

Minutes
Finance and Audit Committee Meeting
Board of Directors of the Virginia Economic Development Partnership
September 13, 2023
1:30 p.m.

901 East Cary Street
One James Center, Board Room, 9th Floor
Richmond, VA 23219

Welcome and Call to Order

The meeting was called to order at 1:40 p.m. by Chair Rick Harrell, who noted that a quorum was present.

In-Person Committee Members: Chair Rick Harrell, Secretary Stephen Cummings, Pace Lochte, Secretary Caren Merrick, Will Sessoms, and Steven Stone

Virtual Committee Members: April Kees

In-Person Other Board Members: Carrie Chenery, Mimi Coles, John Hewa, and Marianne Radcliff

Virtual Other Board Members: Bill Hayter

In-Person VEDP Staff Members: Stephanie Agee, Nicole David, Jason El Koubi, Kim Ellett Stef Florie, Katherine Goodwin, Bob Grenell, Chris Hughes, Nicole Riley, Carrie Vuori, Lisa Wallmeyer, and Summer Xia

Virtual VEDP Staff Members: Carrie Vuori

In-Person Guests: Chris Kalafatis, Randy Sherrod, and Kendra Shifflett

Virtual Guests: Chelsea Jenkins and Kim McKay

Public Comment Period

Chair Harrell asked for public comments. There were none.

The Committee approved the virtual participation of April Kees pursuant to subdivision (B) (4) of Section 2.2-3708.3 of the Code of Virginia and the Committee's policy adopted pursuant to

subsection D of Section 2.2-3708.3 of the Code of Virginia. April Kees participated remotely from the Pocahontas Building due to pending office move.

Approval of Minutes for 06/07/23 Meeting

Chair Harrell asked for approval of the minutes from the June 7, 2023, Committee meeting.

A motion was made by Mr. Sessoms and seconded by Mr. Stone and the minutes were unanimously approved as presented.

VEDP FY23 Financial Results (thru 06/30/2023)

Mr. Grenell presented the final FY23 financial results. Mr. Grenell said that, as anticipated, spending increased in the fourth quarter. He said that operationally VEDP is at 81% and Projects, Pass Thru's and Grants are at 75% of spending for the fiscal year.

Mr. Grenell highlighted areas where VEDP ended the fiscal year behind in spending. He spoke about the Talent Solutions, including the Talent Accelerator Program, and Incentives divisions.

Mr. Grenell said that the FY23 budget balance remaining for Projects, Pass Thru's and Grants is for the Virginia Business Ready Sites Development and Characterization programs (VBRSP) to be spent in future years. Mr. El Koubi added that substantially all of the sites dollars have been committed, but because they are paid out on a reimbursement basis, they tend to get spent in future years.

Mr. Grenell explained that unspent funds in the Talent Accelerator Program, International Trade, and the VBRSP included in Projects, Pass Thru's and Grants are programmatic commitments carried forward to the FY24 budget.

Mr. El Koubi spoke about the financial impacts of implementing the Innovative Framework for Economic Growth. He explained the budget strategy for initially standing up the sector teams, which includes utilizing vacancy savings and interest on fund balances. Mr. El Koubi said that these revenue sources cannot sustain the Innovative Framework for the long term. He added that VEDP will need additional revenue to fully implement plans and grow the sector teams, which he said will be included in VEDP's future budget requests.

Ms. Lochte made a motion to accept the financial results report. Mr. Sessoms seconded the motion, and the report was unanimously approved.

Audit Update

Chair Harrell introduced Mr. Kalafatis with FORVIS to provide a progress update on VEDP's audit function.

Mr. Kalafatis shared that audits of the Real Estate Solutions and International Trade divisions will be kicking off soon.

Mr. Kalafatis shared the tracker of audit action plans from previous audits. He said that his team and VEDP expect to close 100% of the action plans by the end of 2023.

Chair Harrell thanked Mr. Kalafatis for his report.

ARMICS Update

Mr. Grenell explained that the Agency Risk Management and Internal Control Standards (ARMICS) is a directive from the Virginia State Comptroller issued in November of 2006. He reviewed the primary objective of ARMICS.

Mr. Grenell said that a question was posed at a previous Finance and Audit Committee meeting as to whether ARMICS applies to VEDP and whether VEDP has to follow the ARMICS guidelines.

Mr. Grenell said that VEDP did some research and determined that VEDP is not required to do a formal certification to the comptroller's office every year because VEDP is an authority, not an agency. Mr. Grenell added that VEDP does comply with many of the standards. Mr. Grenell reviewed the items where VEDP is in full compliance.

Mr. Grenell said that between audits conducted by the Auditor of Public Accounts (APA) and FORVIS, VEDP is compliant with the spirit of ARMICS.

Code of Virginia Update Related to Full Audited Financial Statements

Mr. Grenell reminded the Committee that at its last meeting, the topic of a Code of Virginia requirement which requires that VEDP submit an annual report, including full audited financial statements, came up for discussion. It was introduced due to a change that was suggested by the Auditor of Public Accounts (APA) to remove the requirement of providing this overly burdensome documentation and to allow the APA's annual audit report to satisfy this requirement.

A legislative request has been submitted to remove this requirement from the Code of Virginia and VEDP should have an update following next year's General Assembly session.

Secretary Cummings asked what Mr. El Koubi relies on when he makes his certification of VEDP's financial statements. Mr. El Koubi answered that he relies on third-party validation from the auditors (APA and FORVIS) and validation from members of VEDP's Executive Leadership

Team, for areas that he does not have deep familiarity with, for their confirmation that VEDP is doing all of the things that Mr. El Koubi is attesting to.

Mr. Cummings emphasized the importance of this process and that the VEDP leadership team take validation of the information very seriously.

Chair Harrell thanked Mr. Grenell for his reports.

IT Security Update

Mr. Hughes shared VEDP's IT Audit Plan Five-Year Outlook, including routine audits, and numerous sensitive systems audits.

Mr. Hughes shared open audit findings and the status of each, stating that VEDP is in good shape overall.

Mr. Hughes shared VEDP's Nucleus vulnerability dashboard which displays vulnerability data since June 2023 across all sources. He explained that the dashboard provides intelligence on credible threats. Mr. Hughes said that he and his team have been working with VEDP's new security partner, Asura to monitor the progress that is being made on making VEDP's network more secure.

Mr. Hughes explained that VEDP's vulnerability management program is operational and focused on normalizing a 30-day remediation cycle. He said there is still a slight backlog, but that things are in good shape.

Mr. Hughes said that VEDP's partnership with Asura has allowed VEDP to rapidly improve information security and governance.

Mr. Hughes said that a representative from Asura will give a brief presentation at the next Committee meeting in December.

Secretary Merrick asked if this is a way to calculate the vulnerabilities that are external and based on software programs or are some of these also internal practices that VEDP needs to monitor?

Mr. Hughes answered that both are being tracked, but Nucleus provides a more holistic look at total vulnerabilities.

Mr. Harrell thanked Mr. Hughes for his report.

Extension Requests

Chair Harrell introduced Ms. Goodwin to share her report.

Ms. Goodwin presented two extension requests for the Committee's consideration. She stated that the localities where these companies are located are supportive of the extension requests.

Teal-Jones – Henry County has requested a 15-month extension for \$200,000 COF and \$53,600 VJIP grants to provide more time for the company to reach its employment target. The company has already exceeded its investment target. Teal-Jones is struggling in job creation, which is only at 40% of the goal. The company is taking a number of steps to increase hiring including increasing wages, engaging contract labor agencies and community vocational programs with the goal of transitioning these workers to full-time employees, and they have hired a dedicated Human Resources manager to focus solely on recruitment. VEDP believes that the company is doing all the right things to approach their jobs target by the extended performance date.

Total Fiber Recovery – City of Chesapeake has requested a 15-month extension for \$200,000 COF grant to provide more time for the company to reach its employment and capital investment targets. The company has experienced delays in their startup production. They have ordered their equipment and are on track now. A General Manger has been hired, who is beginning to staff key positions. The company is optimistic that they will achieve their metrics by the extended performance date.

Mr. Stone made a motion to recommend approval of both extension requests that were presented. Ms. Lochte seconded the motion, and the recommendation was approved.

Clawback Updates and OAG Referrals

Ms. Goodwin stated that there have been no new referrals to the Office of the Attorney General (OAG) since the last Committee meeting.

Ms. Goodwin shared the clawback report and explained that no clawbacks are past due as of August 25, 2023.

Ms. Goodwin shared that eight clawbacks have been paid and closed out since June 8, 2023.

Ms. Goodwin reviewed the progress report on VJIP projects subject to clawback. She stated that there have been no VJIP clawbacks referred to the OAG and no clawbacks are currently in process or past due.

Ms. Goodwin stated that there is one data center project, OVH, currently subject to clawback, the amount of which is currently being determined by an auditor from Tax. VEDP hopes to have a status update to share at the next Committee meeting.

Ms. Lochte made a motion to recommend approval of the clawback report. Mr. Sessoms seconded the motion, and the recommendation was unanimously approved.

Semi-annual Report on Incentive Performance

Ms. Goodwin shared the VEDP-Administered Incentives Dashboard. She highlighted that Merchant House and Block One have returned their COF grants totaling \$740K.

Mr. Sessoms made a motion to recommend approval to the full Board of the Semi-annual Report on Incentive Performance. Mr. Stone seconded the motion, and the recommendation was unanimously approved.

COF Progress Reports

Ms. Goodwin shared that VEDP received 100% of the 73 COF Annual Progress Reports that were due for FY23.

Incentives Policy & Procedures Annual Review

Ms. Goodwin explained that VEDP's Incentives Administration Policy and Procedural Guidelines must be reviewed on an annual basis and any suggested updates must be reviewed and approved by the Board. She added that during the 2023 General Assembly session, there were no legislative impacts on VEDP-administered incentives.

Ms. Goodwin reviewed several proposed changes to the Guidelines. She explained that many suggested changes for this year are related to the Innovative Framework for Economic Growth.

Mr. Sessoms made a motion to recommend approval to the full Board of the suggested updates to VEDP's Incentives Policy and Procedural Guidelines. Mr. Stone seconded the motion, and the recommendation was approved.

Other Topics, Next Meeting, and Adjournment

Mr. El Koubi spoke about a recently published deep dive report by the Joint Legislative Audit and Review Commission (JLARC) on VEDP's most important incentives. He said JLARC's overall view of VEDP's incentives programs is positive and that the report is complimentary of VEDP's incentives processes. He noted that the report recommended that one incentive that is not currently administered by VEDP should be moved to VEDP to be most effective. He said this is a milestone for VEDP and that it reflects the great work that Katherine Goodwin, Kim Ellett, and others on the Incentives team are doing every day. Mr. El Koubi committed to sharing the report with the Committee for their awareness.

The next meeting of the Finance and Audit Committee will be held on December 6, 2023, exact time TBD. The meeting was adjourned at 2:20 p.m.

Respectfully submitted,

A handwritten signature in black ink that reads "Nicole David". The signature is written in a cursive, flowing style.

Nicole David
Acting Recording Secretary