

JLARC Audit Report

# Virginia Economic Development Partnership

May 5, 2020





Finance and Audit Committee  
Virginia Economic Development Partnership  
Richmond, VA

In FY16, JLARC (Joint Legislative Audit and Review Commission) issued a report to VEDP with recommendations for improvement. VEDP has spent the last several years implementing their maintenance plan to address the findings in that report. We have performed procedures to assist the Audit Committee in evaluating whether VEDP has implemented the maintenance plan actions they developed to address the recommendations given by JLARC. 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 and the results of our procedures.

The information contained in this report is intended solely for the use of the Finance and 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  
May 5, 2020

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## Executive Summary

We have completed an assessment to determine if VEDP sufficiently implemented their maintenance plan to address the 27 recommendations calling for action by VEDP management and/or the VEDP Board of Directors from the 2016 report issued by the Joint Legislative Audit and Review Commission (JLARC). We previously assessed 17 of these recommendations, primarily through previous internal audits of other divisions such as Human Resources (HR), Incentives, International Trade, and Research. DHG found that VEDP had substantially implemented its JLARC-related commitments. However, there were three findings in the HR division where we issued recommendations to improve the clarity, documentation, and/or timeliness of how those items were implemented.

During this current project, we evaluated the remaining 10 JLARC recommendations not previously assessed during these division audits. We found that VEDP had substantially implemented these JLARC-related commitments as well. However, there is one finding where VEDP could strengthen their documentation of training that BI employees take by ensuring that training completion is included in annual performance evaluations.

***Taking these various internal audit reports together, we find that VEDP has substantially implemented all 27 recommendations from the 2016 JLARC report that called for action by VEDP management and/or the VEDP Board of Directors.***

We have summarized our conclusions below related to VEDP's progress towards fully implementing their remediation plans to all 27 JLARC recommendations.

## Overview of the JLARC Report

JLARC conducts program evaluation, policy analysis, and oversight of state agencies on behalf of the Virginia General Assembly. The duties of the Commission are authorized by the Code of Virginia. In 2016, JLARC reviewed the operations, programs and policies at VEDP and issued 27 recommendations calling for action by VEDP management and/or the VEDP Board of Directors. VEDP developed a maintenance plan to address each of the recommendations in JLARC's report.

## 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:

- Follow-up on implementation of responses to the recommendations made in the JLARC report that were not yet evaluated by DHG in audits of other VEDP divisions.

## Follow-up on JLARC Report Recommendations

We assessed the ten JLARC recommendations from their 2016 report that had not yet been evaluated by DHG in other audits to determine whether VEDP's action plans had been sufficiently implemented.

**JLARC Recommendation 1:** *The General Assembly may wish to consider amending the Code of Virginia to require the VEDP board of directors to develop and regularly update a strategic plan for VEDP. At a minimum, the process to develop and revise VEDP's strategic plan should occur every three years and should include a systematic assessment of how VEDP can best add value through each of its statutory responsibilities. The strategic planning process should include VEDP's key economic development partners, including state, regional, and local organizations with economic development programs. The strategic plan should include specific goals, objectives, and strategies, and quantifiable metrics for each goal and objective. VEDP should report on its progress toward meeting its goals and objectives annually through its operating plan, as required by Item 125 B of the Appropriation Act.*

We determined that the VEDP CEO and Board updated the VEDP strategic plan within the required bi-annual time frame. In addition, VEDP submitted the annual report on its FY 2019 strategic plan update and its progress toward meeting the goals and objectives of the plan to JLARC's special subcommittee for economic development, and the Chairmen of the House Appropriations Committee and Senate Finance Committee. We deem this JLARC finding to be remediated.

**JLARC Recommendation 3:** *VEDP should develop and implement formal, written policies and procedures (P&P) that outline (i) what services staff are expected to provide, (ii) the steps staff should take to provide them, and (iii) under what circumstances staff should coordinate with other VEDP staff or external entities.*

We determined that VEDP has developed and implemented formal, written P&P to outline (i) what services staff are expected to provide, (ii) the steps staff should take to provide them, and (iii) under what circumstances staff should coordinate with other VEDP staff or external entities. The P&Ps that we analyzed include the (1) Virginia Economic Development Partner Protocols, (2) Business Investment (BI) Handbook, and the (3) Salesforce Manual. VEDP has worked to update these P&Ps to reflect any changes to BI's services, steps to carry out these services, and coordination with internal and external partners. We deem this JLARC finding to be remediated.

**JLARC Recommendation 5:** *VEDP, in collaboration with its board, should establish new, more accurate agency-wide performance metrics that better reflect VEDP's economic development activities, service quality, and impact.*

We determined that VEDP adequately reported the fiscal year-to-date performance metrics to the VEDP Board during the FY19 June Board Meeting. This appears to reflect VEDP's economic development activities, service quality and impact to the Board of Directors. We deem this JLARC finding to be remediated.

**JLARC Recommendation 6:** *VEDP should develop standard definitions for all data fields in its system and implement mechanisms to restrict incorrect data entry. VEDP should ensure that staff receive data entry training at onboarding and at least once every two years.*

VEDP formed a data management group, which created exception reporting to identify data integrity issues. We also determined that proper training on data entry was given to employees within the last two years. We deem this JLARC finding to be remediated.

**JLARC Recommendation 9:** *VEDP should request a review by the International Economic Development Council (IEDC) of staff performance metrics to ensure they are measurable and appropriate to hold staff accountable. VEDP staff should report the results of the review, and any changes made, to the VEDP board of directors for their review.*

We determined that VEDP has incorporated IEDC's recommendations to include both output and outcome measures in the BI performance metrics and effectively reported this to the Board of Directors on October 24, 2019. We deem this JLARC finding to be remediated.

**JLARC Recommendation 11:** *VEDP board of directors should require staff to systematically collect and assess the perspectives of VEDP's economic development partners on how VEDP could more effectively coordinate its services with other organizations and encourage coordination within the broader economic development system. The survey should be conducted at least once every two years. VEDP should report the results of all surveys to its board and use the results to tailor its future services and program offerings.*

We determined that VEDP has adequately conducted a survey of the organization's partners/staff, to assess the perspectives of VEDP's economic development partners and how VEDP could more effectively coordinate its services with other organizations. VEDP has also adequately reported the results of the survey to VEDP's Board for their review. We noted that the FY19 survey results were to be reported to the Board during their March 2020 meeting, but that meeting was cancelled. We deem this JLARC finding to be remediated.

**JLARC Recommendation 12:** *VEDP should develop and adhere to a written annual marketing plan that includes, at a minimum, (i) an identification of VEDP's specific and measurable marketing goals; (ii) specific activities and timetables to achieve the goals; (iii) the resources and staff allocated to the marketing activities; and (iv) how VEDP will evaluate the effectiveness of its marketing activities. The plan should concentrate goals and activities on marketing to industries that align with the statewide economic development strategy, the state's available economic development assets, and the priorities of other state, regional, and local economic development entities. The plan should include strategies for how VEDP will accomplish its goals in coordination with state, regional, and local marketing organizations.*

We determined that VEDP updated their Marketing Plan for FY 2020 and reported this comprehensive plan to the General Assembly. We deem this JLARC finding to be remediated.

**JLARC Recommendation 13:** *VEDP should establish and require marketing staff to attend an annual training that provides instruction on VEDP's marketing message, how staff should communicate this message to customers, and the process for getting marketing materials approved. VEDP should include a measure of whether staff have complied with training requirements and the approval process in their performance evaluations.*

VEDP established annual training for BI staff as recommended by JLARC. VEDP stated in their remediation plan that BI management will document during year-end performance reviews whether staff have completed training. However, it does not appear that staff are evaluated on whether this training was completed since the position descriptions that drive performance evaluations do not discuss training completion. Therefore, it appears this JLARC recommendation was partially implemented. We recommend that training completion

is listed as a requirement in BI employee position descriptions. BI employees would then be evaluated on these requirements. This issue will be mentioned in the Findings section on the last page of this report.

***JLARC Recommendation 14:*** *VEDP should develop and implement a formal process to regularly and systematically evaluate the effectiveness of its marketing initiatives, and use this information to redirect resources away from ineffective activities as appropriate. VEDP should provide its board of directors with a report on the effectiveness of its marketing initiatives at least once per quarter.*

We evaluated VEDP's staff training on marketing campaign management, development of Salesforce dashboards, and Salesforce reporting. We determined that proper training was conducted, and the Board of Directors are reviewing the marketing effectiveness report at least once per quarter. We deem this JLARC finding to be remediated.

***JLARC Recommendation 16:*** *VEDP should improve the transparency of its marketing performance measures that are reported to its board of directors by showing, at a minimum, (i) the percentage of announced projects that were initially identified by VEDP through its own marketing efforts versus those that were brought to VEDP by another entity, and (ii) the nature and degree of VEDP's involvement in projects reported having received VEDP assistance.*

We determined that VEDP has adequately reported the fiscal year-to-date percentage of announced projects that were initially identified by VEDP through its own marketing efforts, versus those brought to VEDP by another entity. This reporting also included the nature and degree of VEDP's involvement in projects reporting having received VEDP assistance. VEDP provided this reporting to the Board of Directors during the quarterly meetings held on June 20, 2019 and October 24, 2019. We deem this JLARC finding to be remediated.

## Other JLARC Related Recommendations

We also evaluated the other recommendations given to VEDP in JLARC's 2016 report, during our audits of HR, Incentives, International Trade, and Research. We previously assessed 17 recommendations to determine if the remediation plan was sufficiently implemented, and have summarized our conclusions below related to these JLARC recommendations. DHG found that VEDP had substantially implemented its JLARC-related commitments. However, there were three findings in the HR division where we issued recommendations to improve the clarity, documentation, and/or timeliness of how those items were implemented. These findings are not listed in the table on the last page of this report since they were previously reported in the HR audit report.

## HR Audit

***JLARC Recommendation 2:*** *VEDP should ensure that all staff receive formal onboarding training within 30 days of their start date. VEDP should collect feedback through annual staff evaluations on the types of skills training that staff need, and provide such skills training annually.*

We determined that VEDP collected feedback from employees on their training needs during performance evaluations. However, four of the onboarding checklists tested were not completed within the initial 30 days

from the hiring date. The JLARC recommendation does not specify a requirement that onboarding should be fully completed within 30 days, but it appears that some VEDP onboarding processes are subject to interpretation as to whether certain activities are “required” or “recommended” to be completed in such a timeline. We also noted that formal written division-specific onboarding programs do not exist for two small divisions (External Affairs and General Counsel), which each had only a single staff position at the time VEDP’s onboarding processes were originally developed. While this is not a JLARC requirement, having documented onboarding programs across each division would help ensure that the onboarding received for each new hire is consistently communicated regardless of who is performing the onboarding for each division.

We recommended that HR and division leadership work together to ensure that onboarding for new hires is fully documented to clearly demonstrate that division-specific training is provided within the first 30 days from hiring. We also recommended that division specific onboarding programs be created for External Affairs and General Counsel.

***JLARC Recommendation 4:*** *VEDP should incorporate an expectation into supervisors’ annual evaluations that they (i) provide new staff with their job expectations within 30 days of their start date and (ii) provide existing staff with their job expectations by October 1st of each fiscal year. VEDP should report annually to its board the percentage of staff that receive their job expectations within the established deadlines.*

We determined that new job openings and current positions tested had a job description that included duties, responsibilities and qualifications. However, while management stated that updated job descriptions were in place for all staff as of October 1, 2019, and communicated that to the Board that month, there was no documentation for two of the 18 job descriptions tested to support that they had been reviewed for potential updates. We also inspected the supervisor performance evaluation template (completed by anyone that supervises others) and concluded that VEDP does not evaluate all supervisors in a way that specifically ensures that job descriptions are completed and/or updated and distributed to VEDP employees by Oct 1<sup>st</sup> of each fiscal year, per their JLARC action plan (although this duty may be generally considered as part of the performance evaluation for these supervisors). Only Vice President (VP) performance evaluations include a specific section to evaluate that job descriptions are reviewed annually.

We recommended that management should implement a systematic process to track and document annual job description reviews even if no changes are needed. All reviews should be completed within the established deadline of Oct 1<sup>st</sup> each fiscal year. We also recommended that the template for supervisor performance evaluations be updated as needed to evaluate supervisors on their adherence to the completion of job descriptions by Oct 1<sup>st</sup> of each fiscal year.

***JLARC Recommendation 7:*** *VEDP should track when staff arrive and depart every day and establish a warning system and penalties for staff who do not report to work on time or do not work the hours prescribed in agency policy*

We determined that VEDP uses shared calendars to assist in reporting time worked and activities performed. We observed that supervisors have access to see the calendars for their direct reports. We also inspected the training materials provided to supervisors and determined the materials mentioned working hours that employees are expected to adhere to. We deem this JLARC finding to be remediated.



**JLARC Recommendation 8:** *VEDP should (i) use the time allocation system that is managed by the Department of Human Resource Management; (ii) require staff to use the system to report their time worked and activities performed each day; and (iii) use the data collected to assess the allocation of staff resources and redirect as appropriate to efficiently and effectively meet agency objectives.*

We determined that VEDP uses shared calendars to assist in reporting time worked and activities performed. We observed that supervisors have access to see the calendars for their direct reports. Additionally, per IT policy, the default calendar permission setting for all agency staff is to see full details of items scheduled on Outlook, which we validated and found the process was working as intended. We deem this JLARC finding to be remediated.

**JLARC Recommendation 10:** *VEDP should revise its performance evaluation process to include an assessment of staff adherence to agency policies and statutory requirements. VEDP should establish and enforce penalties for staff who do not follow agency policies or statutory requirements.*

VEDP did not have supporting documentation to show that supervisors attended the annual supervisor training during FY19. HR provided calendar invites documenting where supervisors were invited to attend the training, but there is no evidence showing who actually attended the training. Therefore, we are unable to conclude if VEDP sufficiently implemented this JLARC action plan. Additionally, the supervisor training material provided in May 2019 did not cover performance evaluations for existing employees, nor disciplinary action to train supervisors on how to enforce VEDP policy with staff that do not follow procedures. However, we determined that VEDP hired a consultant to conduct performance management training in June 2018 and attendance was documented for this training.

We recommended that the supervisor training material should be updated to cover employee performance evaluations and disciplinary actions as covered in sections 2.4 and 3.1 from the HR P&P Manual. We also recommended that VEDP should use a Learning Managing System (LMS) to systematically track all training completion and attendees for all VEDP employees.

## Incentives Audit

**JLARC Recommendation 19:** *VEDP board of directors should work with VEDP staff to develop written P&P 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 P&P 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:** *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:** *VEDP, with the assistance of staff at the Virginia Department of Taxation and Virginia Employment Commission, should develop and consistently follow P&P to verify job creation and wage claims of companies receiving incentive grants administered by VEDP. These P&P 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 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 VEDP board of directors should require VEDP to develop and use standard P&P 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 VEDP board of directors should require VEDP to develop and implement P&P 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:** *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 appropriately staffed it with four individuals. We deem this JLARC finding to be remediated.

**JLARC Recommendation 27:** *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 incentive grant programs by developing a user-friendly website to transparently 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.

## International Trade Audit

**JLARC Recommendation 17:** *VEDP should develop formal mechanisms to support ongoing coordination and communication between its marketing and export promotion services and measure the success of these mechanisms. VEDP should report these measures of success at least annually to its board of directors.*

We determined that International Trade has begun sharing calendars of international trade shows with VEDP's BI Division for joint opportunities. Trade shows are attended by both Divisions, when applicable, and referrals are made immediately with walk-in traffic to the respective representative. For domestic referrals, VEDP International Trade shares leads with the Business Retention and Expansion segment (BRE) of BI, and vice versa, when opportunities arise. Metrics developed to measure the success of these efforts include quantifying the number of leads obtained by the joint efforts, as well as monitoring the client outcomes. Lead generation activities are presented upon request to the VEDP board. We deem this JLARC finding to be remediated.

**JLARC Recommendation 18:** *VEDP should collect and use more detailed information about the characteristics of companies accessing export promotion services and use this information to ensure that the types of business receiving export-promotion services reflect the diversity of Virginia's export-capable industries. At minimum, this information should include company-level information on industry sector, number of employees, product types, and average export sales. VEDP should also maintain comparable*

*export growth data for each of its export promotion programs, including both projected and actual export growth. VEDP should report this information to its board at least once per year.*

When companies enroll in International Trade programs, NAICS industry codes are recorded in Salesforce. These codes track industry and product data. International Trade developed and implemented an annual survey of all companies enrolled in an International Trade program. The survey is voluntary for participants and aims to collect information on the company's international sales. The annual survey data is reported to the VEDP Board. We analyzed Salesforce to ensure companies enrolled in International Trade programs were recorded in this system. In addition, we inspected the fiscal year 2018 survey results and recalculated the metrics reported to ensure completeness and accuracy. We deem this JLARC finding to be remediated.

## Research Audit

**JLARC Recommendation 15:** *VEDP should update its site and buildings database to ensure that it meets the site selection data standards established by the International Economic Development Council and include details on the percentage of the data standards met in its annual reports to its board of directors.*

JLARC found that VEDP's online site selection database (VirginiaScan) did not include most of the data elements, which the International Economic Development Council (IEDC) deemed important for real property evaluations. JLARC recommended that VEDP "1. Incorporate the data points included in IEDC's site selection data standards on VirginiaScan, and 2. Annually report on the percentage of the IEDC data points that are shown on VirginiaScan."

Per VEDP Management, they only partially agreed with this recommendation since the specific 2002 report on which JLARC based its recommendations was acknowledged by IEDC as not being applicable specifically to websites, but rather was issued as general guidance to economic developers on the types of questions that may need to be addressed over the course of the site selection process. We inspected a letter sent from the President / CEO of the IEDC to VEDP which supports the above statement. We concurred with VEDP's position on the above matter. We also noted that VEDP has begun a full redesign and upgrade of this website (to be complete in 2018) in keeping with the spirit of JLARC's recommendation. We deem this JLARC finding to be remediated.

## Administrative Recommendation

**JLARC Recommendation 34:** *The VEDP board should create an internal audit division that reports directly to the board. The board should control the staffing, funding, and activities of the new internal audit division. Responsibilities for the division should include, at a minimum, (i) verifying information presented to the board is valid and comprehensive, (ii) identifying opportunities to improve the efficiency and effectiveness of agency operations, (iii) ensuring P&P are being followed by staff, (iv) monitoring and reporting on the status of the implementation of recommendations in this report, and (v) carrying out other periodic and routine board-directed audit activities. Funding and spending related to the internal audit division should be included as a separate line item in VEDP's budget and expense reports.*

In 2017, VEDP contracted with DHG for Internal Audit services. We deem this JLARC finding to be remediated.

## Findings, Recommendations, and Management’s Responses

NUMBER	FINDING	RECOMMENDATION	MANAGEMENT’S RESPONSES	EXPECTED COMPLETION DATE
1 (JLARC #13)	VEDP established annual training for BI staff as recommended by JLARC. VEDP stated in their remediation plan that BI management will document during year-end performance reviews whether staff have completed training. However, it does not appear that staff are evaluated on whether this training was completed since the position descriptions that drive performance evaluations do not discuss training completion. Therefore, this JLARC finding appears to be partially implemented.	We recommend that training completion is listed as a requirement in BI employee position descriptions. BI employees would then be evaluated on these requirements.	VEDP concurs with the finding and recommendation, and will: <ul style="list-style-type: none"> <li>• Amend the VP of Business Development’s position description and annual evaluation to include organizing and ensuring completion of annual training for relevant BI staff</li> </ul>	May 31, 2020