



State of Rhode Island and Providence Plantations
Office of Management and Budget
OFFICE OF INTERNAL AUDIT
One Capitol Hill
Providence, Rhode Island 02908-5889
TEL #: (401) 574-8170

October 12, 2016

Mr. Steven King
Managing Director
Quonset Development Corporation
95 Cripe Street
North Kingstown, RI, 02852


Dear Director King:

The Office of Internal Audit has completed its limited scope performance audit of the Quonset Development Corporation. The audit was conducted in accordance with Rhode Island General Law (RIGL) §35-7-3 and with the International Standards for the Professional Practice of Internal Auditing. The recommendations included herein have been discussed with members of management, and we considered their comments in the preparation of this report.

RIGL §35-7-3(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 October 18, 2016, and such response is included in this report. Pursuant to this statute, the Office of Internal Audit 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 Quonset Development Corporation for the cooperation and courtesy extended to the members of our team during the course of this audit.

Respectfully yours,


Michael Sprague, CIA
Deputy Chief

c—Jonathan Womer, Director, Office of Management and Budget
Honorable Daniel DaPonte, Chairperson, Senate Committee on Finance
Honorable Marvin Abney, Chairperson, House Finance Committee
Dennis Hoyle, CPA, Auditor General

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 to conduct a performance audit of all quasi-public corporations once every five years. The Office of Internal Audit established an initial five-year schedule; this audit was performed in compliance with the statute and the established schedule.

Background Information

The Quonset Development Corporation (QDC) is a quasi-state agency, established as a special purpose subsidiary of the Rhode Island Commerce Corporation (formerly the Rhode Island Economic Development Corporation) which is responsible for the development and management of the Quonset Business Park.

The QDC was created by the Rhode Island General Assembly on July 1, 2004, (RIGL §42-64.10) and became effective through a transfer of powers on January 1, 2005. The goals of the agency are to create jobs, stimulate private sector investment and to create an additional tax base. The QDC is governed by an eleven-member board of directors.

To Strengthen Controls, the Quonset Development Corporation should:

- Prepare and publish reporting items as required by RIGL § 42-155.
- Post reports on the website to achieve greater transparency and to comply with the requirements of the Quasi-Public Corporations Accountability and Transparency Act.
- Ensure that all payments are made in accordance with contract terms.
- Modify payment procedures to improve operational efficiency and cash flow planning.
- Implement system controls that restrict employee access for performing functions only related to their work requirements.

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Introduction

The Quonset Development Corporation (QDC) is a quasi-state agency created by the Rhode Island General Assembly on July 1, 2004, as a special purpose subsidiary of the Rhode Island Commerce Corporation (formerly the Rhode Island Economic Development Corporation). The transfer of powers from the Rhode Island Commerce Corporation to QDC was effective January 1, 2005, making QDC responsible for the development and management of the Quonset Business Park.

The goals of the agency are to create jobs, stimulate private sector investment at the business park and to create an additional tax base from this development. The QDC is governed by an eleven-member board of directors.

Recommendations and Management's Responses

Prepare and publish key reporting items

The Quasi-Public Corporations Accountability and Transparency Act (RIGL §42-155) requires QDC to publicly post key reporting items on their website. One item which needs to be posted is contracting reports required by RIGL §42-90-1. This law states that a listing of all consultants and contractors utilized during the previous fiscal year must be submitted to the Budget Office.

Upon review of QDC's website, it was noted that contracting reports were not available for the public to view. During discussion with QDC management, it was discovered that not only were the contracting reports not posted to the website, they were not submitted to the Rhode Island Budget Office as required by RIGL §42-90-1. It is essential that quasi-public agencies provide more transparency by making their decisions and budgets open to public scrutiny, and by demonstrating a commitment to protecting the interests of Rhode Island taxpayers by achieving the highest standards of transparent, effective and ethical operation.

Recommendations:

- 1) Prepare and submit contracting reports to the Budget Office in accordance with RIGL §42-90-1.
- 2) Post reports on the website to achieve greater transparency and to comply with the requirements of the Quasi-Public Corporations Accountability and Transparency Act.

Management's Response:

Management agrees to prepare and submit contracting reports to the Budget office in accordance with §42-90-1 as well as posting the report on the transparency page on our web site.

Responsible Party:

Finance Director

Anticipated Completion Date:

October 31, 2016

Strengthen controls over the contract payment process

A fixed-price contract provides for a price that is not subject to any adjustment on the basis of the contractor's resources used or time expended in performing the contract. This type of contract places the risk and responsibility upon the contractor for all costs incurred and resulting profit or loss. It provides an incentive for the contractor to control costs and perform the objectives of the contract effectively.

During testing of travel expenses, it was determined that a travel expense incurred by an advertising consultant was paid in addition to the fixed-fee payment negotiated in the contract. Although the expense was financially immaterial, it is indicative of a control weakness in the contract payment process. The additional payment was purportedly preapproved; however, no supporting documentation was maintained to support this claim.

Payments made outside the scope of approved contract terms such as this increases the risk of payment for unallowable or unauthorized expenses.

Recommendation:

- 3) Ensure that all payments are made in accordance with contract terms.

Management's Response:

Management will review and ensure that all payments are made in accordance with contract terms.

Responsible Party:

Finance Director

Anticipated Completion Date:

October 11, 2016

Schedule payments to improve cash flow planning and operational efficiency

Scheduling payments could improve the QDC's cash flow planning and investment efforts. The Accounts Payable (AP) Department at QDC pay invoices on a daily basis. Within five days of receiving an invoice, AP staff will typically pay the amount due even though a majority of the invoices received by QDC have a net 30-day payment cycle and do not offer early payment discounts.

Paying the invoices immediately restricts the amount of cash available for other operations and investment opportunities. Additionally, processing invoices payments on a daily basis is not operationally efficient. Staff can focus on other value-added work by paying invoices on a scheduled basis and not performing this task daily.

Recommendation:

- 4) Modify payment procedures to ensure that invoices with a net 30-day payment requirement be paid closer to the 30-day due date. Consider a twice a month payment schedule.

Management's Response:

Management has begun to modify payment procedures ensuring that invoices are paid in accordance with agreed upon terms.

Responsible Party:

Finance Director

Anticipated Completion Date:

October 11, 2016

Improve Accounting System Access Controls

System access controls are inadequate in the accounting system used by QDC. Access rights are the permissions or privileges granted to users to create, change, delete or view data and files within a system as defined by rules established by data owners and the information security policy. Only privileges essential to the user's work requirements should be granted.

Multiple staff involved in the expense process have full access to perform all of the functions in the process in the accounting system. Without system controls in place there is greater potential for a fictitious expense to be generated and processed for payment.

Recommendation:

- 5) Implement system controls that restrict employee access for performing functions only related to their work requirements.

Management's Response:

Management will take a closer review of our system controls to ensure tighter control.

Responsible Party:

Finance Manager

Anticipated Completion Date:

October 31, 2016

Objectives and Scope of Audit

The OIA conducted a limited scope performance audit of Rhode Island Quonset Development Corporation. The purpose of this engagement was to assess the effectiveness and efficiency of operations.

Methodology to Conduct Audit

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

- Reviewed applicable State laws, regulations, and division procedures.
- Performed walk-throughs of the processes conducted daily.
- Researched best practices.
- Performed detailed testing on samples of transactions.

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.