

Audit Services Department
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September 28, 2021

The Honorable Mayor Rick W. West and
Members of the City Council
City of Chesapeake
City Hall – 6th Floor
Chesapeake, Virginia 23322

Dear Mayor West and Members of the City Council,

We have completed our review of the Chesapeake Department of Economic Development (ED) for December 1, 2020 – May 31, 2021. Our review was conducted for the purpose of determining whether the ED 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 Economic Development Incentive Program, City Resolutions, Development Agreements, Petty/Travel Cash, and general management oversight, including segregation of duties.

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) 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. These partnerships and the development and implementation of various programs encouraged industries and businesses to locate, and expand, within the City. The Economic Development Central Office Function also performed staffing functions for the Economic Development Authority (EDA) and Economic Development Advisory Committee and provided staff oversight for the Greenbrier and South Norfolk TIF districts. ED also served as liaison between the industrial and business communities and the City.

For Fiscal Year (FY) 2020-2021, the Department had an operating budget of almost \$4 million and an authorized compliment of 11 personnel. The largest item in the ED budget was over \$1.4 million (35.98%) for various incentive programs. The next largest item in the

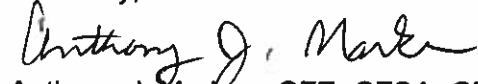
budget was a little under \$1.2 million (29.81%) for salaries and benefits.

To conduct this audit, we reviewed and evaluated City and Department policies and procedures, and operations documents and reports, both internal and external. We interviewed department management and staff. We examined the Department's Economic Development Incentive Grant Program (EDIP) in detail.

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 the lack of a formal memorandum of understanding, between the City and EDA, the need to update and modify the development agreements, compliance issues with City resolutions, calculation issues with a grant spreadsheet, issues maintaining the original, signed, development agreements in a central location as well as the accuracy of the notaries being used. There were also concerns with the timely payment of grants, segregation of duties, and petty/travel cash handling.

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 management and staff, especially the management analyst, were very helpful throughout the course of this audit. We appreciated their courtesy and cooperation on this assignment.

Sincerely,



Anthony J. Markun, CFE, CFSA, CBA, CRMA, CICA
Deputy City Auditor
City of Chesapeake, Virginia

C: Christopher M. Price, City Manager
Steven C. Wright, Economic Development Director