

AUDIT HIGHLIGHTS

September 28, 2021

Audit Report No. 131

WHY WE DID THIS AUDIT

An audit of Economic Development (ED) was included on the City Council-approved fiscal year 2020/21 Audit Plan. The audit objective was to review the Economic Development Incentive Program (EDIP) program and to ensure that controls were in place to assure the Economic Development Authority (EDA), and the City, that funds distributed for the EDIP are adequately accounted for and properly recorded.

BACKGROUND

In 2020, Economic Development changed their business model to address the City's response to the COVID pandemic. In addition to carrying out its core mission, Economic Development assignments expanded to coordinate and issue checks to businesses for the Small Business COVID-19 Recovery Grants program.

EDA holds a unique relationship with the Economic Development Department. Administrative and financial EDA processes are performed by City employees of the Economic Development Department. Those EDA administrative processes include cash handling, bookkeeping, reconcilements, and overall management of the ED EDIP Grant Award program.

WHAT WE FOUND

Favorable Observations Noted:

- ED was actively marketing Chesapeake as an ideal location for business with easy access to regional transportation hubs and access to one of the largest commercial shipping ports in the world.
- ED was successful in coordinating and issuing checks to businesses for the Small Business COVID-19 Recovery Grants program for Chesapeake to reimburse business expenses incurred on or after 3/1/2020; processing four rounds of grants with 88% of businesses that applied for \$5.6M available.
- ED was managing the Greenbrier and South Norfolk TIFs created to provide funding for public infrastructure projects to help attract private investment to the City.
- ED partnered with other state and regional organizations such as Hampton Roads Economic Development Alliance (HREDA) and Virginia Economic Development Partnership (VEDP) to provide a wide assortment of incentives to businesses to bring them into Chesapeake.

Opportunities for improvement:

EDIP Processes Reviewed	Description of Issues	Management Action
Memorandum of Understanding	Economic Development (ED) was providing 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.	Open Item
Development Agreement Modifications	Development Agreements for EDIP grants need 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. The result was a payment for \$100,000 being released by the City, and deposited to the EDA, in preparation for awarding. The business failed to report that it had been sold after the grant was awarded. The new owners were not aware of the EDIP agreement and did not want to accept the payment. City Finance, EDA, and ED are in the process of returning the money to the City.	Pending City Action
Resolutions and adherence to them	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.	Open Items
Contract Administration	Official copies of development agreements (DAs) were found not to be signed, accurately notarized, properly dated or kept in a central location.	Open Item
Timeliness of EDIP Payments	The first EDIP Grant payments were not always processed in accordance with the development agreements (DAs).	Open Item
Segregation of Duties	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.	Open Item
Compliance with Petty/Travel cash handling guidelines	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.	Corrective Measures Taken (The Travel Fund was returned to the City.)