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INSTITUTE FOR INTERNATIONAL SPORT

Grant Review Report

February 2012

Dennis E. Hoyle, CPA  
Acting Auditor General

Office of the Auditor General  
General Assembly - State of Rhode Island

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STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS

GENERAL ASSEMBLY

OFFICE of the AUDITOR GENERAL

- ◆ INTEGRITY
- ◆ RELIABILITY
- ◆ INDEPENDENCE
- ◆ ACCOUNTABILITY

February 15, 2012

JOINT COMMITTEE ON LEGISLATIVE SERVICES:

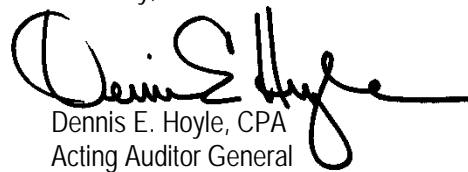
SPEAKER Gordon D. Fox, Chairman

Senator M. Teresa Paiva Weed  
Senator Dennis L. Algieri  
Representative Nicholas A. Mattiello  
Representative Brian C. Newberry

In August 2011, we were requested by the Joint Committee on Legislative Services to perform a review of a grant made by the State of Rhode Island to the Institute for International Sport in 2007 for the purpose of constructing a building for the Institute's use.

We have completed our review and our report is contained herein as outlined in the Table of Contents.

Sincerely,



Dennis E. Hoyle, CPA  
Acting Auditor General

Institute for International Sport  
Grant Review Report

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## *Executive Summary – Grant Review – Institute for International Sport*

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The State of Rhode Island awarded a \$575,000 grant to the Institute for International Sport (Institute) in 2007 for the purpose of constructing a building for its use on land leased from the University of Rhode Island. Five years later, a building has been partially constructed but remains incomplete. The Institute estimates that it spent approximately \$200,000 to construct the building. We were provided with cancelled checks totaling \$163,400; however, the Institute generally did not provide any other documentation such as vendor invoices and contracts related to the building construction. As a result, we could not fully substantiate that these disbursements were related to the construction of the building. The Institute concedes that remaining grant amounts have been expended purportedly for general operations, which is noncompliant with the directives of the legislative grant.

The Institute was created in 1986 and is incorporated as a private nonprofit 501(c)(3) corporation for the purpose of promoting world peace through activities involving sports and the arts. The Institute has consistently received grants from the State of Rhode Island and such grants totaled more than \$5 million for the period 1999 through fiscal 2012 to date.

The Institute contends that the original grant agreement, which required the grant proceeds to be used exclusively for the construction of the building, was amended to allow use of the grant funds for general operating purposes as well. We were provided a copy of a letter addressed to legislative leaders requesting amendment of the original grant terms to allow the grant to be used for programming as well as construction of the building. The letter is signed only by an Institute board member and the legislative department has no record of receipt of the letter. We could not substantiate that the legislative leaders at that time approved any amendment to the original contract.

As of January 2012, the Institute owed the University of Rhode Island approximately \$380,000 for unreimbursed payroll costs and other services provided to the Institute. Most of this was incurred during fiscal years 2007 to 2009 and represents (1) salary and benefits paid to the Executive Director through the State's payroll system and (2) dining, lodging and other services provided by the University to the Institute during the World Scholar-Athlete games.

Use of the State's payroll system by the Institute was formalized in an agreement; however, we believe the practice is questionable and should not be continued or repeated. It affords access to State benefit programs that would otherwise be unavailable to Institute employees. Further, it puts the University in an unintended business relationship with a private organization by advancing funds thereby creating a vested interest in their viability in order to collect amounts owed.

The University has taken measures in an attempt to collect the amounts owed and has formalized repayment terms; however, the amounts remain payable to the University - some of which have been outstanding for more than four years.

Normal financial accountability measures appropriate for an entity of the Institute's size were not evident during the course of our review. We noted various situations which we believe are indicative of a general lack of financial accountability within the organization.

The Institute needs to significantly improve its financial accountability, particularly since it is largely dependent upon grants and other support from governmental and private organizations. The Institute should implement appropriate financial control measures along with routine oversight processes and procedures (e.g., independent annual financial audits). This would significantly improve its ability to demonstrate accountability for grants awarded by governmental and other organizations.

**Scope and Background**

The Institute for International Sport (Institute) was created in 1986 and is incorporated as a private nonprofit 501(c)(3) corporation for the purpose of promoting world peace through activities involving sports and the arts.

The Institute's headquarters are located on the campus of the University of Rhode Island (URI) in a building owned by the Institute on land leased from the University.

The Institute's principal activities include the World Scholar - Athlete Games, the World Peace Youth summit and various other programs. The World Scholar-Athlete Games were held on the URI campus in 1993, 1997, 2001, and 2006. More recently (2011) the games were held at the University of Hartford in Connecticut.

Since inception, the Institute has received financial assistance from the State of Rhode Island through legislative and/or community service grants. Other operating revenues of the Institute include grants from other organizations, fund raising efforts, and charges to individuals participating in various events.

The following is a summary of grants made to the Institute for the fiscal years 1999 – 2012.

<b>Payments by the State of Rhode Island to the Institute for International Sport</b>			
<b>State Fiscal Year</b>	<b>Date</b>	<b>Amount</b>	
1999	8/26/1998	\$ 225,000	
	9/21/1998	100,000	
	1/5/1999	100,000	
	3/29/1999	100,000	\$ 525,000
2000	7/16/1999	225,000	
	9/3/1999	50,000	275,000
2001	8/11/2000		325,000
2002	7/26/2001		325,000
2003	8/30/2002		325,000
2004	8/29/2003		400,000
2005	9/28/2004		550,000
2006	7/29/2005		300,000
2007	8/12/2006	400,000	
	1/8/2007	375,000 *	
	1/8/2007	200,000 *	975,000
2008	7/24/2007		350,000
2009	9/26/2008		175,000
2010	8/3/2009		175,000
2011	8/12/2010		175,000
2012	9/15/2011		157,500
			<u>\$ 5,032,500</u>

\* payments comprising the \$575,000 grant to construct a building for the Institute

Additional payments/grants from the State of Rhode Island may have been made to the Institute in years prior to 1999.

The specific focus of our review was a grant made by the State of Rhode Island in 2007 for \$575,000 to construct a building for the Institute's use. A grant application was submitted by the Institute in September 2006. The executed grant application/contract includes the following terms and conditions:

- "provide the State with all required and necessary documents to validate expenditures within 90 days of completion" (completion was designated for May 30, 2007); and
- "the Grantee agrees to give to duly authorized representative(s) of the House finance committee access to any books, documents, papers and records, which are pertinent to this grant application".

The grant was disbursed in January 2007 in two parts – a House of Representatives grant for \$375,000 and a Senate grant for \$200,000.

We did not perform an audit of the Institute or of its financial statements. The scope of our review did not extend to other grants awarded and paid to the Institute prior to, or subsequent to, this \$575,000 grant made in 2007 for the purpose of constructing a building for the Institute's use. Our review did extend generally to assessing the financial accountability of the Institute by requesting and accessing, when available, routine financial information (e.g., audited financial statements, and IRS Form 990 filings - informational returns for nonprofit entities).

Various requests were made to the Institute for documentation related to expenditures from the \$575,000 grant (see appendix A). We also made inquiries of and requested information from URI relative to payroll information, amounts owed by the Institute to the University and the nature of the land lease for the Institute's buildings. We did not independently verify URI's representations regarding amounts reported as due from the Institute. We also utilized other information about the Institute which was publicly available.

We were not provided access to the Institute's accounting records, bank statements or other financial records. As such, our review was limited to the information that was provided by the Institute for International Sport in response to our requests.

## Status of grant funds appropriated by the State of Rhode Island to construct the “International Leadership Building”

The focus of our review was a specific grant provided to the Institute during State fiscal year 2007 in the amount of \$575,000. That grant was made for the purpose of constructing a building adjacent to the Institute's headquarters. The “International Leadership Building” was intended to house the Institute's leadership programs and serve as a residence for interns with the Institute. Projected costs for the structure, including furnishings and landscaping, were \$738,500. Costs in excess of the grant provided by the State of Rhode Island were to be borne by a matching grant of \$575,000 by a private donor. The remaining private donor matching grant funds would be used to maintain the building and administer leadership programs.

Construction of the “International Leadership Building” is presently incomplete. The exterior of the building is enclosed with roof, windows and siding installed. The interior walls are incomplete and no plumbing, electrical or heating has been installed. Grading, landscaping, and stairs are incomplete. Original projections, as included in the grant application, targeted completion for May 2007.

Recent pictures of the exterior and interior of the building are shown on the following pages.









The Institute represented that amounts expended to date to construct the building were approximately \$200,000. We were provided copies of cancelled checks for disbursements totaling \$163,400.

### Institute for International Sport

#### Building Construction - List of Disbursements

<u>Payee</u>	<u>Date</u>	<u>Amount</u>	
<i>Architect</i>			
Richard Cardarelli, AIA	2/25/2005	\$ 2,500	
Richard Cardarelli, AIA	2/25/2005	2,500	
Richard Cardarelli, AIA	3/5/2005	2,000	
Richard Cardarelli, AIA	3/15/2005	2,000	
Richard Cardarelli, AIA	9/22/2005	2,000	
Richard Cardarelli, AIA	9/22/2005	2,000	
Richard Cardarelli, AIA	10/20/2005	2,500	
Richard Cardarelli, AIA	10/20/2005	2,500	\$ 18,000
<i>Construction</i>			
Amore Construction	1/6/2006	26,000	
Amore Construction	6/5/2007	70,000	
Amore Construction	6/28/2007	30,000	126,000
JJO Inc.	7/1/2009	5,000	
JJO Inc.	9/1/2009	2,000	
JJO Inc.	9/16/2009	1,000	
JJO Inc.	9/23/2009	1,000	
JJO Inc.	10/1/2009	1,000	
JJO Inc.	10/22/2009	1,000	
JJO Inc.	12/9/2009	1,000	
JJO Inc.	12/15/2009	1,000	
JJO Inc.	12/22/2009	3,200	
JJO Inc.	4/15/2010	1,000	
JJO Inc.	5/20/2010	2,200	19,400
		<u>2,200</u>	<u>19,400</u>
		<u>\$ 163,400</u>	

Some of these disbursements predate the grant which was made in January 2007. We were only provided with copies of cancelled checks. Requests for information began in September 2011 – the Institute eventually obtained the cancelled checks that were provided to us from its bank. Vendor invoices, purchase orders, or contracts, etc. were mostly not provided to substantiate that the disbursements were related to the construction of the building. Some incomplete vendor invoice documentation was provided for two vendors.

The Institute indicated that other expenditures totaling \$34,460 were for a construction advisor, clerk of the works and attorney's fees in relation to construction of the building. An additional payment to the architect for \$3,477 was reported. No documentation was provided for these amounts.

The Institute concedes that, despite the building being incomplete, all grant funds (totaling \$575,000) are fully expended. The Institute did not provide documentation regarding how the remaining grant funds were specifically expended.

The Institute maintains that an amendment to the original grant agreement was agreed to which permitted the Institute to use the grant proceeds for general operating purposes in addition to the specific objective of constructing a building. We were provided a copy of a letter from an Institute board member addressed to legislative leaders requesting amendment of the original grant terms to allow the grant to be used for programming as well as construction of the building. The letter is signed only by an Institute board member and the legislative department has no record of receipt of the letter. We could not substantiate that the legislative leaders at that time approved any amendment to the original contract.

We requested (see Appendix A) invoices, purchase orders/contracts, and any available documentation related specifically to the construction of the building. We also requested subsequent engineering reports, appraisals, and current estimates to complete the building. We were only provided copies of the cancelled checks as listed above and limited and incomplete vendor invoice documentation for two vendors.

The Institute maintains that it intends to complete the building. We could not determine if the Institute has sufficient funds from other sources to fund completion of the building nor were we able to estimate the cost to complete.

The University of Rhode Island has expressed preliminary interest in acquiring the Institute's buildings for their own use.

### **Amounts Owed to the University of Rhode Island**

As of January 2012, the Institute owed the University of Rhode Island \$380,846 for unreimbursed payroll costs and other services provided to the Institute. Most of this was incurred during fiscal years 2007 to 2009 and represents (1) salary and benefits paid to the Executive Director through the State's payroll system and (2) dining, lodging and other services provided by the University to the Institute during the World Scholar-Athlete games.

The Executive Director of the Institute was paid, in part, through the State's payroll system beginning in 1986 and through November 2011. The Executive Director is currently not being paid through the State payroll system (now reflected as on leave without pay status). The Executive Director's annual salary paid through the University was \$70,000. Benefits included participation in the State of Rhode Island's health insurance program and a retirement program (TIAA-CREF). By agreement, the Institute was required to reimburse the University for all costs of salary and benefits provided to the Executive Director. The Executive Director was not on the University staff or faculty nor did he provide other services to the University.

Other amounts owed are for services provided by the University when the Institute hosted the World Scholar-Athlete games at the University of Rhode Island and used University dormitories, dining and other services. World Scholar-Athlete participants pay a fee to participate in the games which is collected by the Institute.

Allowing the Institute to use the State's payroll system for the Executive Director's salary and benefits (e.g., healthcare and retirement) has a long history and was outlined in a July 1, 2000 agreement between the Institute and

the University which further references a previous agreement between the State and the Institute dated August 23, 1988. The July 1, 2000 agreement requires reimbursement of the salary and benefit amounts paid on behalf of the Institute. While such use of the State's payroll system was formalized in an agreement, we believe the practice is questionable and should not be continued or repeated. It affords access to State benefit programs that would otherwise be unavailable to Institute employees. Further, it puts the University in an unintended business relationship with a private organization by advancing funds thereby creating a vested interest in their viability in order to collect amounts owed.

We were provided copies of correspondence (by the University) between the University and the Institute detailing attempts to collect amounts owed and formalizing repayment terms. Payment agreements relative to the cumulative unreimbursed amounts were negotiated and, beginning in 2009, the University required the Institute to fund the Executive Director's payroll costs in advance by making a monthly payment to the University equal to the cost of salary and benefits. The University also obtained the right, in the event of non-payment, to force the sale of other real estate owned by the Institute. The University has not exercised this option.

The amounts remain payable to the University - some of the unreimbursed amounts have been outstanding for more than four years.

### **Financial Accountability of the Institute for International Sport**

The Institute was unable to demonstrate that it is financially accountable for the \$575,000 grant received from the State of Rhode Island and we were unable to substantiate how the \$575,000 of grant funds from the State of Rhode Island were specifically used. We were also unable to gain a sufficient financial perspective on the operations of the Institute due to the lack of available financial information.

Normal financial accountability measures appropriate for an entity of the Institute's size were not evident during the course of our review. We observed the following which we believe to be indicative of a general lack of financial accountability within the organization:

- requests for basic financial information to substantiate the use of grant proceeds (e.g., vendor invoices, bank statements, cancelled checks, and contracts) went unheeded;
- annual independent audits of the Institute's financial statements have not been performed;
- IRS Form 990 filings were consistently filed late; Form 990 for calendar 2010 has yet to be filed (a draft copy was provided on February 14, 2012);
- IRS Form 990 filings indicated loans to employees of the organization;
- significant amounts are owed to the University of Rhode Island for unreimbursed salary, benefits and other services provided to the Institute – such amounts have been outstanding for a number of years; and
- other related organizations were referenced in IRS Form 990 filings including a related nonprofit organization incorporated in Connecticut to which the Institute paid a management fee of more than \$600,000 in calendar year 2009.

The Institute needs to significantly improve its financial accountability, particularly since it is largely dependent upon grants and other support from governmental and private organizations. The Institute should implement appropriate financial control measures along with routine oversight processes and procedures (e.g., independent annual financial audits). This would significantly improve its ability to demonstrate accountability for grants awarded by governmental or private organizations.



STATE of RHODE ISLAND and PROVIDENCE PLANTATIONS  
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OFFICE of the AUDITOR GENERAL

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◆ INTEGRITY  
 ◆ RELIABILITY  
 ◆ INDEPENDENCE  
 ◆ ACCOUNTABILITY

October 21, 2011

Daniel E. Doyle, Jr., Executive Director  
 Institute for International Sport  
 The Feinstein Building  
 The University of Rhode Island  
 3045 Kingstown Road  
 P.O. Box 1710  
 Kingston, RI 02881-0104

Dear Mr. Doyle:

I have been directed by the General Assembly's Joint Committee on Legislative Services (JCLS) to audit a grant made to the Institute for International Sport in 2007 in the amount of \$575,000 for the purpose of constructing a building for the Institute's use. The JCLS has requested this and other audits to ensure grant funds were used for their intended purpose.

The Office of the Auditor General is the General Assembly's audit agency and operates pursuant to Chapter 22-13 of the General Laws which grants the Office with authority to audit any entity receiving state funds appropriated by the General Assembly.

As you know, we have had various preliminary conversations, beginning on September 2, regarding the audit of the grant made to the Institute and visited the Institute's offices on September 23 including a tour of the subject building which is presently incomplete.

The scope of our audit is relatively straightforward and primarily entails detailing the expenditures from the grant used to construct the building as it presently stands and determining the amount, existence, and location of the grant funds remaining and available to complete the building.

The following requests for information have been discussed with you on various occasions and were included in an email sent on October 5. I have again summarized the information requested for your convenience:

1. List of expenditures to date from the grant made by the State to the Institute in 2007 for \$575,000 to construct a building – indicate payee, amount, date paid, and check number;
2. Contracts, purchase orders etc. entered into to construct the building;

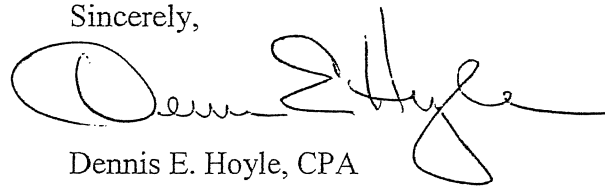
Daniel E. Doyle, Jr., Executive Director  
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3. Invoices and cancelled checks related to the construction of the building;
4. Current estimates of amounts needed to complete the building – provide cost estimates, appraisals, engineering assessments, contracts, as applicable;
5. Banks statements for account where initial grant proceeds were deposited and unexpended funds remain – from the time of receipt through current period;
6. Most recent audited financial statements of the Institute for International Sport; and
7. Most recent IRS Form 990 (Informational return for nonprofit organizations) – (received Form 990 for 2009 on October 20, 2011).

I understand you will be traveling through the end of this month. In consideration of your availability, I respectfully request that all the information requested above be made available no later than November 4, 2011. Providing the requested data by that date is necessary for me to complete the audit expeditiously as directed by the JCLS.

I look forward to your continued cooperation.

Sincerely,

A handwritten signature in black ink, appearing to read "Dennis E. Hoyle", with a large, stylized flourish extending to the right.

Dennis E. Hoyle, CPA  
Acting Auditor General

c: Officers and Directors of the Institute for International Sport  
William J. Lynch, Esq.