

# Executive Summary

We have completed our audit of the Chesapeake Department of Economic Development (ED) for December 1, 2020 – May 31, 2021. Our audit was conducted for the purpose of determining the effectiveness and efficiency of their Economic Development Incentive Program.

The Department provided essential services for the City of Chesapeake (City) primarily the recruitment of high-quality businesses to the City. Coupled with that was their focus on retaining and helping expand existing businesses and industries. Their goal was to expand and create a diverse and stable tax base and increase overall tax revenue, by increasing business investment and job creation. ED partnered with various state and local organizations such as the Hampton Roads Economic Development Alliance (HREDA) and the Virginia Economic Development Partnership (VEDP) to achieve these goals. We examined the Department’s Economic Development Incentive Grant Program (EDIP) in detail.

As part of its’ efforts to assist businesses affected by the pandemic congress passed the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES act. This act appropriated money for various programs to help small businesses throughout the country that were affected by the pandemic. As part of this assistance effort ED was tasked with coordinating the **Small Business COVID-19 Recovery Grants** program for Chesapeake. These grants were for reimbursable business expenses incurred on or after March 1, 2020. The ED reviewed applications from Chesapeake businesses that stayed open during the pandemic and attempted to retain their staff. The grant amounts were up to \$12,500.00 for businesses with 50 employees or less. The ED processed four rounds of grants with 88% percent of those businesses applying for and receiving a portion of the over \$5.6 million given away. Totals from round 4 were still under review. With each new round ED adjusted the parameters of the grants to encourage increased applications of qualifying businesses.

**Table 1  
CARES Act Grant Program**

Round	Number of Applications	Number Approved	% Approved	Total of Grants
1	61	15	24.59%	\$50,000.00
2	279	252	90.32%	\$2,352,630.33
3	128	105	82.03%	\$1,042,498.00
4	390	384	98.46%	\$2,161,551.00
Totals	858	756	88.11%	\$5,606,679.33

This information was supplied by the Economic Development Department and was not audited.

## **C. Economic Development – EDIP and Operational Issues**

We reviewed the ED/EDA EDIP Investment Grant Program, overall structure and operating practices and determined that although they were meeting their expectations there are still areas that could be improved. These areas included the ED/EDA not having a memorandum of understanding, need for development agreement modifications, not having accurate City resolutions, and not adhering to those resolutions. Issues were found involving maintaining the original, signed, DAs in a central location as well as the accuracy of the notaries being used. Also, the Department needed to improve the timeliness of EDIP payments, their segregation of duties and petty/travel cash handling processes.

The following findings were identified as opportunities for improvement:

### **1. Memorandum of Understanding**

**Finding – Economic Development (ED) provided various administrative/financial services for the Economic Development Authority (EDA). Economic Development (ED) did not have a Memorandum of Understanding (MOU) with the EDA that addressed which entity had job and oversight responsibilities for the various services provided to the EDA.**

We found that ED did not have an MOU that addressed the rights, duties, obligations, terms, and intentions of the parties. In addition, we found that job and oversight responsibilities for services provided to the EDA were not documented as to which entity had oversight responsibility for ED services provided.

**Recommendation – The agreement between the ED and the EDA for providing various administrative/financial services should be reduced to writing using an MOU to capture the rights, duties, obligations, terms, and intentions of all the parties involved, and identify remedies for breach of the agreement.**

**Response:** Though there have been no issues, concerns or disputes with the Economic Development Department employees performing various duties and functions as staff to the Economic Development Authority since at least 1998 (earliest start date of current staff members) and likely since the Economic Development Authority/Industrial Development Authority inception in 1966, we do not dispute the finding for the need of an MOU between the EDA and Department of Economic Development/City of Chesapeake. We have engaged the City Attorney in creating an MOU for City Council and Economic Development Authority consideration, which will capture the rights, duties, obligations, terms, of the relationship between the City of Chesapeake, Economic Development Staff, and the EDA.

### **2. Development Agreements Updating**

**Finding – Development Agreement for Economic Development Investment Grant Program needs to be reviewed and amended to make clear that it is the grant recipient's responsibility to notify ED/EDA when events occur that affect the terms**

## **of the Development Agreement.**

In 2018, Project Cold Storage, applied to the Economic Development Authority (“EDA”) for a grant under the Economic Development Incentive Grant program. On December 11, 2018, City Council adopted a resolution authorizing a grant award, and appropriated \$300,000 to be transferred to the ED/EDA for the grant.

Project Cold Storage was acquired by Company A, in March 2019 (the sale closed in May 2019).

The final Certificate of Occupancy (C.O.) for Project Cold Storage facility expansion was issued in November 2019. The ED/EDA was not aware at that time that Company A had acquired Project Cold Storage. When the ED/EDA became aware of the issuance of the final C.O., a check for \$100,000 representing payment of the first installment of the grant to Project Cold Storage was cut, but Company A returned the check, saying that they were not familiar with the existence of the grant and not interested in pursuing it. The EDA and ED staff were in the process of working with Finance to return the \$100,000 funds to the City.

The ED/EDA had not experienced this situation with prior grants. There was some lag time between the date of issuance of the final C.O., and the ED/EDA becoming aware that the C.O. had been issued. Project Cold Storage did not notify the ED/EDA that they were being acquired by Company A. In addition, our review of the Development Agreement revealed that the agreement did not articulate what information a company had to provide the ED/EDA (i. e. business being sold, permit number, Copy of C.O., Investment Grant Program Worksheet completed before the second and third payments will be made).

**Recommendation – We recommend that consideration be given to review and amend the Development Agreement, to make clear that it is the grant recipients responsibility to notify the ED/EDA of any events and/or changes to their circumstances that may impact the recipient’s performance under the Development Agreement. Also, the Economic Development Incentive Grant program policy may also need to be reviewed and amended to clarify the parties’ reporting responsibilities. (The \$100,000 was returned to the City during our audit.)**

**Response:** The Department has engaged the City Attorney in reviewing and amending (as they deem necessary) the Development Agreement format. The Economic Development Department does not dispute this finding but will defer to the City Attorney on legal matters as they are responsible for crafting of Development Agreements. To seek continual improvement, the Economic Development and City Attorney are reviewing the entire Economic Development Investment Program (EDIP) for items that need immediate attention and hope to engage the City Manager, City Council and EDA in an overhaul of the EDIP so that it better meets the needs of the City and Businesses and is aligned with the City of Chesapeake Strategic Plan which will be in development soon.

### 3. Resolutions and Worksheet Calculations

**Finding – Resolution amendments, approved by City Council, to the Economic Development Investment Grant Program, omitted tables that were referenced in the resolution.**

**The worksheet that ED/EDA used to determine the maximum amount of funds that were available for the Economic Development Investment Grant Program (EDIP) to a company, was not calculated in accordance with the Investment Grant Resolution dated July 12, 2016.**

Our review of the ED amendment adopted 7/14/09 found that it did not include three of the eight referenced tables. Review of the ED amendment adopted 7/12/16 found that it did not include the only table referenced in the amended resolution.

The EDIP Grant amounts were calculated using a point system. This point system assigned a point value for each of these seven attributes: jobs created, salaries, real estate investment, machinery and tools investment, business personal property investment, infrastructure improvements, and admissions tax. We found that three of the seven attributes, salary, machinery, and business personal property investments, were not calculated in accordance with the July 12, 2016 resolution amendment.

**Recommendation – ED/EDA should ensure that all tables, and other material, referenced in resolutions, are in fact included, prior to them going before the City Council for approval. Develop a monitoring and oversight process for the review of resolutions. Change the Grant Calculation worksheet to reflect the calculation method that is included in the City Council amendment. Process a new amendment to correct the last amendment in order to have the calculations work as the EDA expected.**

**Response:** The Department has engaged the City Attorney in reviewing and amending (as they deem necessary) the EDIP Resolution so that it is consistent with the Economic Development Department's Grant Calculation Worksheet. The Economic Development Department does not dispute this finding but will defer to the City Attorney and EDA Attorney on crafting of the EDIP Resolutions, with the input and careful review of Economic Development Staff. Economic Development acknowledges there was a minor inconsistency in the Grant Calculation Spreadsheet and has adjusted the calculations accordingly. As a result of the minor inconsistency in the Grant Calculation Spreadsheet, no businesses received grant awards beyond what they were qualified. Neither the City of Chesapeake, nor any grant awardees, were negatively impacted by the Grant Calculation Spreadsheet inconsistency.

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#### 4. Development Agreements – Signed Originals and Notary Issues

**Finding – Official copies of development agreements (DAs) were found not to be signed, accurately notarized, properly dated or kept in a central location.**

Audit Services selected 19 DAs for review. Between the ED/EDA files and those of the City Clerk's office, copies of all the agreements were found. However, not all agreements were found in one area.

Errors [in notarization] included leaving the date of the agreement off the notary stamp, using a wrong date for the agreement, and indicating that the agreement was signed before the date of the agreement.

One of the DAs had a pen and ink change made to the date of the DA without having the change properly initialed and dated by both parties.

**Recommendation: Management should consider establishing quality assurance review procedures of DAs to ensure that completed, signed original development agreements are sent to the City Clerk's office as soon as executed.**

**Response:** Economic Development does not dispute the findings. Since this Audit commenced a new staff member has been added to the Department with extensive legal experience and with significant experience as a Notary of Public with knowledge of procedures and guidelines set forth in Virginia Law. This staff member had been added to the Department review process to ensure all Development Agreements are complete, signed and properly notarized prior to being sent to the City Clerk. Economic Development is also investigating the use of digital signature software as an alternative solution to use of a Notary of Public.

#### 5. EDIP Grant Payment Issue

**Finding – The first EDIP Grant payments were not always processed in accordance with the development agreements (DAs).**

We randomly selected ten EDIP grant DAs, to determine if the first payments were paid in accordance with the DAs. DA's, selected for review, required that the first EDIP payment be made 60 days after the issuance of a certificate of occupancy. Our review of the DAs revealed that all had certificates of occupancy that were dated between 6/9/2017 and 1/11/2021. Of the ten agreements reviewed, 5 (50.0%) were paid as required, while 5 (50.0%) were paid after the agreed payment period had elapsed.

**Recommendation – Management should ensure that all EDIP payments are paid in accordance with the DAs. In addition, management should develop and implement a monitoring process to ensure payments are made timely.**

**Response:** The Department has engaged the City Attorney in reviewing and amending (as they deem necessary) the Development Agreement format. The Economic Development Department does not dispute this finding but will defer to the City Attorney on legal matters such as the crafting of Development Agreements.

## 6. Segregation of Duties

**Finding – Economic Development (ED) maintains the financial records for the Economic Development Authority (EDA). We found that segregation of duties and compensating controls needed to be improved. In addition, there were no documented procedures in place for the disbursement process.**

Our review of the financial records determined that an ED employee was responsible for maintaining the EDA financial records in Quick Books. We found that documented procedures had not been developed for the disbursement process.

One individual performs [multiple] functions which diminishes segregation of duties.

In addition, we found [multiple] concerns related to compensating controls.

**Recommendation: We recommend that documented procedures be established to ensure segregation of duties and compensating controls are in place. In addition, a monitoring process should be established to ensure internal controls are in place and functioning as designed.**

**Response:** The Economic Development Department does not dispute the findings and has address the following items as described above:

- *All check numbers should be entered into Quick Books.*
  - All checks are entered into Quick Books, including voided checks.
- *If issued checks have forged signatures, the Bank does not verify that issued checks contain only authorized signatures.*
  - The Executive Secretary of the EDA reviews bank statements, reconciliations, all checks (issued, outstanding, and voided) on a monthly basis and reports findings to EDA monthly.
- *The numerical sequence of issued unissued, voided, and missing checks should be verified by an independent person on a periodic basis.*
  - The Executive Secretary of the EDA reviews bank statements, reconciliations, all checks (issued, outstanding, and voided) on a monthly basis and reports findings to EDA monthly.
- *Incorporate use of a missing checks report from Quick Books as part of the reconciliation review process.*
  - Missing checks report is printed and reviewed by the Executive Secretary of the EDA on a monthly basis.

- *Consider requesting the bank to send EDA the front and backs of checks so that the endorsements can be reviewed.*
  - The front of checks are provided monthly as part of the bank statements and backs of checks are now being requested.
- *Fulton unissued check stock should be destroyed in the presence of two persons and the verification should document the beginning and ending numbers and the signatures and date of the two persons who verified the destruction of the checks.*
  - Closed Fulton Bank account check stock have been destroyed and verified by two people who signed and dated a statement confirming destruction.
- *Develop a backup plan for this function in the case this person is out of the office for an extended period.*
  - The EDA is contracting for Accounting and Audit Services and will include as part of these, back up accounting services in the event of an extended leave for Economic Development Staff member who performs monthly accounting functions for the EDA.

The Economic Development Department has procedures in place that include the Executive Secretary of the EDA to providing monthly review and oversight of the financial duties and functions performed by the Economic Development Staff on behalf of the EDA

## **7. Petty Cash and Travel Funds**

**Finding – Documented procedures for petty/travel cash funds had not been developed, written, and implemented. Sufficient internal controls were not in place to safeguard these assets nor was Economic Development following Finance Department’s citywide Petty/Travel Cash procedures.**

We evaluated the internal control process for petty/travel cash funds and determined that internal controls were not in place and assets were not safeguarded. We found [multiple] control weaknesses that need to be addressed.

The travel fund was last used in 2018, and the petty cash fund was last used in April 2019. **The \$2000 travel fund was returned to Finance during our audit.**

**Recommendation – ED should develop and document petty/travel cash fund procedures so that cash funds are safeguarded. In addition, ED should develop a monitoring process to ensure adherence to petty/travel funds control procedures.**

**Response:** Economic Development does not dispute the findings and as such has established and is following procedures requiring monthly counts with accompanying documentation (which exceeds City requirements of quarterly counts), and receipts for replenishment handled on a monthly basis. Additionally, Economic Development has eliminated the \$2,000 Travel Fund because it was used sparingly and not at all since the start of the Pandemic.