews and conversations are in the credit file. IRBA staff has constructed a bond fee monitoring worksheet to make it easier for the Accounting Department staff to invoice and track payment performance.

*Responsible Party: IRBA Operations Staff has completed a worksheet to be utilized for billing and premium receipt monitoring. This information is shared with RICC Accounting Department*

#### Anticipated Completion Date: Completed

## Comply with Requirements of the Quasi-Public Corporations Accountability and Transparency Act

RIGL §42-155 Quasi-Public Corporations Accountability and Transparency Act establishes requirements that quasi-public corporations must follow to increase transparency of operations. The IRBA is included as an entity subject to the Quasi-Public Corporations Accountability and Transparency Act. Therefore, amongst others, it must adhere to the following requirements:

* Adopting a list of performance measures
* Publishing a self-evaluation based on performance measurements at least once every three years
* Providing certain information directly, or via direct link, on its website.

The IRBA did not provide documentation of identified performance measures for its mission as required by the Act. Further, there was no documentation provided to support a self-evaluation based on established measurements.

Finally, the IRBA did not publish to its website all required information per the RIGL §42-155-6. The following is not posted:

* Quarterly financial statements
* Capital improvement plans
* Strategic plan

The IRBA did not maintain required documentation stipulated in the RIGL and does not have all required transparency information available to the public. As a result, the IRBA is not fully adhering to the Quasi-Public Transparency Act requirements.

#### Recommendations:

1. Identify performance measures and establish monitoring procedures in compliance with RIGL §42-155-4.
2. Publicly post all required information to comply with RIGL §42-155-6.

*Management’s Response:* At a meeting of the RIIFC Board of Directors held on February 27, 2015 the board reviewed the Quasi-Public Transparency Act and adopted policies relating to the Act. Performance measures were not established as the strategic plan for the program is incorporated in that of the Rhode Island Commerce Corporations economic objectives.

IRBA does not maintain a website on which to publish information requested in the Act. It would be cost prohibitive for the Authority to maintain a website.

 IRBA does not and will not have any activity to report regarding capital improvement plans or quarterly contracting. IRBA also does not prepare quarterly independent financial statements as the Accounting Department for the Rhode Island Commerce Corporation does not have the staffing capacity to compile and generate the statements.

 Going forward, IRBA can work with the Rhode Island Commerce Corporation to establish performance measures and to create a link on its website to post information required by the Act relating to IRBA or indicate that it does not have any activity to report. IRBA’s annual audited financial statements are currently, and have been in the recent past, been posted on the Rhode Island Commerce Corporation’s website.

*Responsible Party: IRBA Operations Staff*

#### Anticipated Completion Date: On a go forward basis, IRBA Operations Staff will work with RICC Staff to post general information on the RICC website pertaining to the performance measures that have recently been developed.

# Objective and Scope

The Office of Internal Audit (OIA) conducted a limited scope audit of the Rhode Island Industrial Recreational Building Authority for the period of January 1, 2018 through March 31, 2019. OIA reviewed IRBA’s compliance with the Quasi-Public Corporations Accountability and Transparency Act and reviewed the policies and procedures and monitoring of bonds insured by IRBA. The objective of the audit was to determine if the IRBA complies with the requirements of the Quasi-Public Corporations Accountability and Transparency Act and to determine if operations are being administered efficiently and effectively in accordance with requirements, statutes, and procedures.

# Methodology

As part of our audit work, the OIA gained an understanding of the IRBA operations. To address our audit objective, we performed the following:

* Requested information required under the Quasi-Public Act
* Searched website for adequate transparency disclosures
* Reviewed procedures for bond issuance process
* Reviewed procedures and tested sample of delinquent bonds

The results of this limited scope audit are communicated within this report. 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.