



COMMONWEALTH OF VIRGINIA
Office of the State Inspector General

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November 3, 2015

The Honorable Terence R. McAuliffe
Governor of Virginia
Patrick Henry Building, 3rd Floor
Richmond, Virginia 23219

Dear Governor McAuliffe:

The Office of the State Inspector General has completed a follow-up review of the actions taken by the Tobacco Region Revitalization Commission in response to our initial report (2013-PR-002) issued January 31, 2014. The initial review was conducted as required by § 2.2-309.2 of the *Code of Virginia (Code)*, which calls for OSIG to review the condition of the Tobacco Indemnification and Community Revitalization Commission's accounting, financial, and administrative controls to ensure that the purposes set forth in Chapter 31 (§ 3.2-3100, et seq.) of Title 3.2 were lawfully achieved.

Our initial review included an examination of internal controls over the Commission's grant award and payment process for monies expended from the Revitalization Fund and tests of transactions from grant projects that were initially opened between January 2011 and March 2013 or were closed between those same dates. We identified 15 issues where improvements in accounting, financial, and administrative controls could be made. Only a limited review was performed of the indemnification process because related claims for payment ended on June 30, 2012.

Our follow-up review determined that corrective action had been taken to resolve 11 of the original 15 issues. The attached document details the status of the four issues that have not been fully addressed.

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The OSIG review staff appreciates the assistance provided by the Commission and its staff during this follow-up review.

Sincerely,

A handwritten signature in black ink that reads "June W. Jennings". The signature is written in a cursive style.

June W. Jennings, CPA
State Inspector General

Attachment

CC: Paul J. Reagan, Chief of Staff to Governor McAuliffe
Suzette P. Denslow, Deputy Chief of Staff to Governor McAuliffe
Maurice Jones, Secretary of Commerce and Trade
Delegate Terry G. Kilgore, Chairman of the Tobacco Region Revitalization Commission
Senator Frank M. Ruff, Vice-Chairman of the Tobacco Region Revitalization Commission
Evan Feinman, Executive Director, Tobacco Region Revitalization Commission

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Issue No. 2 - Lack of Written Policies and Procedures

From the January 2014 Report on the Virginia Tobacco Indemnification and Community Revitalization Commission, internal policies and procedures had not been fully developed and written to provide a record of methods used by the Commission staff in administering the grant process.

OSIG recommended that policies and procedures providing a record of methods used by the Commission staff in administering the grant process be developed, written, and implemented. OSIG recommended that the procedures include a description of the processes followed for grant application scoring, Tobacco Region Opportunity Fund (TROF) administration and scoring, financial reconciliations, invoice documentation reviews for reimbursement, site visits and the documentation of site visits, and outcome reviews and verification.

The former Interim Executive Director, who is the current Grants Director, responded that staff would place in writing internal procedures for financial reporting and the announcement, acceptance, review, and reporting of grant proposals by December 2014.

During the follow-up review, OSIG determined that the corrective action for this issue has not been implemented. Although the process and procedures for prospective and current grant applicants have been updated, the Commission has not created, at a sufficient level of detail, written internal procedures to follow for the acceptance, review, and reporting of grant proposals as previously recommended, or for the administration of grants once awarded.

Follow-up Recommendation

OSIG recommends that policies and procedures, written at a sufficient level of detail, be developed and implemented. These policies and procedures should provide a record of the internal methods used by the Commission staff in administering the grant process.

Issue No. 11 - Outcome Monitoring

The Commission should establish clearly defined, expected outcomes for all grant programs whereby progress can be measured. These outcomes should be integrated into every phase of the life of the grant including the initial application, periodic reporting, performance monitoring, and final assessment of the performance of individual grants and overall grant program.

In the prior review, OSIG sampled six grants of which three lacked clearly defined and expected outcomes that would allow progress to be measured. Outcome monitoring, defined as measuring the progress towards expected outcomes, had not been established for grant types other than the Research and Development grants and the Tobacco Region Opportunity Fund (TROF) grants.

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OSIG recommended that the Commission continue to develop its monitoring methodology for the remaining types of grants. All grants should have measurable goals and objectives stated in the grant agreement to facilitate this monitoring. The Interim Executive Director responded that staff had beta-tested a process for collecting actual outcomes from grantees and would develop by December 2014 a schedule for collecting outcomes from additional grantees on a phased and ongoing basis that recognizes the universe of 1,700 grants to date and limited staff resources to gather and populate data in the GIFTS grant management system.

During the follow-up review, OSIG determined that the Commission staff had developed a new action plan for addressing this issue. The agency has been working in conjunction with Virginia Commonwealth University's Urban Analysis Group since December 2014 to develop logic models that will make use of measuring tools that will assist the Commission with gathering information on the progress and outcome of grant projects. The anticipated completion date for the logic model system is December 2015. Therefore, OSIG considers this finding unresolved.

Follow-up Recommendation

OSIG recommends that the Commission staff continues its efforts to implement the logic models and to develop a reporting process that measures grantee progress toward meeting goals and objectives defined in the grant agreement. Once the Commission adopts the logic models and the reporting process, this issue will be considered fully addressed.

Issue No. 13 - Salary and Expenses of Deputy Secretary

In March 2010, the Governor appointed Virginia's first Deputy Secretary of Commerce and Trade for Rural Economic Development (Deputy Secretary) for which the salary and expenditures are paid by the Tobacco Commission. The January 2014 report noted that although the Deputy Secretary was tasked as the liaison to rural parts of the Commonwealth focusing on rural economic development, not all rural areas of Virginia are within the designated Tobacco Region. Based on funding restrictions in *Code* § 3.2-3108, the Tobacco Commission should only fund the portion of salary and expenditures of the Deputy Secretary that relate to her work in the designated Tobacco Region in Southwest and Southside Virginia.

OSIG recommended that supplementary funding be sought for the portion of the salary and expenditures that are paid to the Deputy Secretary for work performed that is unrelated to the Tobacco Commission. The former Secretary of Commerce and Trade responded that while representing all of rural Virginia, the Deputy Secretary spends the vast majority of her time, more than 95 percent, in the traditional tobacco-growing region of Virginia. Both her home and daily work office are located in the region. She attends Tobacco Commission meetings as the Secretary of

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Commerce and Trade's designee, and also generally attends when the Secretary is present. When she is not in the region or in Richmond, she is often still working on issues important to the region.

During the follow-up review, OSIG determined that the corrective action for this issue is unresolved. During the current governor's administration, the position title of the Deputy Secretary was changed to Special Advisor for Rural Partnerships. The current Secretary of Commerce and Trade indicated that the function of the position is to develop the workforce, to build relationships and enterprises, and to build a climate that will move and attract business to the rural areas of Virginia. The Tobacco Commission Interim Executive Director indicated that the Commission had requested that the position be funded from general funds. However, no funding was appropriated in the FY 2015-2016 budget. The original funding request in 2010 by the Governor to the Tobacco Commission Executive Committee was for salary, benefits and travel expenses up to \$250,000 beginning in fiscal year 2010 and going through fiscal year 2011 due to limited available state funding. That practice of the Commission funding the position has continued into the current administration and the Commission is funding the position through fiscal year 2016.

Follow-Up Recommendation

OSIG recommends that the Commission's funding of the Special Advisor for Rural Partnerships be limited to the costs incurred for performing only those duties supporting the tobacco regions.

Alternatively, the Commerce and Trade Secretariat should consider assuming full responsibility for the salary, benefits, and travel expenses for the position.

The Secretary of Commerce and Trade agreed with this recommendation in an email sent to the State Inspector General on October 14, 2015.

Issue No. 14 - Improper Use of Restricted Funds

In the prior review, OSIG determined that the Commission had expended \$545,989 for a proposed medical school – King School of Medicine – in Southwest Virginia under a grant initially established in 2009 without any building ever being built. Of that amount, \$71,604 of restricted funds was spent on non-construction related activities. OSIG recommended that the Commission not use restricted funds for non-construction activities or activities related to the King School of Medicine's staff support and administrative expenses. OSIG also recommended that the Commission evaluate whether the proposed medical school would become a reality considering that the grant was initially awarded four years prior. The Interim Executive Director responded that federal tax law requirements regarding the use of restricted funds may, in certain circumstances, allow for a small portion of bond proceeds to be used for non-capital expenditures. Further, as the entire grant award

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was for a capital project, the initial expenses might be considered as start-up expenses and therefore an element of the overall capital cost of the project were the entire grant disbursed and the project built and placed in service as contemplated. At the time of the prior review, efforts to implement the project continued. The Interim Executive Director indicated that the issue of start-up operational funding would be presented to the Commission when it revised its Strategic Plan and the General Funding Policies therein, in 2014.

During the follow-up review, OSIG determined that the grant for the former King School of Medicine, now referred to as The Alliance for Rural Health, had been rescinded and the entity would have to re-apply to the Commission for any future grant funds. OSIG also determined that the General Funding Policy was revised in June 2014 and published on the Tobacco Commission website. However, the strategic plan had not been revised since May 2012 and the issue of start-up operational funding had not been addressed. The Commission is working on a process to develop policies and procedures.

Follow-Up Recommendation

OSIG recommends that the issue of start-up operational funding be addressed during the discussion and adoption of the strategic plan at the May 2016 meeting.