



Providing a FIRST CHOICE
Community through
Excellence in Public Service



CHESTERFIELD COUNTY
Internal Audit

Khara L. Durden, Director
Steve Sanderson, Assistant Director
Ryan Gartin, Audit Manager
Jim Boudreau, Senior Auditor
Lora Holland, Senior Auditor
Terry Parker, Senior Auditor
Aline Bright, Staff Auditor
Audrey Weatherholtz, Staff Auditor
Christian Wingfield, Staff Auditor
Kristen Ramey, Administrative Analyst

Economic Development Business Incentives and CARES Grants

December 9, 2021

HIGHLIGHTS	1
INTRODUCTION	2
FINDINGS/RECOMMENDATIONS	
Local Incentives	5
Business Activities	9
CARES Grants	11



Economic Development Business Incentives and CARES Grants

Highlights

Local Incentives

Chesterfield County offers a variety of business incentive programs such as tax relief, tax credits and financial assistance. Each incentive program has established criteria for applicants. We tested established criteria for the Business Expansion Incentive Fund (BEIF) and the Chesterfield Technology Zone Program and noted.

- Chesterfield Economic Development (CED) has not updated the BEIF Program Manual to reflect current operating practices for commitment letters and project start timelines.
- After seeking additional review and County Administrator approval, CED granted an exception for one BEIF application, allowing distribution of funds over the \$50,000 limit.
- CED followed program criteria for the approval of Technology Zone Program applications.

Recommendation(s): Update the BEIF Program Manual to reflect current operating practices and describe any incentive exceptions.

Business Activities

We benchmarked CED organizational practices to four other Virginia localities and noted:

- CED has documented policies for activities that are a departure from standard county policy and processes are documented for certain economic development programs such as BEIF. There is no comprehensive policy for all economic development incentives or detailed administrative procedures supporting the policy.
- The department does not consistently document work in the Salesforce system.

Recommendation(s): Develop department policy and procedures per GFOA Economic Development Incentive Policy best practice guidelines. Transfer customer relationship documentation into Salesforce for project management efficiency and provide employee's software training.

CARES Grants

We tested Back in Business grants and Day Care Support grants to determine if CED issued grants in compliance with the established requirements and no exceptions were noted. WizeHive was purchased to manage and process these grants. The initial application purchase was made on a CED travel credit card and the renewal payment was coded to books and publication expense rather than software expense which requires IST approval. CED did not follow Information Services Technology required evaluation and approval of the new application.

- CED reviewed CARES grant applications to ensure they were following established criteria.
- Incorrect expenditure coding prevented technology purchases from being approved by IST.

Recommendation(s): Ensure budget requests appropriate funding for the correct object code expense software.

Management concurred with 6 of 6 recommendations detailed in the report to be implemented from December 31, 2021 to July 1, 2023. Internal Audit performs annual follow-up with management to confirm implementation status.

INTRODUCTION

BACKGROUND

The Economic Development Business Incentives and CARES Grants audit was a regularly scheduled audit on the FY22 audit plan approved by the Audit and Finance Committees.

CED's mission is to enhance the economic vitality of Chesterfield County by attracting business capital investment, reinvesting in established areas, and creating new jobs. The department strives to create and maintain a stable and diverse business structure so that adequate County services can be provided without a disproportionate tax burden on residents. CED accomplishes this through a targeted recruitment of new businesses, the retention and expansion of existing businesses, small business development, and growing the business base through entrepreneurship. All programs and initiatives of the department support these key strategies.

The department's strategic plan establishes a framework for planning and delivering services to customers. Based on the vision, mission, values and goals, the strategic plan outlines the following business goals:

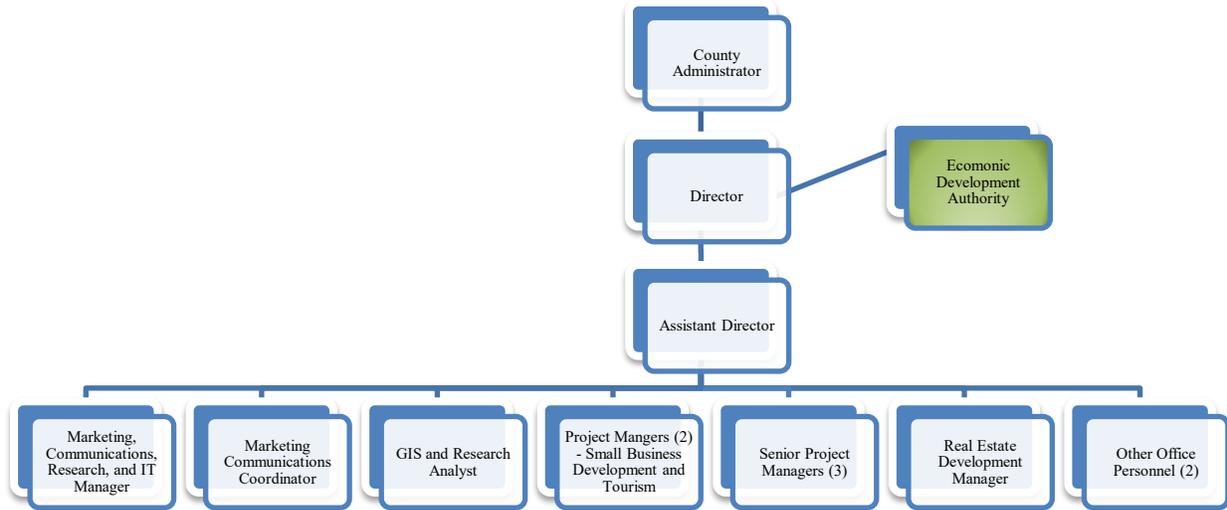
- Expand the County's commercial and industrial tax base by successfully locating desired business and industry through varied marketing activities.
- Cultivate a positive relationship between business and residential communities.
- Promote a positive business climate.
- Facilitate and encourage processes and policies that are more attractive to current and prospective businesses.
- Support regional workforce development initiatives to ensure the availability of a qualified workforce.
- Promote development of quality product to attract new business and industry.

CED adopted operating and personnel budget for FY21 was \$2,219,600; \$1,541,500 for existing business programming and \$678,100 for new business programming. CED prioritized the following in the adopted FY21 budget:

- Continue to build marketing and outreach efforts for new and existing business to encourage new capital investment and job creation.
- Provide greater business development support for small business, women-owned business,

The chart below shows the organizational and reporting structure of the department:

Chesterfield County Economic Development Organizational Chart



Chesterfield Economic Development Authority (CEDA), a political subdivision of the Commonwealth of Virginia, was created by the County in December 1968 pursuant to the Industrial Development and Revenue Bond Act. The CEDA is an important tool for economic development as it allows local government the ability to perform essential economic development activities such as enter into contracts, acquire property, and issue bonds and grants. All these activities are authorized under the Industrial Development and Revenue Bond Act. The CEDA members are appointed by the Board of Supervisors (BOS) and carry out the economic development goals and objectives of the BOS. The CEDA has no paid staff. Daily functions are handled by CED. CEDA works in conjunction with CED to provide services.

OBJECTIVES

Objectives of the audit were to:

- Assess current business assistance activities to identify potential service improvements.
- Analyze local business incentive programs for compliance with requirements.
- Evaluate local process for distribution of CARES funded business grants.
- Review departmental policies, internal procedures, and agreements to determine completeness.

SCOPE

Our audit work covered FY20 and the current operating environment. We considered the following code, policies, and procedures during our audit:

<i>Business Expansion Incentive Fund Program Manual</i>	<i>Government Finance Officers Association (GFOA), Establishing an Economic Development Incentive Policy</i>
<i>Back in Business Grant Guidelines</i>	<i>IST Administrative Policy 7-1; Acquisition of Computer Equipment, Software, Forms and Services</i>
<i>Daycare Support Grant Guidelines</i>	<i>IST Administrative Policy 7-8; Internet and Email Use</i>

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions 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. Terry Parker, Senior Auditor performed the audit work. Chesterfield County Internal Audit is a department within the organization of Chesterfield County/Schools.

METHODOLOGY

Detailed methodology information can be found in the individual point sheets. Our methodology included employee inquiry, on-site observations, data analysis, and review of available documentation.

INTERNAL CONTROL CONCLUSION

According to Government Auditing Standards, internal controls, in the broadest sense, encompass the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal controls include the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- efficiency and effectiveness of operations;
- accurate financial reporting; and
- compliance with laws and regulations.

Based on the results and findings of the audit test work, auditors concluded that internal controls were in place, but not consistently followed which could impact their ability to assist management in meeting its missions, goals, and objectives. Recommendations specific to improving these controls can be found in detail further in the audit report.

CLOSING

We would like to thank the Economic Development department for their cooperation and assistance during this audit.

FINDINGS, RECOMMENDATIONS, RESPONSES

Local Incentives

(Point Sheet 1)

CRITERIA:

Chesterfield County offers a variety of business incentive programs such as tax relief, tax credits and financial assistance. Each incentive program has established criteria for applicants. Criteria for the Business Expansion Incentive Fund (BEIF) and the Chesterfield Technology Zone Program incentives are described below.

Business Expansion Incentive Fund (BEIF) Program Manual - The BEIF Program Manual indicates a business:

- Have fewer than 250 employees, or less than \$20 million in revenues annually, or less than \$5 million net worth.
- Not engage in speculation or investment in rental real estate.
- Minimum capital investment of \$50,000 and create/retain one job for every \$10,000 in funding requested.
- Maximum request of \$50,000 per project.
- Not begin project prior to BEIF approval.
- Establish a performance contract with the County outlining responsibilities.

CED must complete the following for each BEIF incentive application:

- Determine eligibility for BEIF assistance by evaluating and scoring each request according to established criteria.
- Provide a commitment letter to the applicant notifying them of BEIF terms and conditions.
- Ensure an executed performance agreement is established between the applicant and CED.

FINDINGS, RECOMMENDATIONS, RESPONSES

Local Incentives

(Point Sheet 1)

Chesterfield Technology Zone Program - To be eligible for this incentive a business must be in one of the five technology zones established within the County as shown in Chart 1 below:

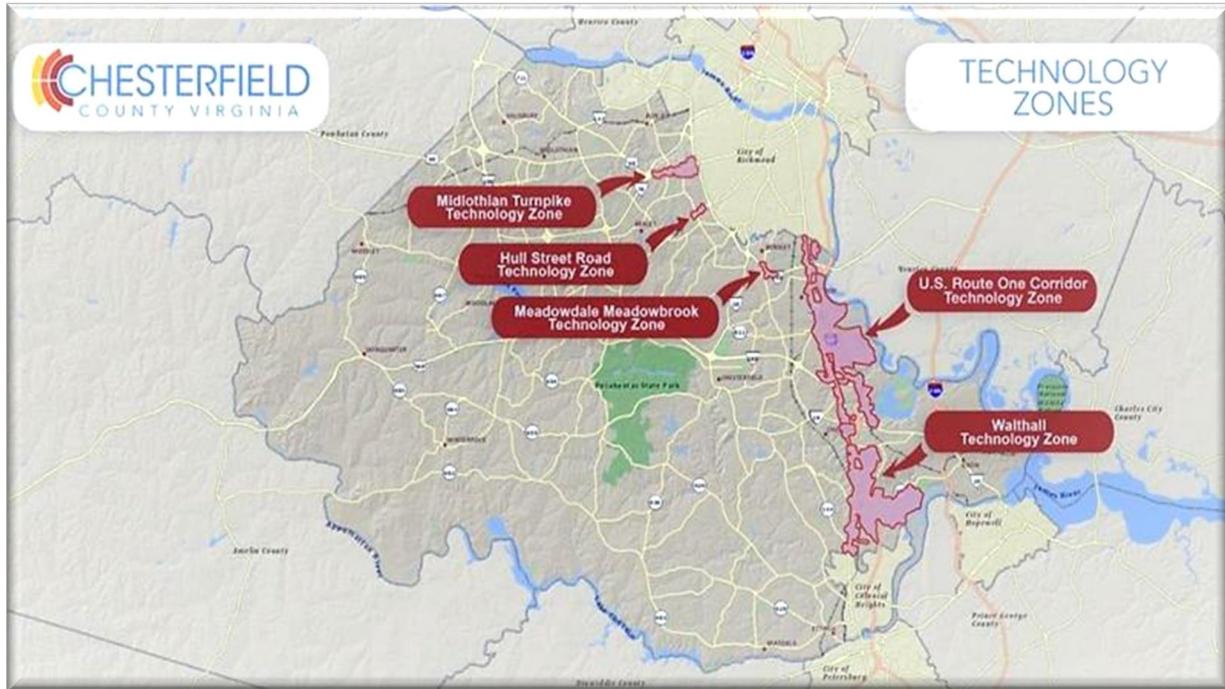


Chart 1: Chesterfield County Technology Zones

CONDITION(S):

Business Expansion Incentive Fund (BEIF)

CED established BEIF for the purpose of creating and securing job opportunities through the preservation and expansion of existing business in Chesterfield County. BEIF assistance may be in the form of low-interest loans or grants. There were no loans made from September 2019-December 2020. We tested BEIF grants for eligibility and performance agreement requirements.

Based on BEIF requirements, we tested grants for eligibility and grants for compliance with performance agreements. Based on our testing we noted the following for each:

Eligibility for Incentives

CED received three BEIF grant applications from September 2019 thru December 2020. The auditor reviewed all applications for eligibility and determined the following:

- CED did not approve one application because all the required paperwork was not received.

FINDINGS, RECOMMENDATIONS, RESPONSES

Local Incentives

(Point Sheet 1)

Distributed Incentives

CED distributed BEIF funds to four applicants dating back to 2017 and we noted the following:

- CED did not send applicant commitment letters to any applicants notifying them of BEIF terms and conditions.
- All BEIF applicants started projects before submitting grant applications.
- CED approved and distributed one grant for \$150,000, which exceeds the maximum of \$50,000. CED distributed two payments of \$75,000 to the applicant. CED requested guidance and approval from County Administration and the EDA.

Chesterfield Technology Zone Program

Chesterfield County has five technology zones which were determined by CED based on areas with business growth needs. A technology zone is a distinct geographical area that provides incentives designed to encourage business expansion and recruitment. These incentives include but are not limited to tax relief or refunds, utility connection fee waivers, zoning fee waivers and building permit fee waivers. CED determines applicant eligibility for the technology zone program based on business location. Once eligibility is determined, County departments such as Utilities, Planning, and Building Inspections as well as the Commissioner of the Revenue determine if applications qualify for specific incentives provided by their department. The applicant is responsible for reaching out to these departments to take advantage of the incentives. We tested 4 of 35 technology zone applications and noted no exceptions for incentive eligibility.

CAUSE(S):

- CED has not updated the BEIF Program Manual to reflect current operating practices for commitment letters and project start timelines.
- CED granted an exception for one application, allowing distribution of funds over the \$50,000 limit. CED sought additional review and approval for the grant exception by County Administration.
- CED followed program criteria in place for the approval of Technology Zone Program applications.

EFFECT(S):

- CED does not process incentives per requirements in BEIF Program Manual.
- CED incentive exceeded threshold outlined in BEIF Program Manual by \$100,000.
- CED issued all tested Technology Zone incentives according to established criteria.

FINDINGS, RECOMMENDATIONS, RESPONSES

Local Incentives

(Point Sheet 1)

RECOMMENDATION(S):

We recommend Economic Development:

1. Update the BEIF Program Manual guidelines and requirements to reflect current operating practices.
2. Update the BEIF Program Manual to outline incentive exceptions and additional required approvals for distributions exceeding of the \$50,000 limit.

Management's Response(s):

1. Concur, Karen Aylward, Assistant Director, is responsible for implementing 12/31/2021. Assistant Director will update guidelines and requirements to reflect current operating practices.
2. Concur, Karen Aylward, Assistant Director, is responsible for implementing 12/31/2021. Assistant Director will update guidelines and requirements to reflect current operating practices.

FINDINGS, RECOMMENDATIONS, RESPONSES

Business Activities

(Point Sheet 2)

CRITERIA:

The Government Finance Officers Association (GFOA) has developed a set of best practices that local governments can trust and rely on for guidance. These best practices provide recommendations on specific policies, procedures, and practices for governments to implement for improved financial management.

GFOA's Establishing an Economic Development Incentive Policy best practice recommends that localities create a policy on the appropriate parameters for use of economic development incentives. An economic development incentive policy should be specific enough to establish clear boundaries but not overly restrictive to allow for flexibility and discretion to ensure that the policy serves the best interest of the locality. The policy should avoid specific details for assessing project proposals but rather focus on broader decision-making criteria and processes.

Furthermore, the GFOA best practice includes direction to localities to develop and adopt detailed procedures that complement the policy and provide guidance on the administrative implementation of economic development incentives.

Customer relationships are in integral part of the operations of CED. Customer relationship management (CRM) software enables CED to achieve its strategic business goals and priorities efficiently and effectively. Some of the benefits of using an automated CRM application are as follows:

- Centralized database for all leads and customers.
- Tracking and sharing of interactions with business contacts.
- Consistency in the department processes.
- Reporting functionality to monitor performance

CONDITION(S):

We benchmarked economic department organizational practices by surveying nine Virginia localities. Survey questions focused on department procedures, business assistance activities, project management software use and agreements in place. Four of the nine localities responded, and the following summarizes information received:

- All four benchmarked localities had policies and procedures for their departments. CED has documented policies for activities that are a departure from standard county policy, such as travel and compensatory time. Processes are documented for certain economic development programs such as BEIF. Currently, there is no comprehensive policy for all economic development incentives or detailed administrative procedures for all incentives.
- Three of four localities have a formalized agreement with EDA. CED and the EDA do not. Inquiry with ED management and the County Attorney's office indicate the EDA and ED have worked successfully for many years without a formalized agreement.
- Directors for all four localities are not authorized to write checks. The CED Director is authorized to approve contracts, commence work and approved invoices on behalf of the

FINDINGS, RECOMMENDATIONS, RESPONSES

Business Activities

(Point Sheet 2)

EDA up to \$30,000. The CED Director can sign EDA checks when approved in public meetings for specific expenditures.

- We noted that CED has a customer relation management software; Salesforce, like all benchmarked localities, however; CED does not use the software consistently.
- CED uses similar business assistance methods in comparison to the other four localities.

CAUSE(S):

- There are documented department procedures; but they do not meet best practice guidelines.
- The department does not consistently document work in the Salesforce software.

EFFECT(S):

- Misuse of, or inconsistently applied Economic Development incentives and programming.
- Efficiencies are reduced when department documentation is in different applications.

RECOMMENDATION(S):

We recommend Economic Development:

3. Develop department policy and procedures per GFOA Economic Development Incentive Policy best practice guidelines.
4. Transfer customer relationship documentation into Salesforce for project management efficiency and consistency.
5. Provide employee Salesforce software training.

Management's Response(s):

3. Concur, Garrett Hart, Director, is responsible for implementing 7/01/2023. The department will develop policies and procedures for the use of economic development incentives following the GFOA best practices guidelines.
4. Concur, Garrett Hart, Director, is responsible for implementing 6/30/2023. CED intends to hire additional support staff to enter data and manage data in Salesforce. The department will also hire a consultant to review our Salesforce platform and make modifications that can make this tool more efficient and bring better value.
5. Concur, Garrett Hart, Director, is responsible for implementing 6/30/2023. Once the review and modification of Salesforce is complete and additional support staff are hired, training will be provided.

FINDINGS, RECOMMENDATIONS, RESPONSES

CARES Grants

(Point Sheet 3)

CRITERIA:

Chesterfield County administered three rounds of Back in Business (BiB) grants and one round of childcare grants during the COVID-19 Pandemic starting in June 2020. The Coronavirus Aid, Relief and Economic Securities (CARES) Act funding allowed localities to determine criteria for each grant type and round.

Back in Business (BiB) Criteria - Grant eligibility criteria for each round are outlined in the table below:

Criteria	Round 1	Round 2	Round 3
For profit business	X	X	X
Located in Chesterfield County	X	X	X
Minimum of two years in business	X	X	X
Chesterfield County business license or exempt from BPOL			X
Annual gross revenues of \$200,000 to \$2,000,000	X		
Annual gross revenues of \$30,000 to \$3,000,000		X	
Annual gross revenues of \$30,000 to \$6,000,000			X
Demonstrate a loss of 25% in revenue attributed to COVID-19	X	X	X
Franchises are only eligible for one grant	X	X	X
Other funding assistance received (Federal stimulus funds)		X	X

Grants amounts varied for each round. The table below outlines the grant amounts for each round:

Grant Awarded Revenue Sliding Scale	Round 1	Round 2 and Round 3
Annual gross revenues between \$200,000 to \$2,000,000	\$10,000	
Annual gross revenues of \$30,000 to \$49,999		\$5,000
Annual gross revenues of \$50,000 to \$199,999		\$7,500
Annual gross revenues of more than \$200,000		\$10,000

FINDINGS, RECOMMENDATIONS, RESPONSES

CARES Grants

(Point Sheet 3)

For all rounds, documentation including tax returns, W-9's, and financial statement of impacts were required to be submitted to CED for review prior to awarding grants. CED outlined other business restrictions for applicants as shown below:

- Prior BiB grant awarded.
- Independent contractors operating multilevel, network marketing businesses (Avon, Mary Kay, etc.), or gig platforms (Airbnb, Uber, Lift, etc.).
- Businesses engaged in speculation or investment in rental real estate.
- Businesses ineligible based on Small Business Administration (SBA) guidelines.

Daycare Support Grant Criteria – The requirements for CED daycare grants began in August 2020 as outlined below:

- Located within Chesterfield County.
- Licensed daycare center, religiously exempt center, or certified preschool.
- Provided services through December 31, 2020.
- Submit required grant application and documentation such as Virginia W9, employee identification numbers, and Department of Social Services license.

IST Administrative Policy 7-1 Acquisition of Computer Equipment, Software, Forms and Services states the Director of Information Services Technology is responsible for approving agreements or contracts between a County department(s) and an outside vendor(s) for the acquisition of all computer related equipment, software, forms, and services.

IST Administrative Policy 7-8 Internet and Email Use states that the Director of Information Services Technology, Purchasing Director, and County Attorney, or their designees must approve the use of internet-based and/or internet hosted business solution systems and services.

CONDITION(S):

On August 26, 2020, Chesterfield County Board of Supervisors approved an appropriation of \$61,561,228, representing Chesterfield's allocation of Coronavirus Aid, Relief and Economic Securities (CARES) Act funding received from the State. This included \$8,000,000 assigned to CED in BiB and daycare support grants for business expenses related to COVID-19 previously approved in March 2020. The below chart outlines the allocation of these funds:

FINDINGS, RECOMMENDATIONS, RESPONSES

CARES Grants

(Point Sheet 3)

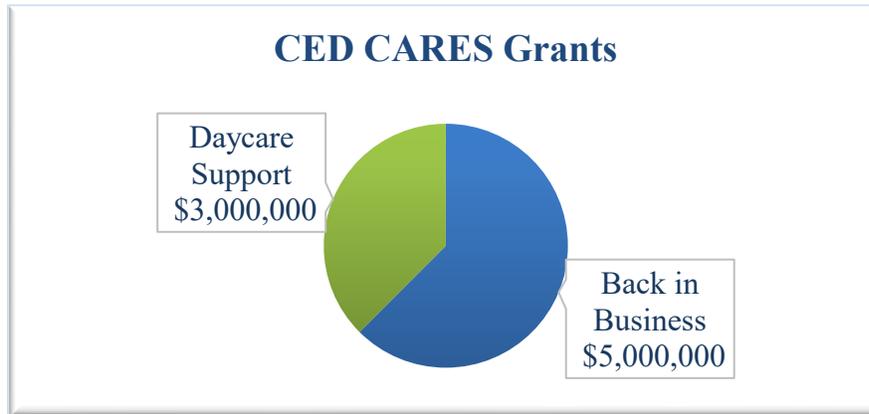


Chart 2: Allocated CARES Funds to CED

Back in Business Grant

The Chesterfield County Board of Supervisors approved \$5 million dollars of the County’s CARES Act funding to be set aside for a grant program to support small businesses negatively affected by COVID-19 at the March 27, 2020 meeting. The grant program was a partnership with Chesterfield County and the Chesterfield Chamber of Commerce. BiB grants were designed to provide immediate relief to businesses to help them remain in business through the COVID-19 pandemic and prepare for reopening. CED administered and awarded three rounds of BiB grants from the allocated \$5 million as shown below:

BiB Grants			
Grant Round	Grant Close Date	Grants Approved	Grant Total
BiB Grant in Round 1	June 18, 2020	15	\$ 150,000
BiB Grant in Round 2	July 2, 2020	190	1,727,500
BiB Grant in Round 3	November 20, 2020	154	1,355,000
		359	\$ 3,232,500

We tested 21 awarded BiB grants from all rounds totaling \$190,000 to determine if grants were issued in compliance with the established requirements. We did not note any exceptions. In addition, we reviewed nine BiB grants where CED received applications, but did not award a grant to determine non-approval justification. We did not note any exceptions.

Daycare Support Grant

Chesterfield County received state funding for incentive grants to help daycare providers remain open during the COVID-19 pandemic. CED awarded 80 grants totaling \$1,968,150. We tested four Daycare Support grants awarded totaling \$121,500 to determine if grants were issued in compliance with established requirements. We did not note any exceptions.

FINDINGS, RECOMMENDATIONS, RESPONSES

CARES Grants

(Point Sheet 3)

WizeHive

WizeHive is a cloud platform used to manage grants, scholarships, fellowships and more. CED purchased this platform with a department travel card for \$5,000 on June 15, 2020, to assist with BiB and Daycare Support grant distribution. In June of 2021, CED coded the WizeHive renewal expenditure for \$5,250 to the books and publications account rather than software expense. The application renewal was necessary since CED did not download supporting documentation related to the grants. We noted when reviewing these WizeHive purchases CED did not follow Information Services Technology required evaluation and approval of all new applications.

CAUSE(S):

- CED reviewed CARES grant applications to ensure they were following established criteria.
- Incorrect expenditure coding prevented technology purchases from being approved by IST.

EFFECT(S):

- CED awarded CARES grants to over 439 local businesses totaling \$5,200,650.
- CED did not follow the IST purchasing process resulting in software acquired, which may not align with County IST requirements.

RECOMMENDATION(S):

We recommend Economic Development:

6. Ensure budget requests appropriate funding for the correct object code, expense software.

Management's Response(s):

6. Concur, Garrett Hart, Director, is responsible for implementing 7/01/2022. CED will utilize the object code for software thus initiating a review by IST.