



Audit Report



OIG-SBLF-15-001

STATE SMALL BUSINESS CREDIT INITIATIVE: Rhode Island's
Use of Federal Funds for the Slater Technology Fund

October 31, 2014

Office of
Inspector General

Department of the Treasury

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Abbreviations

Act	Small Business Jobs Act of 2010
CAP	Capital Access Program
OCSP	other credit support program
OIG	Office of Inspector General
RIEDC	Rhode Island Economic Development Corporation
SSBCI	State Small Business Credit Initiative

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*The Department of the Treasury
Office of Inspector General*

October 31, 2014

Jessica Milano
Deputy Assistant Secretary for Small Business, Community
Development, and Housing

This report presents the results of our audit of Rhode Island's investment of State Small Business Credit Initiative (SSBCI) funds through the Slater Technology Fund (Slater). Slater is one of two Rhode Island venture capital programs approved to participate in SSBCI. We initiated the audit after Department of the Treasury (Treasury) officials informed us of Rhode Island's potential non-compliance with SSBCI program rules. A separate audit of Rhode Island's second capital venture program, Betaspring, is under way and will be reported separately. In August 2011, Treasury awarded Rhode Island approximately \$13.2 million in SSBCI funds, of which \$9 million was allocated to Slater. As of June 30, 2014, Slater had received \$1.9 million and spent \$1.87 million in SSBCI funds.

The Small Business Jobs Act of 2010 (Act) requires the Office of Inspector General (OIG) to conduct audits of the use of funds made available under SSBCI and to identify any instances of reckless or intentional misuse. Treasury has defined reckless misuse as a use of allocated funds that the participating state or administering entity should have known was unauthorized or prohibited, and which is a highly unreasonable departure from, or a willful disregard of, the standards of ordinary care. Intentional misuse is a use of allocated funds that the participating state or its administering entity knew was unauthorized or prohibited.

Our audit objectives were (1) to test participant compliance with the 20-percent capital-at-risk, private leveraging, assurance certifications, and use-of-proceeds requirements to identify any

misuse of funds; and (2) to determine whether any misuse was reckless or intentional. To accomplish our objectives, we reviewed all six Slater investments, totaling \$1.5 million in SSBCI funds, made between the signing of the *Allocation Agreement* on September 6, 2011, through December 31, 2012. We performed our audit fieldwork from October 2013 to August 2014. A more detailed description of our audit objectives, scope, and methodology is contained in appendix 1 to this report.

Results in Brief

Slater properly used most of the \$1.5 million in SSBCI funds it had expended as of December 31, 2012, but misused \$350,000 on two investments by failing to comply with the investor capital-at-risk requirement. The *Guidelines for State Small Business Credit Initiative* (SSBCI Guidelines) require venture capital funds and angel investor networks receiving SSBCI funds to have a “meaningful amount” of their own capital resources at risk. Treasury has determined that this requirement is met when “private lenders or investors bear 20 percent or more of the risk of loss in any transaction.” As the sole investor on the two investments, Slater, which funded the investments in stages, failed to invest any private capital over the course of the entire funding commitment period for the first investment, and did not inject private capital until the date of final payment for the second investment.

We did not find either investment to constitute a reckless or intentional misuse of funds as defined by Treasury. Regarding the first investment, Slater had designated its recovery account, which was adequately funded, as a means to satisfy the capital-at-risk requirement, but neglected to draw upon that account according to its internal protocol. Additionally, before the initiation of our audit, Rhode Island engaged a consultant to conduct a compliance assessment of its SSBCI programs, which resulted in the identification of this non-compliant investment as well as the second non-compliant investment discussed below. These instances of non-compliance were resolved by Slater before we conducted our audit. While Slater’s actions in this investment were not reckless or intentional, they were negligent. Specifically, Slater lacked effective internal controls to prevent final payments from

being made without a compliance determination, which was a substantial factor in permitting the mistake to occur.

The second SSBCI investment that did not comply with the investor capital-at-risk requirement also did not constitute a reckless or intentional misuse of funds because Slater funded the investment in accordance with its internal protocol, which was to post a private source of capital by the end of the funding commitment period. This protocol, while non-compliant, was not viewed as a highly unreasonable departure from, or a willful disregard of, the standards of ordinary care.

In addition to the two misuses of funds that did not meet the capital-at-risk requirement, Slater had an investment in which the private capital preceded SSBCI funding. Specifically, a number of private co-investments were made months prior to the SSBCI investment. After consultation with Treasury, we concluded that Slater met the capital-at-risk requirement for this investment because a causal relationship existed between the pre-SSBCI private investments and the subsequent SSBCI investment. However, because SSBCI program guidance does not address the timing of the investor capital-at-risk requirement, Treasury will need to formulate additional guidance on this issue.

Finally, for five of the six investments, Slater did not obtain investee and investor assurances before the transfer of SSBCI funds, as required by the *SSBCI National Standards for Compliance and Oversight* (SSBCI Standards). Despite the lack of assurances from Slater, Rhode Island certified for three quarters between June 2012 and December 2012 that it complied with all SSBCI requirements, which was inaccurate.

We recommend Treasury (1) revise SSBCI guidance to clearly indicate that staged funding of a single investment requires that 20 percent of the capital-at-risk must be from a private source when SSBCI funds are invested. Treasury should also address how the capital-at-risk requirement will be satisfied when private capital precedes SSBCI capital; and (2) determine whether Rhode Island is in general default of its SSBCI *Allocation Agreement* for not fully complying with investee and investor assurance requirements.

Management Response: Treasury accepted both recommendations in our report, stating that it will provide guidance that staged funding of a single investment requires that 20 percent of the capital-at-risk must be from a private source when the SSBCI funds are invested. Treasury will also determine whether a general event of default has occurred.

Rhode Island acknowledged that the private capital was not initially invested as required by Treasury guidelines, and has implemented measures to ensure future compliance. Additionally, Rhode Island realized that certain investor and investee assurances were not timely obtained by Slater and will now require that such assurances be obtained prior to the release of funds. Formal written responses from Treasury and Rhode Island are included in their entirety in appendix 2.

Background

SSBCI is a \$1.5 billion Treasury program that provides participating states, territories, and eligible municipalities with funding to strengthen Capital Access Programs (CAPs) and other credit support programs (OCSPs) that provide financial assistance to small businesses and manufacturers. CAPs provide portfolio insurance for business loans based on a separate loan loss reserve fund for each participating financial institution. OCSPs include collateral support, loan participation, loan guarantee, direct lending, and state-sponsored venture capital programs.

Each participating state is required to designate a specific department, agency, or political subdivision to implement the funding. The designated state entity distributes SSBCI funds to various public and private institutions, which may include a subdivision of another state and for-profit and non-profit entities supervised by the state. These entities use the funds to make loans, investments, or provide credit access to small businesses.

Primary oversight of the use of SSBCI funds is the responsibility of each participating state. To ensure funds are properly controlled and expended, the Act requires that Treasury execute an *Allocation Agreement* with each participating state, setting forth internal controls and compliance and reporting requirements before

allocating SSBCI funds. SSBCI disbursements to participating states are made in three allocations: the first when the Secretary of the Treasury approves the state for participation, and the second and third after the state certifies that it has obligated, transferred, or spent at least 80 percent of its prior allocation. In addition, the participating state is required to certify that it has complied with all applicable program requirements.

Rhode Island's Participation in SSBCI

On August 22, 2011, Treasury approved Rhode Island's application for participation in SSBCI, awarding it approximately \$13.2 million. The *Allocation Agreement* between Rhode Island and Treasury was signed on September 6, 2011, and authorized use of the SSBCI funds to support the Small Business Loan Fund (a loan participation program) and two venture capital programs.

In September 2011, Treasury disbursed the first allocation of approximately \$4.3 million to Rhode Island, and as of June 30, 2014, the state had expended approximately \$4.1 million of the initial allocation, of which \$1.87 million was spent by Slater. Rhode Island designated Slater to administer the fund on behalf of, and in conjunction with, the Rhode Island Economic Development Corporation (RIEDC).

Treasury stated that in April 2013, Rhode Island submitted a request for its second disbursement; however at that same time, Treasury was questioning certain transactions made by Betaspring, the state's second venture capital program. Consequently, Rhode Island withdrew its disbursement request and engaged a consultant to perform a compliance assessment of the Rhode Island SSBCI program. In August 2013, the consultant completed the assessment, which identified a number of capital-at-risk, investor certifications, and other compliance issues. Upon receipt of the compliance assessment findings, Treasury requested that Rhode Island refrain from expending any additional SSBCI funds and respond to the findings. Treasury received Rhode Island's response in September 2013, and soon thereafter informed us of the potential non-compliance issues in the state's SSBCI program.

Slater Technology Fund

Slater was created in 1997 and provides seed funding for technologically based ventures. Slater's investment strategy focuses primarily on the life sciences, software, internet, energy, and environmental technology industry sectors. Typically, Slater's investments are financed with additional capital from other venture capital investors, grants, and strategic partners in efforts to spur economic growth in Rhode Island.

Findings

Slater Technology Fund Properly Used All but \$350,000 of Its SSBCI Funds

Slater properly used \$1.15 million, or 77 percent, of the \$1.5 million in SSBCI funds we reviewed for six investments. These expenditures complied with program guidelines related to use-of-proceeds, capital-at-risk, prohibited relationships, maximum transaction amounts, and other restrictions noted in the Act and SSBCI Guidelines. However, Slater misused \$350,000 on two of the six investments due to non-compliance with the investor capital-at-risk requirement.

The SSBCI Guidelines require venture capital funds and angel investor networks receiving SSBCI funds to have a meaningful amount of their own capital resources at risk. Treasury has determined that this requirement is satisfied when private lenders or investors bear 20 percent or more of the risk of loss in any transaction. Furthermore, the SSBCI *Frequently Asked Questions* explain that in the case of default of a loan to, or investment in, an eligible small business under an approved SSBCI program, a private lender or investor will be at risk for at least 20 percent of such loss.

Slater adopted a protocol where, as a sole investor, compliance with the 20-percent requirement would be achieved as long as the posting of the requisite amount of private capital occurred by the time the funding commitment was completed.

In the first non-compliant investment, Slater was the sole investor and failed to contribute any private capital to a \$250,000 investment financed entirely with SSBCI funds. The investment was made in four stages, with \$100,000 disbursed on June 30, 2012, and three disbursements of \$50,000 monthly between August 1, 2012, and October 1, 2012. Each of the four disbursements comprised of SSBCI funds from RIEDC deposited into a designated SSBCI account held by Slater, and therefore no Slater funds or other private capital were at risk of loss in the investment.

The senior managing director of Slater explained that the absence of private capital in this investment was caused by inadequate coordination between payment processing personnel and compliance personnel. Contrary to Slater's internal protocol, the senior managing director inaccurately instructed payment personnel to make the final payment from the SSBCI account instead of Slater's designated recovery account.

Approximately one year after the initial investment, in July 2013, Slater remedied its non-compliance with the capital-at-risk requirement by transferring its own capital from its recovery account to the SSBCI account. Nonetheless, had the investee defaulted between June 30, 2012, and July 12, 2013, only SSBCI funds would have been at risk for loss, which is contrary to program requirements.

Although the failure to contribute a private source of capital in any SSBCI-supported transaction is clearly a misuse of funds, we did not find the misuse to be intentional or reckless because Slater's recovery account held sufficient funds which were allocated to satisfy the 20-percent capital-at-risk requirement. Furthermore, before we began our audit, Rhode Island hired a consultant to perform an SSBCI compliance assessment. Rhode Island corrected this non-compliant investment along with the second instance of non-compliance described below by the time we arrived at RIEDC to conduct our audit. While not intentional or reckless, Slater's actions that caused the absence of private capital in this investment constituted negligence. Specifically, Slater lacked effective internal controls to prevent final payments from being made without a compliance determination, which was a substantial

factor in permitting the mistake to occur. The senior managing director was one of the authorizing signatories on the check, and no additional controls were present to ensure that the proper funding source was used. Because of the significance of the final disbursement of funds as it relates to the capital-at-risk requirement, higher scrutiny was warranted. Slater departed from the standards of ordinary care, as a reasonable person under similar circumstances should have identified the improper funding source and assured its correction before authorizing the final payment.

In the second non-compliant investment, Slater funded the initial \$100,000 payment of a \$250,000 convertible note agreement exclusively with SSBCI funds. The initial disbursement was made on June 22, 2012, and the remaining \$150,000 balance on the note was disbursed, in accordance with internal protocol, from a Slater capital account on October 31, 2012. At the initial disbursement, however, no Slater funds or other source of private capital were at risk in the transaction. Slater asserted that because the final disbursement was funded from its operating account, the investment is compliant with the capital-at-risk requirement. We determined the investment was not compliant because if the investment had defaulted during the approximately four-month period between the initial and final disbursement, only SSBCI funds would have been at risk for loss.

We did not find the second misuse to be reckless or intentional. Although Treasury requires investors to bear 20 percent or more of the risk of loss in any transaction, program guidance does not explicitly address how that requirement should be met when an investment is staggered over time. Thus, we concluded that Slater's interpretation of the guidance and adherence to its internal protocol was non-compliant, but was not a highly unreasonable departure from or willful disregard of the standards of ordinary care. Private capital was contributed by the time of the final payment, which was the funding approach approved by Slater and its private counsel after interpreting Treasury guidance that was in effect at the time of the investment.

To mitigate the risk of non-compliance with the capital-at-risk requirement, Treasury should revise its guidance to clearly indicate that staged funding of a single investment requires that 20 percent

of the capital-at-risk must be from a private source at the time SSBCI funds are invested.

SSBCI Guidance Does Not Address Private Capital Investment Made Before SSBCI Funding

Slater also made an investment in which the private capital-at-risk preceded the SSBCI contribution. This scenario is not addressed in SSBCI program guidance. In June 2012, as part of a larger stock offering alongside other private co-investors, Slater purchased a convertible note in the amount of \$250,000 using SSBCI funds. Between 2010 and 2012, the stock purchase agreement governing the offering was amended several times to reflect a series of investments. When SSBCI funds were used for the June 2012 investment, an ample amount of private capital had been at risk and had been invested before February 2012.

After discussing the issue with Treasury, we concluded that Slater in effect complied with the capital-at-risk requirement. According to Treasury, the pre-SSBCI investments of private capital would meet the 20-percent private capital-at-risk requirement if the state could demonstrate the causal effect between those investments and the subsequent SSBCI investment. In our opinion, the nexus was sufficiently established in the investee's board meeting materials, which indicated that Slater's SSBCI investment was to be an integral part of its 2012 financing strategy and that the expected SSBCI investment spurred additional financing from private co-investors. Furthermore, Slater's investment committee minutes clearly evidenced that the SSBCI investment was to be part of the stock offering, with specific co-investments expected and delineated.

SSBCI program guidance does not specifically address the timing aspects of the investor capital-at-risk requirement for satisfying the 20-percent test. Because stock offerings may encompass a period of months, or even years, Treasury should revise guidance to address how the capital-at-risk requirement is met when private capital precedes SSBCI capital.

Slater Did Not Comply with Investee and Investor Assurance Requirements in a Timely Manner

Slater did not obtain investee sex offender assurances¹ and investor use-of-proceeds² and sex offender assurances in a timely manner for five of the six investments. The SSBCI Standards require that the state or, as applicable, administering entities, obtain investee sex offender, investor use-of-proceeds, and investor sex offender certifications prior to the SSBCI funds disbursements.

Although Slater had not timely complied with the investee and investor assurance requirements, Rhode Island certified for three quarters between June 2012 and December 2012 that it was fully compliant with all program requirements. As a result, these certifications, required by Treasury's *Allocation Agreement* with Rhode Island, were materially inaccurate.

Under the *Allocation Agreement*, Treasury may find the state to be in general default of its *Allocation Agreement* if the state materially fails to comply with, meet, or perform any term, covenant, agreement, or other provision contained in the agreement. Further, Treasury may also find the state to be in default under the *Allocation Agreement* if any representation or certification made to Treasury is found to be inaccurate, false, incomplete, or misleading in any material respect.

Slater's non-compliance with the assurance requirements and Rhode Island's materially inaccurate certifications may constitute a general event of default under the *Allocation Agreement*. Therefore, Treasury will need to consider whether Slater has

¹ Section 3011(c)(2) of the Act requires that any private entity that receives a loan, a loan guarantee, or other financial assistance using [SSBCI] funds must certify that their principals have not been convicted of a sex offense against a minor (as defined in section 111 of the Sex Offender Registration and Notification Act (42 U.S.C. 16911)).

² Article IV of the *Allocation Agreement* and Sections VI, VII, and XII of the SSBCI Guidelines outline the restrictions on the acceptable uses of loan and investment proceeds. Specifically, these provisions require that small business borrowers (or investees) must make a certification to the lender or investor regarding the use of loan or investment proceeds for each SSBCI-supported transaction.

satisfactorily cured its non-compliance issues or whether future funding should be suspended, reduced, or terminated.

Recommendations

We recommend that the Deputy Assistant Secretary for Small Business, Community Development, and Housing:

1. Revise guidance to clearly indicate that staged funding of a single investment requires that 20 percent of the capital-at-risk must be from a private source when SSBCI funds are invested and address how the capital-at-risk requirement will be satisfied when private capital precedes SSBCI capital.
2. Determine whether there has been a general event of default under Rhode Island's *Allocation Agreement* resulting from the state's failure to fully comply with the investor and investee assurance requirements in addition to the investor capital-at-risk requirements. If such an event has occurred and has not been adequately cured, determine whether it warrants a reduction, suspension, or termination of future funding to the state.

Management Comments and OIG Response

We provided a draft of the report to Treasury on August 29, 2014, and received formal written comments from Rhode Island on September 16, 2014, and from Treasury on September 29, 2014. Treasury accepted both report recommendations. In response, Treasury will provide guidance that staged funding of a single investment requires that 20 percent of the capital-at-risk must be from a private source when SSBCI funds are invested. Further, Treasury will determine if a general event of default has occurred.

We believe Treasury's planned actions are fully responsive to both the audit recommendations.

Rhode Island acknowledged that the private capital was not initially invested as required by Treasury guidelines, and has implemented measures to ensure future compliance. Additionally, the state realized that certain investor and investee assurances were not

obtained by Slater in a timely manner and will now require that such assurances be obtained prior to the release of funds.

* * * * *

We appreciate the courtesies and cooperation provided to our staff during the audit. If you wish to discuss the report, you may contact me at (202) 927-5904, or Theresa Cameron, Acting Audit Director, at (202) 927-1011.



Kieu Rubb
Acting Special Deputy Inspector General
Office of Small Business Lending Fund Program Oversight

The objectives of our audit were (1) to test participant compliance with the 20-percent capital-at-risk, private leveraging, assurance certifications, and use-of-proceeds requirements to identify any misuse of funds; and (2) to determine whether any misuse was reckless or intentional. To accomplish our objectives, we reviewed all six Slater Technology Fund (Slater) investments, totaling \$1.5 million in State Small Business Credit Initiative (SSBCI) funds, made between the signing of the *Allocation Agreement* on September 6, 2011, through December 31, 2012. As of June 30, 2014, Rhode Island had received its initial disbursement totaling approximately \$4.3 million and had obligated or spent approximately \$4.1 million. Of the \$4.3 million, \$1.9 million went to investments enrolled in the Slater venture capital program. As of June 30, 2014, Slater spent approximately \$1.87 million in SSBCI funds.

We performed testing of the six Slater investments to ensure that the investments complied with the requirements and prohibitions of the Small Business Jobs Act of 2010 (Act) and the related Treasury guidelines. In December 2013, we conducted an on-site review of investment files at the Rhode Island Economic Development Corporation (RIEDC) and compared the documentation to specific requirements and prohibitions of the Act and Treasury guidelines. We reviewed policies, procedures, and other written guidance provided by RIEDC and Slater.

We performed our audit fieldwork between October 2013 and August 2014. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based our audit objectives.

Appendix 2
Management Response



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 29, 2014

Kieu Rubb
Acting Special Deputy Inspector General for
Small Business Lending Fund Program Oversight
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Ms. Rubb:

Thank you for the opportunity to review the Office of the Inspector General's (OIG) draft report entitled *State Small Business Credit Initiative: Rhode Island's Use of Federal Funds for the Slater Technology Fund* (the Report). This letter provides the official response of the Department of the Treasury (Treasury).

We appreciate the Report's finding that Rhode Island's Slater Technology Fund used most of its State Small Business Credit Initiative (SSBCI) funds appropriately and complied with SSBCI program requirements. However, the Report also identifies two instances of misuse involving failure to comply with investor capital at risk requirements.

With your consent, Treasury transmitted a copy of the Report to Rhode Island program officials on August 29, 2014. Treasury asked Rhode Island to provide a narrative response describing measures it has taken or plans to take to address the issues noted in the Report. Rhode Island's reply, enclosed, agrees that the private capital was not initially invested and details the steps taken to correct their process and to confirm that private capital is invested at the time SSBCI funds are invested.

Regarding recommendation 1, Treasury will provide guidance that staged funding of a single investment requires that 20 percent of the capital-at-risk must be from a private source when the SSBCI funds are invested. Regarding recommendation 2, Treasury will determine if a general event of default has occurred.

Thank you once again for the opportunity to review the Report. Treasury appreciates our work together throughout the course of the SSBCI program.

Sincerely,

A handwritten signature in black ink, appearing to read "Cliff Kellogg", written over a white rectangular background.

Cliff Kellogg
Director of the State Small Business Credit Initiative

Enclosure



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF ADMINISTRATION

Steven T. Hartford, Director
One Capitol Hill
Providence, RI 02908-5890

Office: (401) 222-2280
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September 16, 2014

Clifton Kellogg, Director
State Small Business Credit Initiative
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Dear Mr. Kellogg:

Thank you for the opportunity to review and respond to the Office of Inspector General's (OIG) draft report (Report) entitled *State Small Business Credit Initiative: Rhode Island's Use of Federal Funds for the Slater Technology Fund*. This correspondence shall serve as the official response of the Department of Administration for the State of Rhode Island (the "State").

First, we would like to thank the U.S. Department of Treasury (Treasury), State Small Business Credit Initiative (SSBCI) staff for their assistance in the State's successful implementation of its SSBCI programs and their guidance in relation to potential deficiencies to ensure the State is compliant with SSBCI guidelines. In addition, we would like to thank the OIG personnel for their cooperation and professionalism during the audit of this program.

The State is committed to ensuring that its SSBCI programs are implemented properly and in accordance with Treasury guidelines. As part of this commitment, the State undertook its own compliance assessment to ensure its conformity with Treasury guidelines. The compliance assessment identified specific areas in need of improvement and resulted in certain corrective measures that were implemented by the State. We appreciate that the State's commitment to compliance resulted in a determination that the investment in the Slater Fund was substantially in accordance with Treasury requirements, however, the State has taken proactive measures to strengthen its compliance and oversight to ensure that it is fully compliant with Treasury requirements. Following, you will find a response detailing the actions the State undertook in connection with its compliance assessment and that address the issues raised in the Report.

1. Private Capital at Risk

The State acknowledges that with respect to a single Slater Fund investment that the private capital (although available) was not initially invested as required by Treasury guidelines.

Appendix 2
Management Response

Clifton Kellogg, Director
U.S. Department of the Treasury
September 16, 2014
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While this oversight was corrected, the State has implemented measures to ensure future compliance.

Additionally, the State is now cognizant of the requirement that the 20% private capital at risk threshold in a staged funding must be met at the time SSBCI funds are invested.

The State, through its administering entity, the Small Business Loan Fund Corporation (SBLFC) has implemented a system whereby each investment undertaken by the Slater Fund must be accompanied by a checklist detailing compliance with specific Treasury requirements (i.e. sufficient private capital at risk) prior to the release of any funding. The SBLFC will only release monies to the Slater Fund upon receipt of a completed checklist and confirmation that all of the necessary criteria have been met for compliance with Treasury requirements. Through the implementation of this safeguard, the State will ensure that any future investment will have the appropriate private capital at risk at the point in time that the initial investment of SSBCI funding is made.

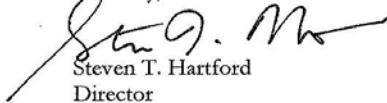
2. Investor / Investee Assurances

As part of the compliance assessment, the State learned that certain Investor / Investee assurances were not timely obtained by the Slater Fund. Slater Fund did ultimately obtain the appropriate assurances and SBLFC will now require that such assurances are obtained prior to the release of funds.

As discussed above, SBLFC shall ensure compliance with the requirement to obtain appropriate assurances by use of a checklist that must be completed by the Slater Fund in advance of SSBCI funding, detailing compliance with Treasury requirements. Through the implementation of this procedure, SBLFC will ensure that future investments of SSBCI funds meet the criteria required by Treasury including the provision of Investor / Investee assurances.

Thank you for the opportunity to respond to the Report and to identify the policies and procedures the State has initiated to ensure future compliance. We look forward to continuing our collaboration with Treasury to further improve Rhode Island's small business climate.

Sincerely,



Steven T. Hartford
Director

STH/co

Appendix 3
Major Contributors to This Report

Debra Ritt, Special Deputy Inspector General
Theresa Cameron, Acting Audit Director
Clayton Boyce, Audit Director
Andrew Morgan, Audit Manager
Karin Beam, Auditor-In-Charge
Robert Oliveri, Auditor
Vicki Preston, Referencer

Department of the Treasury

Deputy Secretary
Office of Strategic Planning and Performance Management
Office of the Deputy Chief Financial Officer, Risk and Control
Group

Office of Management and Budget

OIG Budget Examiner