

Managerial Summary

A. Objectives, Scope and Methodology

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.

Major Observations and Conclusions

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.

B. Performance Information

Economic Development's 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).

1. Economic Development (Central Office)

Economic Development was the linchpin to the success of the City's industrial and business community. Economic Development's primary function was to attract new businesses and help keep existing businesses and to facilitate their growth and expansion. It did this job very well. In 2010, the Economic Development helped bring in over \$143 million of additional investment in businesses in Chesapeake. Of this number, \$81 million was from new businesses locating in the City, while the remaining \$62 million was from businesses already located in Chesapeake. In addition to the financial investment, over 667 new jobs were created. Also, Economic Development's retention efforts resulted in 33 existing businesses renewing leases on over 840,119 square feet of office space valued at over \$36 million.

2. Chesapeake Conference Center

The Chesapeake Conference Center (Center) opened on September 5, 1997 with the mission of providing "Quality food and service with a standard of excellence that their customers deserve." In calendar year 2010 the Center hosted over 537 events and, for the five year period from 2006 to 2010, has averaged over 730 events a year. In FY 2010, total Center revenues, including dedicated hotel and restaurant tax revenues, exceeded expenditures by \$1,192,289. This marked the twelfth straight year that Center revenues had exceeded expenses since an opening loss of \$896,418 in FY 1998. The Center repaid the Debt Service Fund \$1,000,000 in FY 2010 related to its 1998 acquisition cost of \$9,142,398. Since FY 2001, the Center had made total payments of \$6,086,802 to the Debt Service Fund related to these acquisition costs.

3. Conventions and Visitors Bureau (CVB)

While Economic Development sought out businesses to come to Chesapeake and stay, the CVB sought out people and organizations that were more likely to come to visit and leave. The CVB's goal was to bring the City conventions, meetings, and other group business with the intent of generating overnight stays and restaurant visits. It also marketed Chesapeake to the general tourism market as a destination spot. CVB has been successful in its mission to bring in groups to the City. In 2010 over 25,000 people spent over 11,314 room nights in the City with an estimated economic impact of \$2.1 million. There were over 50 groups and organizations that brought their event to Chesapeake as a direct result of the marketing efforts of the CVB.

4. Greenbrier and South Norfolk Tax Increment Financing Districts (TIFs)

The Greenbrier and South Norfolk TIFs were created to provide funding for public infrastructure projects that were needed to help attract additional private investment to the City, and specifically into the Greenbrier and South Norfolk areas. The Greenbrier TIF was established on January 1, 2005 and the South Norfolk TIF was established on March 22, 2005. Both TIFs were funded by taking tax revenue, over a specified base, from the affected areas and using this money to fund the various projects in the districts.

Projects funded in the Greenbrier District included enhanced street lighting, signage, landscaping and improvements to Chesapeake City Park. Also, a proposed \$43 million City of Chesapeake Activity and Tennis Center would be a TIF project. Projects funded in the South Norfolk District included a new \$5 million library and infrastructure work to support the Belharbour development.

C. Tax Increment Financing Districts – Greenbrier and South Norfolk

While the various activities of the TIFs were generally being handled in a satisfactory manner, we noted that there were several areas where performance could be enhanced. These areas included the processing of project expenses, organization of TIF project data, and the reporting of TIF project data. Also, the proposed Chesapeake Community Activity & Tennis Center did not include a contingency plan in the event that there was a variance between projected and actual results.

1. TIF Expense Processing and File Organization

Finding - The approval process for payment of TIF project expenses needed to be enhanced. In addition, the process for tracking TIF project appropriations, expenses, and supporting documentation needed to be enhanced so that requested project data can be easily accessed.

Recommendation - TIF invoices should be annotated indicating review and approval. TIF project data should be kept by project and sub categories.

Response – We agree with the findings above. Project Manager McDonough Bolyard Peck, MBP, has relocated to the same office building as Economic Development. Prior to this move, a scanned copy of the invoice was emailed to MBP for their approval to expedite timely payments. The invoices are now signed by MBP at our location and then approved by an internal City of Chesapeake employee before processing for payment. (Note: The full text of the response is included in the audit report.)

2. TIF Chesapeake Community Activity & Tennis Center Contingency Planning

Finding - The Economic Impact Study prepared for a proposed Chesapeake Community Activity & Tennis Center (CATC) did not include a contingency plan in the event that projected revenues either exceeded or did not meet SFA's projections.

Recommendation - If the City continues to pursue this project, it should prepare a framework for contingency planning in the advent that revenues exceed or do not meet projections. This framework should include designation of oversight responsibility, defined goals and objectives, measurable key indicators and contingency action plan.

Response – Per the February 22, 2011 City Council meeting a substitute motion was approved by a 7-2 vote so no contingency plan is necessary at this time. Staff had proposed a reserve be established in the Greenbrier TIF Fund to address any potential start up cost or revenues for the CATC. Staff also had indicated to City Council that the CATC would be managed by a private management company via a contract with strong performance criteria. Should the City move forward with development of the CATC, these strategies would be implemented and the recommended contingency plan would be developed.

3. TIF Project Reporting

Finding - The status of TIF projects were not being forwarded to the City Manager's Office on a consistent basis or in a consistent fashion.

Recommendation - The Central Office should provide the City Manager's Office with a quarterly report detailing the status of the various TIF projects.

Response – We agree with the findings above. A report is maintained and shared with the City Manager's office in our monthly meetings informally. We can provide the report on a regular basis in hard copy format. This report will include project description, amount appropriated, expenditures, and funding stream and if known time frame for completion.

D. Economic Development Department – Administration and Operations

We reviewed the Department's overall structure and operating practices and determined that, although they were meeting their expectations, there were still areas that could be improved. These areas included the Department's overall organizational structure and vehicle usage issues such as imputed income and record checks. Also, the Department needed to improve the documentation requirements for expenses, petty cash security, and increase usage of the City issued P-card for small dollar purchases and travel-related expenses.

1. Economic Development Department Organizational Structure

Finding - The Department's organizational structure did not provide for optimal utilization and oversight of its related operating divisions and supporting functions.

Recommendation - Economic Development should strongly consider revising its organizational structure to provide for more optimal utilization and oversight of its related operating divisions and supporting functions.

Response - We agree with the findings above. An Operations Manager position is being filled. This position will supervise staff and oversee the managements of the Chesapeake Conference Center (CCC) and Conventions & Tourism Bureau. This will help assist and improve interaction and collaboration among the three divisions.

The Fiscal Administrator title at the Conference Center was deleted. A new position of an Accounting Manager was created. This person will be responsible for providing accounting oversight to the Economic Development divisions. This will help the cohesiveness of the accounting functions for the department as a whole.

2. Economic Development Vehicle Usage

Finding - The Department was not in full compliance with Administrative Regulations 1.18, 1.04 & 1.20 pertaining to the use of City vehicles.

Recommendation - The Department should take steps to assure compliance with Administrative Regulations 1.18, 1.04 & 1.20.

Response - We agree with the findings above. Economic Development has been in contact with Finance to obtain the correct forms to submit so the assessed imputed income can be added to the employee's W-2 forms. A full DMV driving transcript has been requested and received for those employees who use company vehicles. The vehicle allowance given to the individual that did not meet the City's criteria is no longer given the monthly vehicle allowance. Since the reorganization at the conference center, this allowance is no longer applicable.

3. Economic Development Business Expenses and Petty Cash

Finding - Supporting documentation for Departmental business expenses was not always adequate.

Recommendation - The Department should take steps to ensure that supporting documentation is adequate for departmental business expenses.

Response - We agree with the findings above. Due to the communication concerning current industrial clients at in-house meetings with City Manager's office, a log with code name and numbers were not filed with the City Manager's office. An internal log will be generated from current clients that are seen on a regular basis and updated as new ones are generated. These code names will be used on the backup documentation for expenses associated with those clients. (Note: The full text of the response is included in the audit report.)

4. Economic Development Purchase Cards

Finding - The Economic Development Central Office (Central Office) and the Convention and Visitors Bureau (CVB) were not using the City's small purchase/travel credit card to make small dollar purchases and to pay for City business travel expenses.

Recommendation - The Central Office should discontinue the use of corporate credit cards and begin using the City P-Card.

Response - We agree with the findings above for purchases of office and general supplies needed. However, credit cards continue to be needed/required to travel internationally. Due to the volume of international trips, reliance on the acceptance of credit cards for business transactions is a necessity.

E. Chesapeake Conference Center (Center)

Although, as previously noted, the Center did perform well from a financial results perspective in Fiscal Year 2010, during our review we identified several areas that needed improvement. These areas included financial and operational controls, sales performance, reporting, segregation of duties, cash handling, food and alcohol inventory, and building maintenance, safety, and security. Detailed Center responses are provided in Appendix C.

1. Overall Financial and Operational Controls

Finding - Financial and operational controls at the Center needed improvement.

Recommendation - The Center should work to improve its financial and operational control practices.

Response - We agree with the findings and as such strategies have been developed to provide adequate financial and operational oversight controls, all noted policy and procedure manuals have been reviewed and updated accordingly, building maintenance issues have or are being addressed, the vacancy of the Facilities Supervisor position has been filled and solutions to issues related to the Automated Event Management Software have been identified. (Note: The full text of the response is included in the audit report.)

2. Center Accounting Functions

Finding - Our review of the cash handling, accounting, and information technology functions of the Center identified numerous areas of concern. These concerns included the cash handling process, payment processing, cash security, system implementation and reporting.

Recommendation - The Center should take steps to address the concerns identified for its cash handling, accounting, and information technology functions.

Response – We agree with the findings and have reviewed and revised the cash handling/security and payment processing/reporting procedures and identified solutions to address the Automated Event Management System deficiencies. (Note: The full text of the response is included in the audit report.)

3. Alcohol and Food Inventories

Finding - Controls over the Center's alcohol and food inventories needed to be improved to enhance inventory utilization, record keeping, and reporting accuracy.

Recommendation - The Center should take steps to address the concerns identified for its alcohol and food inventories to improve inventory utilization, record keeping, and reporting accuracy.

Response – We agree with the finding and have taken the necessary steps to address the concerns identified with the alcohol and food inventories in relation to improving inventory security, alcohol inventory and reporting procedures, and food inventory. (Note: The full text of the response is included in the audit report.)

4. Sales Contracting Procedures

Finding - The event contracts used by the Center needed to be updated and not used for all events. Also, event change order forms were not pre-numbered or tracked.

Recommendation - The event contracts used by the Center should be updated and used for all events. Also, event change order forms should be pre-numbered and tracked.

Response – We agree with the finding. As a result of the hiring of the Director of Sales, both the contracts (sales agreements) and proposals used by the Center have been updated and are used for all events. The contract/agreement revisions began when the Director of Sales was hired on March 1, 2011 and the new agreement was modeled after those commonly used in the hospitality industry for contracting conference and convention properties. The revised agreement has been reviewed by Internal Audit and has been

consistently used for all events at the Center since May 1, 2011. In addition, all Change Log Forms are now numbered, dated and signed by the initiating Sales Manager when distributed; and all changes are review at the weekly “Banquet Event Order” (BEO) Meetings.

5. Building, Maintenance, Safety, and Security

Finding - Maintenance of the Center needed to be improved, and we observed a number of aesthetic and safety issues. Also, the overall building security was not sufficient to protect the physical plant, assets, and staff.

Recommendation - The Center should take steps to address the maintenance, safety, and security issues. The Center should develop a formal maintenance, upkeep, and replacement program for the building and its operating systems.

Response - We agree with the above findings and in response a new division, Engineering Services, is being developed at the Center to ensure the building is adequately maintained and that all aesthetic and safety issues are addressed in an efficient manner. The Engineering Services division will consist of a Facilities Supervisor, a Part-Time Facilities Technician, a Part-Time Housekeeper and the division will be supplemented by Temporary Staff and City contracted vendors as needed. (Note: The full text of the response is included in the audit report.)