

Incentives Division Audit Report

Virginia Economic Development Partnership

April 16, 2020





Audit Committee
Virginia Economic Development Partnership
Richmond, VA

We have performed procedures to assist the Audit Committee in evaluating the design and operating effectiveness of controls within the Incentives Division of the Virginia Economic Development Partnership (VEDP). Our engagement was performed in accordance with internal audit standards issued by the Institute of Internal Auditors (IIA).

Our procedures did not constitute a financial statement audit and therefore we do not express an opinion on VEDP's financial statements or any elements, accounts, or items thereof as a part of this engagement. In addition, our procedures did not constitute an examination of internal control as defined by the AICPA, and accordingly we do not express an opinion on the effectiveness of internal control of VEDP. Our engagement did not include a detailed examination of all transactions and was not designed, and cannot be relied on, to discover errors, irregularities, or illegal acts, including fraud or defalcations that may exist. If we had performed additional procedures, other matters might have come to our attention that would have been reported to you.

We have enclosed our report, which summarizes the scope of the engagement, the results of our procedures, and our recommendation to VEDP based on our finding.

The information contained in this report is intended solely for the use of the Audit Committee, Board of Directors, and management of VEDP and is not intended to be and should not be used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Richmond, Virginia
April 16, 2020

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Executive Summary

We have completed an internal audit of the controls over the Incentives Division. Below is an explanation of the Finding Classification associated with the finding / observation identified during our audit. See detailed summary of the Finding, Recommendation, and Management’s Response on page six.

VEDP has successfully implemented all of their JLARC-related action plans related to Incentives. The Incentives Division is operating efficiently and effectively. However, we identified one recommendation for improving how Incentive related projects are documented. This recommendation is as follows:

- Document in Salesforce the status of the performance agreement drafted by VEDP’s General Counsel. Currently the status as to the completion of this document is not recorded in Salesforce.

Finding Classifications	Quantity
Critical —Matter is urgent and requires immediate action by the Board of Directors and Executive Management.	0
High —Matter is a high priority that requires Executive Management’s immediate attention and correction.	0
Medium —Matter is a priority that requires Executive Management’s attention and a commitment to correct in a reasonable timeframe.	0
Low —Corrective action is necessary. These items represent infrequent errors or opportunities to improve internal controls or processes.	1
Best Practice —These items represent observations where there may not be an error, but controls or processes could be improved to better align with best practices.	0

Conclusion: Satisfactory

A “Satisfactory” rating, as defined below, was assigned based on the results of this audit.

Satisfactory	Strong internal controls exist, and they are generally working as intended. No findings rated Critical, High or Medium were noted.
Satisfactory with Exceptions	Audit area does not contain any findings rated Critical or High. However, some Medium rated findings were noted that do require a commitment to correct by Management.
Improvement Required	Audit area contains findings rated High or Medium that, when aggregated, result in an elevated level of risk that require timely attention and correction by management.

Unsatisfactory

Significant internal control weaknesses exist. The overall number / extent of control weaknesses represents unacceptable exposure and risk.

Overview of the Incentives Division

The Virginia Economic Development Partnership (VEDP) Division of Incentives (Incentives Division) is tasked with administering certain economic development incentives, including the vetting of prospective companies being considered for incentives. This Division is also tasked with monitoring and reviewing the status and progress of the performance requirements for certain economic development incentives in accordance with Section 2.2-2237.3 of the Code of Virginia of 1950, as amended (the Virginia Code). The Division is led by the VP of Incentives and also includes three other staff members.

Scope of Audit

We identified the following to be within the scope of this audit, which covered the period of July 1, 2018 – December 31, 2019:

- Evaluate Joint Legislative Audit & Review Commission (JLARC) Report action plans, in order to determine that the observations have been remediated successfully in the Incentives Division.
- Documentation of and adherence to policies and procedures (P&P).
- Completion of due diligence on potential projects and proper approval.
- Approval of grant funds issued by VEDP.
- Reporting to the VEDP Board of Directors on the percentage of companies who are fulfilling their contractual requirement for submitting their annual Commonwealth Development Opportunity Fund (COF) progress reports.
- Reporting to the VEDP Board of Directors on each project that is subject to a clawback, as well as the repayment status for any applicable clawback.
- Follow-up by VEDP on collection of grant funds for performance metrics that are not met per the contractual agreement.
- Approval of performance extensions.
- Receipt of final reports after the completion of projects.
- Verification of data provided in final project reports.
- Semi-annual updates on the status and performance reports for each incentive grant program.

Follow-up on JLARC Report Recommendations

DHG evaluated the Incentives related recommendations given to VEDP as part of JLARC's 2016 review. We assessed eight recommendations related to Incentives and determined that VEDP successfully implemented all of their action plans related to Incentives.

JLARC Recommendation 19: *The Virginia Economic Development Partnership (VEDP) board of directors should work with VEDP staff to develop written policies and procedures to standardize VEDP's process for evaluating projects that are considered for incentives. The new policies and procedures should ensure that*

VEDP is appropriately and consistently prioritizing the use of incentives toward projects that create quality jobs and have the greatest economic benefit for Virginia's regions. The policies and procedures should clearly describe the criteria and methods to be used to assess projects for incentives funding. Criteria should include an assessment of each project's expected level of increased exports from the state, employment multiplier, and wages compared to regional industry averages.

We determined that VEDP has adequately documented, in their P&P, the Due Diligence process for evaluating companies who are seeking incentives when coming to the Commonwealth of Virginia. We deem this JLARC finding to be remediated.

JLARC Recommendation 20: *The Virginia Economic Development Partnership (VEDP) board of directors should require VEDP to report to them annually on the percentage of companies that fulfilled their contractual requirement to report their progress towards meeting performance requirements.*

We determined that management has effectively reported to the VEDP Board of Directors, the percentage of companies who are fulfilling their contractual requirement for submitting their annual COF progress reports. We deem this JLARC finding to be remediated.

JLARC Recommendation 21: *The Virginia Economic Development Partnership (VEDP), with the assistance of staff at the Virginia Department of Taxation and Virginia Employment Commission, should develop and consistently follow policies and procedures to verify job creation and wage claims of companies receiving incentive grants administered by VEDP. These policies and procedures should require VEDP staff to conduct periodic audits of company performance to verify project performance data and be sufficiently detailed to enable staff to verify company claims consistently and effectively while limiting staff discretion where appropriate.*

We determined that VEDP has adequately documented the employee verification process for verifying job creation and wage claims, as well as how VEDP staff should perform periodic audits/validations of companies who are receiving VEDP grant funds. We deem this JLARC finding to be remediated.

JLARC Recommendation 22: *The Virginia Economic Development Partnership (VEDP) board of directors should ensure that VEDP develops and implements formally documented performance verification procedures for staff to follow to ensure that grant recipients are meeting their expected performance requirements in accordance with established performance agreements.*

We determined that VEDP has adequately documented whether grant recipients are meeting their expected performance requirements in accordance with established performance agreements with VEDP. We deem this JLARC finding to be remediated.

JLARC Recommendation 24: *The Virginia Economic Development Partnership (VEDP) board of directors should require VEDP to develop and use standard policies and procedures that clearly explain when and how staff should enforce clawback provisions. Enforcement should be consistent and effective for all companies that do not meet their contractual obligations, including wage requirements. The board should require VEDP staff to report regularly to the full board on each project that is subject to a clawback and the repayment status for each project that is subject to a clawback.*

We determined that VEDP has adequately documented the clawback process for enforcing repayment provisions for clients who are not meeting their contractual obligations. We also found that VEDP has adequately reported to the Board of Directors each project that is subject to a clawback, as well as the repayment status for each project that is subject to a clawback. We deem this JLARC finding to be remediated.

JLARC Recommendation 25: *The Virginia Economic Development Partnership (VEDP) board of directors should require VEDP to develop and implement policies and procedures to ensure that all performance extensions, whether granted by VEDP or localities, are consistent with statute (§ 2.2-115 of the Code of Virginia) and that justifications for the performance extensions are documented. The board should require VEDP staff to report all extensions granted to the full board for review.*

We determined that VEDP has adequately documented the performance extensions verification/evaluation process that have been submitted by localities on the behalf of clients/projects in the Administration Policy and Procedural Guidelines document and it is consistent with statute (§ 2.2-115 of the Code of Virginia). VEDP staff is also effectively reporting the extensions requested to the Board of Directors for review and these are evidenced in the Board Meeting Minutes. We deem this JLARC finding to be remediated.

JLARC Recommendation 26: *The Virginia Economic Development Partnership (VEDP) should create a separate division in VEDP that is solely responsible for incentives administration and assign at least three staff to administer incentives. VEDP should ensure all staff employed in this function have the qualifications and training necessary to perform the work assigned to them.*

VEDP addressed this recommendation by creating an Incentives Division and staffing it with four individuals. We deem this JLARC finding to be remediated.

JLARC Recommendation 27: *The Virginia Economic Development Partnership (VEDP) should increase the transparency of its incentive grant programs by developing a user-friendly website to more transparently report the status and performance of grant programs and of each project that has received an incentive grant through VEDP. The website should include, at a minimum, information on expected versus actual performance, the performance period, all extensions granted, and all repayments required of and made by grant recipients. Information should be provided for each project and also be aggregated and reported for each program administered by VEDP.*

We determined that VEDP has increased the transparency of its reporting on incentive grant programs by developing a user-friendly website to report the status and performance of grant programs and of each project that has received an incentive grant through VEDP. We deem this JLARC finding to be remediated.

Finding, Recommendation, and Management’s Response

LOW RATED FINDING				
NUMBER	FINDING	RECOMMENDATION	MANAGEMENT’S RESPONSES	EXPECTED COMPLETION DATE
L-1	The performance agreement is drafted by VEDP’s General Counsel and is done after the necessary approvals are given following due diligence. Completion of the pre-approval document may take significant time and the status of the document is not recorded in Salesforce.	We recommend that the status of the performance agreement be documented in Salesforce.	VEDP concurs with the finding and recommendation, and will: <ul style="list-style-type: none"> • Modify Salesforce to enable tracking of the status of performance agreements • Ensure consistent tracking of the status of performance agreements in Salesforce 	June 30, 2020