

Minutes
Finance and Audit Committee Meeting
Board of Directors of the Virginia Economic Development Partnership
June 12, 2024
1:30 p.m. – 2:30 p.m.

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

Welcome and Call to Order

The meeting was called to order at 1:32 p.m. by Chair Rick Harrell, who noted that a quorum was present.

In-Person Committee Members: Chair Rick Harrell, Pace Lochte, Secretary Caren Merrick, Will Sessoms, Steven Stone, and Bill Hayter (ex officio)

Virtual Committee Members: April Kees, participating pursuant to Section 2.2-3708.3 (B)(4) of the Code of Virginia (personal matter; work commitments)

Committee Members Absent: Secretary Stephen Cummings

Other In-Person Board Members: Mimi Coles, Stephen Edwards, John Hewa, Anne Oman, Marianne Radcliff, and Nick Rush

Public Comment Period

Chair Harrell solicited public comments. There were none.

Approval of Minutes for 03.06.24 Meeting

Chair Harrell asked for approval of the minutes from the March 6, 2024, Committee meeting.

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

FY23 Financial Audit Report

Chair Harrell introduced Staci Henshaw with the office of the Auditor of Public Accounts (APA) to deliver the results of VEDP's FY23 Financial Audit.

Ms. Henshaw distributed a two-page summary of the audit results which showed a clean, unmodified opinion. Ms. Henshaw reminded the Committee of the scope of the APA audit.

Ms. Henshaw explained that the APA also issued a report on VEDP's compliance with internal controls, with two repeat findings related to Information Technology security and governance, and service provider oversight. She said that progress has been made by VEDP in this area, but that all matters have not yet been resolved. She noted that this is not considered a significant weakness, adding it is common to have audit findings in information systems security, due to the complexity and changing nature of the area. There were no material internal control weaknesses identified.

Ms. Henshaw reminded the Committee that the APA will continue to conduct annual audits in the future, but will no longer be required to issue audited financial statements due to language updates included in the biennial budget.

Ms. Henshaw concluded her report by expressing her appreciation for the cooperation of VEDP staff during the audit process.

Chair Harrell thanked Ms. Henshaw for her report.

Bill Hayter asked if VEDP's audited financial statements are currently sent to the Governor or Chief of Staff. Jason El Koubi answered that they are sent as an appendix to VEDP's Annual Report.

Steve Stone made a motion to accept the APA audit report. Ms. Lochte seconded the motion, and the motion was unanimously approved by the members.

VEDP FY24 Financial Results (thru 03.31.2024)

Bob Grenell presented the quarterly financial results. Mr. Grenell said that VEDP is tracking spending against 75%. He shared that all VEDP divisions are at or below budget for the first nine months of the fiscal year. Mr. Grenell said that spending is expected to increase for the market-facing divisions in the fourth quarter of the fiscal year.

Mr. Grenell explained that the Virginia Talent Accelerator Program budget includes carry forward dedicated dollars for specific projects that are still ramping up, as well as funding received for the Blue Star project, which likely will not move forward. He said that VEDP recommends repurposing these funds to reimburse Wythe County for some of the infrastructure improvements they made related to Blue Star.

Mr. Grenell concluded that the total VEDP Operations percent spent compared to budget, excluding the Virginia Talent Accelerator Program, is 68%.

Proposed VEDP FY25 Operating Budget

Mr. Grenell discussed VEDP's proposed FY25 Operational Plan budget, starting with a detailed explanation of VEDP's revenue sources.

Mr. Grenell reviewed new funding received, expenditure detail by division, and carryforward revenue items.

Chair Harrell asked if VEDP has flexibility in how to use the money that was allocated for the Virginia Talent Accelerator's support of the Blue Star project. Mr. El Koubi explained that it was provided by the General Assembly specifically for this purpose, so it cannot be used for other purposes. Chair Harrell asked if the funds would go to Wythe County or back to the General Assembly. Mr. El Koubi explained that the \$2.7 million associated with the project is currently in the bank until it is decided what should be done with the funds. Guest Kendra Shiflett with Virginia Senate Finance and Appropriations Committee said legislative action will be required to determine what should be done with the funds.

Mr. El Koubi noted that the Blue Star funds are the largest part of the Virginia Talent Accelerator's carry forward balance in the VEDP budget. Mr. El Koubi added that the additional funds in the Accelerator's carry forward balance are for other projects that are moving forward and those funds are needed to serve those projects.

Stephen Edwards asked who has control of VEDP's investment income. Mr. Grenell explained that some funds are held in an operating account at Truist, and the bulk of the money is held in an LGIP investment account, currently earning around 6% interest. Mr. Grenell said that VEDP keeps the interest, which is captured in the "other revenue" area of VEDP's budget and used to pay for things like the ramp up of the Innovative Framework.

Chair Harrell thanked Mr. Grenell for his report.

Mr. Sessoms made a motion to approve the Q3 FY24 financial results. The motion was seconded by Ms. Stone and the motion was unanimously approved.

Mr. Sessoms made a motion to approve VEDP's FY25 Operating Budget. The motion was seconded by Mr. Stone and the motion was unanimously approved.

Audit Update

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

Audit Reports: Human Resources and Limited-scope IT Audit

Mr. Sherrod spoke about recent audits of VEDP's Human Resources (HR) and Information Technology (IT) divisions.

Mr. Sherrod said that for the HR audit there was one medium level finding related to timeliness of completing performance evaluations. He added that there was also a best-practice recommendation related to adequate staffing levels in HR, based on industry standards. The FORVIS team recommends adding an additional staff person to the HR team.

Mr. El Koubi confirmed that VEDP intends to add this position, noting that this staff person will have a role to play in performance management, which will also help to ensure that all performance evaluations are completed on time in the future.

Mr. Sherrod thanked Melissa Cox and the HR team for all of their efforts on the audit.

Mr. Sherrod introduced Peter Tsengas with FORVIS to review the findings of the IT audit.

Mr. Tsengas spoke about the limited scope audit which was conducted to assess progress made in addressing the FY23 APA audit findings. He shared that the IT audit report had no findings with current efforts completed to date.

Mr. Tsengas expressed his appreciation to Chris Hughes and the IT team for their efforts in supporting the audit.

FY25 Risk Assessment and Audit Plan

Mr. Sherrod discussed the process for developing VEDP's five-year Audit Plan, based on the annual risk assessment, and discussed the details of FORVIS' proposed audit plan for FY25-FY30. Mr. Sherrod explained that each VEDP division will be audited at least once with some divisions receiving two audits during the five-year period.

The Committee engaged in a robust discussion on how to improve the presentation of risk in the risk assessment table. FORVIS will consider the Committee's feedback and prepare a revised document for consideration by the Committee at its next meeting in September of 2024.

Mr. Sessoms made a motion to recommend approval of the FORVIS audit reports for the HR and IT divisions, annual Risk Assessment, and the five-year Audit Plan to the full Board, with the provision that a revised version of the Risk Assessment based on Committee feedback will be presented to the Committee during its September 2024 meeting. The motion was seconded by Mr. Stone and the motion was unanimously approved.

Open Audit Issues Status

Mr. Sherrod reviewed the VEDP Management Action Plan Tracker. He explained that all remaining open audit issues have been closed.

FY25 FORVIS Statement of Work

Mr. Sherrod reviewed the FY25 FORVIS Statement of Work for VEDP. He said that the annual fee of \$200K will be maintained for FY25, which includes 4 audits and the Risk Assessment.

Chair Harrell thanked Mr. Sherrod and Mr. Tsengas for their remarks.

IT Security Update

Chris Hughes shared VEDP's IT Audit Plan Five-Year Outlook, including routine audits, and numerous sensitive systems audits. He said that the IT division is on the tail end of its first sensitive system audits but will be spreading other out over the year due to division capacity.

Mr. Hughes shared open audit findings and the status of each. He said the two findings from the APA audit showed significant progress, but there is still work to be done. All findings from FORVIS audits have been closed out.

Mr. Hughes shared VEDP's Nucleus vulnerability dashboard which displays vulnerability data since. He explained that formal adoption of VEDP's Vulnerability Management Policy allowed for a recalibration based on true threat levels, which have been significantly reduced.

Mr. Harrell thanked Mr. Hughes for his report.

Extension Requests

Chair Harrell introduced Ms. Goodwin to share her report.

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

Fastech – City of Danville has requested a 15-month extension for a \$147,000 COF grant to provide more time for the company to reach its capital investment and job targets. Fastech has experienced delays in identifying a larger facility for their operations and completing industry certifications which will help them compete for more projects. Progress is being made and the company feels the extension will help them reach their pledged capital investment requirement, but they will not likely meet their overall pledged metrics, so will likely receive a prorated amount of the COF. VEDP believes it is appropriate to ask for the extension request.

Orsani – City of Radford has requested a 15-month extension for a \$50,000 COF grant and \$70,700 VJIP grant. The extension would provide more time for the company to reach its capital investment and employment targets. The company attributes its lack of progress to delays in getting their operations up and running. They started manufacturing in March and they are actively hiring. Orsani feels they can reach their metrics with the additional time afforded by an extension.

Cyxtera Communications (now Phoenix Infrastructure) – Loudoun County has requested a second, 18-month extension to meet the requirements of the Data Center Retail Sales and Use Tax Exemption. A first extension was granted in 2023. Cyxtera filed for bankruptcy in late 2023 and was acquired by Brookfield Infrastructure Partners, doing business as Phoenix Infrastructure, L.L.C. The new entity is requesting additional time to reach the statutorily-required performance metrics. A second extension request will require review and approval by Virginia’s Major Employment and Investment Project Approval Commission (MEI).

Ms. Kees asked for clarification on the company’s affiliate, Phoenix Infrastructure, and whether affiliates are typically considered in this type of request. Ms. Goodwin answered that affiliates have been included in the past.

Ms. Kees asked to abstain from the vote on this extension request.

Clawback Updates and OAG Referrals

Ms. Goodwin shared an update on clawbacks and OAG referrals, which is summarized below:

- No new items referred to the Office of Attorney General (OAG) since the last Committee meeting
- No past due clawbacks
- Two COF clawbacks requested but not past due yet
- Two COF clawbacks closed out since the March Board meeting
- One COF closeout in process
- No VJIP clawbacks have been requested
- One data center clawback closeout in process

Ms. Lochte made a motion to recommend approval of all three extension requests that were presented, as well as the clawback report. Mr. Stone seconded the motion, and the motion passed. Ms. Kees abstained from the vote as it related to the Cyxtera Communications extension request.

Other Topics, Next Meeting, and Adjournment

The next meeting of the Finance and Audit Committee will be held on September 18, 2024, exact time TBD. The meeting was adjourned at 2:50 p.m.

Respectfully submitted,

Nicole David
Acting Recording Secretary

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