

June 30, 2011

The Honorable Alan P. Krasnoff and  
Members of the City Council  
City of Chesapeake  
City Hall – 6<sup>th</sup> Floor  
Chesapeake, Virginia 23328

Dear Mayor Krasnoff and Members of the City Council:

We have completed our review of the Chesapeake Department of Economic Development (Department) for May 1, 2010 – December 31, 2010. Our review was conducted for the purpose of determining whether the Department was providing services in an economical, efficient, and effective manner, whether its goals and objectives were being achieved, and whether it was complying with applicable City and Department procedures related to their tax increment financing (TIF) district oversight, management oversight, contract management, cash and payment processing, safety, security, information technology, facility operations, and credit card usage.

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 conclusion based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The Department provided essential services for the City of Chesapeake (City). Its primary purpose was to attract, retain, and help expand businesses and industries of a high quality. Their goal was to expand and create a diverse and stable tax base and increase overall tax revenue, in part through the development and implementation of various programs which encouraged industries and businesses to locate within the City. The Economic Development Central Office Function (Central Office) also performed staffing functions for the Economic Development Authority, Chesapeake Port Authority, and Economic Development Advisory Committee, and provided staff oversight for the Greenbrier and South Norfolk TIF districts. It also operated a business retention program and served as liaison between the industrial and business communities and the City. In addition to the Central Office, the Department was also responsible for the Chesapeake Conference Center (Center) and the Conventions and Visitors Bureau (CVB).

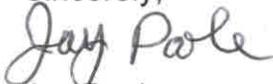
For Fiscal Year (FY) 2010-2011, the Department had an operating budget of slightly over \$7 million and an authorized compliment of approximately 48.5 personnel, approximately 31.5 of which were in the Center. The Center received 48.3% of the operating budget, the Central Office 21.4%, and the CVB 14.1%, with the remainder of the budget (16.2%) used for TIF operations. The Department received funds from Federal, State, and City sources. The Central Office was located in offices off Battlefield Boulevard and Volvo Parkway in the Battlefield Corporate Center, while the Center and CVB were both separately located in the Greenbrier section of the City off Woodlake Drive.

To conduct this audit, we reviewed and evaluated City and Department policies and procedures, and operations documents and reports, both internal and external. We also reviewed a consultant's Economic Impact Study related to potential use of the Greenbrier TIF and a CVB consultant's report on CVB operations. We also evaluated a Center architectural review report and various aspects of the Center's operations, conducted surveys of other local conference centers, and conducted extensive site visits at the Center. We discussed these audit areas and conducted interviews with the Director of Economic Development, Senior Business Development Manager, CVB Director, General Manager of the Center, Food and Beverage Director of the Center, Center and Department Fiscal Administrators, Accounting Staffs, and various other personnel.

Based on our review, we determined the Department had accomplished its overall mission of attracting and retaining a diverse and stable business base. However, we did identify several areas of concern that needed to be addressed. Those areas included TIF expense processing, contingency planning, and reporting; Economic Development's organizational structure, vehicle usage, business expense, and credit card usage; and the Conference Center's overall financial and operational controls related to accounting alcohol and food inventories, sales contracting, and building maintenance practices.

This report, in draft, was provided to the Department officials for review and response. Their comments have been considered in the preparation of this report. These comments have been included in the Managerial Summary, the Audit Report, and Appendix A. Department, CVB, and Center management, supervisors, and staffs were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

Sincerely,



Jay Poole

City Auditor

City of Chesapeake, Virginia

C: William E. Harrell, City Manager  
Betty J. Meyer, Deputy City Manager  
Steven C. Wright, Economic Development Director