OFFICE OF THE STATE INSPECTOR GENERAL

Tobacco Region Revitalization Commission

November 2019

Michael C. Westfall, CPA
State Inspector General
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COMMONWEALTH OF VIRGINIA
Office of the State Inspector General

Michael C. Westfall, CPA
State Inspector General

P.O. Box 1151
Richmond, VA 23218

Telephone 804- 625-3255
Fax 804-786-2341
www.osig.virginia.gov

November 8, 2019

Governor Ralph Northam
P.O. Box 1475
Richmond, VA 23219

Dear Governor Northam,

The Office of the State Inspector General (OSIG) completed an audit of the Tobacco Region Revitalization Commission. The final report is attached.

OSIG would like to thank Executive Director Evan Feinman and his staff for their cooperation and assistance during this audit.

Sincerely,

Michael C. Westfall, CPA
State Inspector General

CC: Clark Mercer, Chief of Staff to Governor Northam
Suzette P. Denslow, Deputy Chief of Staff to Governor Northam
Brian Ball, Secretary of Commerce and Trade
Delegate Terry G. Kilgore, Chairman, Tobacco Region Revitalization Commission
Senator Frank M. Ruff, Vice-Chairman, Tobacco Region Revitalization Commission
Evan Feinman, Executive Director, Tobacco Region Revitalization Commission

Tobacco Region Revitalization Commission (TRRC)

What OSIG Found

TRRC staff has not implemented the requirements of the Financial Viability Manager as required by the Code of Virginia §3.2.3103.

- TRRC gave the role of the Financial Viability Manager to the Grants Director rather than providing for an independent project financial viability assessment.
- TRRC does not have a written policy for assessing the financial viability of a project.
- None of the 11 grant files reviewed included evidence that a financial viability assessment of the project was completed.

TRRC staff does not adequately monitor program results.

- Staff did not document periodic monitoring of stated project outputs and related metrics on awarded projects.
- TRRC does not have written guidance for program managers to monitor awarded grants.
- Staff did not complete documentation of site visits for 23 out of the 30 grant files reviewed.

Four findings are repeated from prior OSIG reports.

- Monitoring project outputs and related metrics
- Performing site visits
- Advance policies
- Required match documentation

November 2019
HIGHLIGHTS

Why OSIG Performed This Audit

Code of Virginia §2.2-309.2 states "The State Inspector General shall (i) review the condition of the Tobacco Region 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 are lawfully achieved;…" OSIG conducted this performance audit to identify potential improvements to the financial viability assessment process, measuring intended outputs and matching requirements and loans processed through the Virginia Resources Authority.

What OSIG Recommends

- TRRC staff should follow the Code of Virginia by objectively analyzing, documenting and reporting the financial viability of projects and feasibility of all grants, loans and other distributions of money.
- TRRC staff should conduct sufficient monitoring of stated project outputs. This could be facilitated by developing written guidance for monitoring grants to include project outputs and related metrics.
- TRRC staff should conduct site visits. TRRC staff should develop specific policies and procedures to determine which projects should have site visits, when and how the site visits should be performed and how these site visits should be documented.

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BACKGROUND

In 1998, the Attorneys General of 46 states signed the Master Settlement Agreement (MSA) with the four largest tobacco companies in the United States to settle state lawsuits and recover billions of dollars in costs associated with treating smoking-related illnesses. A portion of the MSA proceeds funded the creation of the Tobacco Region Revitalization Commission (TRRC). A goal of the Commission is to support projects that advance the ability of the region to attract and retain businesses that bring in capital from outside of the tobacco region. The Commission was created, as outlined in §3.2-3101, Code of Virginia, "as a body corporate and a political subdivision of the Commonwealth. The Commission is established for the purposes of determining the appropriate recipients of moneys in the Tobacco Indemnification and Community Revitalization Fund and causing distribution of such moneys for the purposes provided in this chapter, including using moneys in the Fund to … revitalize tobacco-dependent communities."

In 2015, Virginia Code §3.2.3103 established the requirements for a Financial Viability Manager stating: "Enter into a contractual or employment agreement with a financial viability manager (the Manager). The management agreements shall require the Manager to provide a written financial viability and feasibility report to the Commission…. The Commission shall not make any loan, except a loan made through the Virginia Tobacco Region Revolving Fund created in Chapter 31.1 (§3.2-3112 et seq); grant; or other distribution of money until the Manager has provided the Commission with a written recommendation as to the financial viability and feasibility of the proposed distribution of fund…"

TRRC applications for funding requests are primarily for new products and projects. The intent of the Financial Viability Manager is to independently ensure that each application request is reviewed. The Financial Viability Manager should take the time to research the market, determine if there are paying customers or a need for the project, solicit feedback, review the marketing strategy, verify that project results align with the goals of TRRC and assess the total cost of the project.

In 2015, Virginia Code §3.2-3113 established the Virginia Tobacco Region Revolving Fund to be administered by the Virginia Resources Authority (Authority). The Code states: "A. There shall be set apart as a permanent and perpetual fund, to be known as the Virginia Tobacco Region Revolving Fund…B. The Authority shall administer and manage the Fund and establish the interest rates and repayment terms of such loans as are provided for by this chapter in accordance with a memorandum of agreement with the Commission…"

The intent is to provide a revolving loan fund that that will grow and continue the goal of the Authority to provide funding to support projects that align with the goals of TRRC. Since 2015,

TRRC has submitted 17 loan requests; two have closed and another two are scheduled to close by the second quarter of fiscal year (FY) 2020. Most of the loan applicants submitted to VRA declined the possibility of a loan before VRA commenced credit underwriting. Utilizing the Authority provides TRRC with sound underwriting capabilities.

TRRC uses a cloud-based grant management system developed by SmartSimple. SmartSimple allows an applicant to complete their application and submit all required documents in the system. TRRC staff use the system to track grant and loan activity from correspondence to reimbursement request amounts with supporting documentation. SmartSimple allows TRRC to enter the progress of projects and track approved applicants' ability to meet their milestones, but this feature is not being used by TRRC staff.

SCOPE

The audit scope covered a sample of grants and loans awarded, ongoing and closed by TRRC between FY 2015 and FY 2018 for all programs except the Education Program.

OBJECTIVES

Objectives of this audit were to:

- Determine whether grant and loan programs are producing their intended outputs and if the intended outputs are properly measured and reported by TRRC.
- Determine whether matching fund requirements for grants and loans are properly verified and measured against the total allowable cost by TRRC.
- Determine whether TRRC has properly established and implemented a viability assessment process, required by the Code of Virginia, for validating each grant and loan request prior to submission of the fund request to TRRC and that viability is adequately measured and supported.
- Determine whether TRRC staff is accurately tracking loans processed through the Authority to include the assurance that that loans made will be collected.

METHODOLOGY

OSIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that OSIG plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. OSIG believes that the evidence obtained provides a reasonable basis for the findings and conclusion based on the audit objectives.

OSIG applied various methodologies during the audit process to gather and analyze information pertinent to the audit scope and to assist with developing and testing the audit objectives. The methodologies included the following:

1. Select a sample from all grants closed (except Education Program) in FY 2015 through FY 2018.
2. Review the documentation and determine the final outputs reported by the applicant and compare them to the outputs determined by TRRC.
3. Determine if the required match is adequately documented.
4. Determine if there was a recommendation from the Financial Viability Manager for each of the grants and loans presented.
5. Determine whether repayments from the revolving loan fund are available for future grants or loans.

FOLLOW-UP ON PRIOR AGENCY REVIEWS

In addition to the audit scope, OSIG followed up on findings previously issued by OSIG. Several issues have not been resolved by TRRC. The following findings have been issued as a result of TRRC not resolving prior issues reported by OSIG:

- Project Outputs and Related Metrics Not Monitored
- Lack of Evidence that Site Visits Had Been Performed
- Monitoring of Advances for Grants and Loans
- Required Match Documentation

Prior TRRC reports are on OSIG's website at https://www.osig.virginia.gov/reports/.

FINDINGS

CODE OF VIRGINIA §3.2.3103 NOT COMPLETELY FOLLOWED RELATED TO THE FINANCIAL VIABILITY MANAGER ROLE

TRRC staff has not implemented and is not in compliance with the Financial Viability Manager requirements of the Code of Virginia §3.2.3103. TRRC gave the existing Grants Director the role of Financial Viability Manager instead of either hiring another individual independent of the grant management process or contracting with a firm. TRRC staff determined, after identifying the cost of a Financial Viability Manager, that given their collective experience, along with input from partner agencies such as the Department of Housing and Community Development, Virginia Economic Development Partnership, Virginia Department of Agricultural and Consumer Services, Virginia Tourism Corporation, United States Department of Agriculture Rural Development, etc., financial viability could be assessed when grants staff and the Executive Director evaluate potential grantees.

As a result, the audit determined that:

- TRRC has not implemented the requirement for the Financial Viability Manager to provide a written financial viability and feasibility report to the Commission.
- TRRC had no evidence that it reviewed recommendations to the Commission to assess the financial viability and the applicant's ability to complete a project.
- Of 15 files reviewed, 11 required financial viability analysis. None of the 11 had supporting documentation of that analysis.
- TRRC has not developed policies and procedures for completing the financial viability process.

Effective in 2015, Virginia Code §3.2.3103 states:

Enter into a contractual or employment agreement with a financial viability manager (the Manager). The management agreements shall require the Manager to provide a written financial viability and feasibility report to the Commission as to the financial propriety of certain loans, grants, or other distributions of money made for the revitalization of a tobacco-dependent locality as proposed in accordance with the Commission's strategic objectives. The commission shall not make any loan, except a loan made through the Virginia Tobacco Region Revolving Fund created in Chapter 31.1 (§3.2-3112 et seq); grant; or other distribution of money until the Manager has provided the Commission with a written recommendation as to the financial viability and feasibility of the proposed distribution of fund. However, nothing in the section shall eliminate consideration of strategic economic initiatives.

The Commission is reviewing grants and loans for which there is no documented evidence of an objective analysis for financial viability.

Recommendation(s):

1. TRRC staff should follow the Code of Virginia by objectively analyzing, documenting and reporting the financial viability of projects and feasibility of all grants, loans and other distributions of money.
2. A Financial Viability Manager, independent of the grant and loan management process, should be used to ensure objectivity.
3. The process to assess an applicant's financial viability should be documented in agency policies and procedures and approved by the Commission.
4. Scoresheets should be updated and retained with the files along with evidence of the Financial Viability Manager's support for the recommendations to the Commission and the applicant's viability to complete the project.
5. In accordance with the Code, the Commission should require a written recommendation on the financial viability and feasibility of the proposed distribution of funds, prior to approving the distribution of funds, for all projects other than Virginia Tobacco Region Revolving fund projects.

Management Response(s):

The Commission staff determined, after multiple avenues of inquiry, that it was neither efficient nor cost-effective to contract with an outside entity for the purposes of evaluating the financial viability of projects before the Commission. Rather, as the code permits either "a contractual *or employment* agreement" [emphasis ours] it was determined that an employee of the Commission could fill that role.

It is the duty of the grants team - specifically the grants program director – to evaluate potential grant or loan projects along a number of metrics, including the viability of such a project. Commissioners are provided a written evaluation of each project before them, including staff concerns related to viability or any other relevant metrics. Thus, financial viability (always a consideration) was elevated in the evaluation of projects by the Grants Program Director.

The Commission's grants staff are professionals engaged in dispassionate evaluation and recommendation, and no failure or conflict of interest on their parts has been demonstrated, Further, our colleagues at OSIG have not described any rationale under which the grants staff would not be objective in evaluating a grant or loan applicant when such objective evaluation is explicitly their job. They are already objective, by virtue of having a duty

only to the taxpayer and the Commission. The legislature recognized that an outside financial viability manager was not necessary within the very wording of the relevant statute.

It is the view of the Commission's director that, regarding this comment and code section, the Commission staff is fulfilling the letter and spirit of the code in as effective and efficient a manner as possible. When financial viability is a concern, it is highlighted in staff recommendations, and when it is not, then it is not generally mentioned, as an exhaustive listing of all non-concerns would be foolish.

Moving forward, purely to simplify oversight as regards this code section, grants staff will include a reference to financial viability in each recommendation.

Management Corrective Action(s):

Deliverable: Future staff recommendations related to grant applications will include clear reference to the financial viability of each project.
Responsible Position: Grants Program Director
Estimated Completion Date: Immediate
1. Grants staff will include written reference to financial viability evaluation in all future grant recommendations.
2. This recommendation relies on an incorrect reading of the code.
3. Policy and procedure documents will be updated.
4. All relevant documentation will be included in grant files.
5. See #1.

PROJECT OUTPUTS AND RELATED METRICS NOT MONITORED

Monitoring of project outputs and related metrics did not occur other than through review of reimbursement requests and a limited number of site visits. Written guidance for program managers to monitor awarded grants does not exist.

The Virginia Tobacco Region Revitalization Commission FY 2018-2020 Strategic Plan states that it is the goal of Commission staff to evaluate projects, both before awards are given and in follow-up, on how well they meet the clear metrics laid out in project outputs.

At this time, SmartSimple does not allow project outputs to be recorded for grants and loans other than those from the Tobacco Region Opportunity Fund (TROF). Therefore, specific parameters to use in determining if the outputs are met do not exist. As a result, TRRC staff was not documenting that projects awarded are meeting the project output and related metrics. There was no documentation in the grant and loan project files that shows TRRC staff reviews and tracks project outputs and related metrics.

Recommendation(s):

1. TRRC should develop written policies and procedures for monitoring grants to include project outputs and related metrics.
2. A timeline should be established for staff to conduct sufficient monitoring of stated project outputs on a regular basis.
3. TRRC staff should use SmartSimple to assist in monitoring the outputs. This would provide consistency to all staff and a reporting platform for TRRC staff to report successful outcomes to the Commission and the public.

Management Response(s):

Monitoring of the expenditure of funds (which occurs multiple times annually) as well as annual reporting, is a very detailed and granular monitoring of project progress. Between direct reimbursements and match documentation, grants staff has a clear window into project expenditures. Such expenditures detail the progress of architectural, construction, research, agricultural efforts, etc.

Moreover, Commission staff is in frequent contact with grantees and project management staff tracking outputs and project progress.

That said, it has long been a goal of the staff to have better tracking of specific metrics on a grant-by-grant basis, and it is one of the key duties of the new data manager to implement such tracking in our database and in collaboration

with the grants team. The breadth of projects on which the Commission works makes this a challenge, but one that management agrees with OSIG needs to be undertaken.

Management Corrective Action(s):

Deliverable: The ability to run reports demonstrating the progress of each grant relative to metrics promised in the grant application.

Responsible Position: Database manager

Estimated Completion Date: Uncertain, but it should be accomplished before December of 2020 barring setbacks.

1. Policy and procure documents will be updated.
2. See #1.
3. Staff is working to improve the database's capacity.

LACK OF EVIDENCE THAT SITE VISITS HAD BEEN PERFORMED

Site visits had not been performed or, if performed, not documented for 23 out of the 30 grant files reviewed. There had been seven site visits documented; however, that documentation was not consistent. Out of the five grants OSIG selected for site visits, two had not met the milestones by the dates indicated in the application.

When site visits are performed, they should be documented consistently to ensure grantees are on target or have met milestones identified in their applications. If milestones and/or dates have changed since the application, an amendment to those milestones should be developed and sent to TRRC staff for approval.

There are no standards for when to make site visits, what TRRC staff are supposed to do when they go out on a site visit or how to document site visits. Other than a written status included in the annual report submitted by the grantee, there is no way for TRRC staff to determine that the milestones indicated in the application are being met without site visits.

Recommendation(s):

1. TRRC staff should develop specific policies and procedures to determine which projects should have site visits, when and how the site visits should be performed and how these site visits should be documented.
2. In addition to the policies and procedures, checklists and timelines should be developed to assist TRRC staff with conducting site visits.
3. As part of the site visits, the process should include verification of project outputs and related metrics.

> ### *Management Response(s):*
> Absence of (documentary) evidence is not evidence of absence. Site visits are a key component of grant management and routinely conducted by Commission staff. Grants staff visits nearly every project that occurs in a physical location, often multiple times.
>
> As each grant project managed by the Commission's grants staff is different, creating a series of "site visit policies and procedures" would not give new insight into when a specific project should be visited nor enlighten future OSIG performance auditors.
>
> Some projects can be evaluated without significant time spent on the premises. Others require significant investments of time by the grants team on location. These require informed and subjective judgments of the

professionals closest to the projects and such judgments vary on a case-by-case basis. For example, site visits to monitor construction of a shell building would differ significantly in frequency and nature from site visits to monitor genetic research on chickpea varietals, both of which would vary significantly from site visits to monitor broadband projects.

Staff and management believe there was a methodological flaw in OSIG's analysis. Some of the grants evaluated had not started. The list also included operating grants, planning grants (A&E), and broadband fiber grants – all of which do not require site visits as there is not anything to see.

However, it is true that current documentation varies in form between offices. Standardizing this documentation would simplify oversight and comparative exercises and management agrees that such standardization should occur.

Management Corrective Action(s):

Deliverable: Forms will be created and filled out after each site visit.
Responsible Position: Grants program manager
Estimated Completion Date: February 28th

1. As stated in management response, such policies cannot be credibly created.
2. Staff will create a form and require that site visits be documented similarly each time
3. This already occurs.

FUNDS DISBURSED PRIOR TO COMMISSION APPROVAL

In September 2017, the Commission approved an application be forwarded to the Authority for consideration of a $1.5 million loan. In January 2018, the Authority notified TRRC that they had declined the loan. In May 2018, the TRRC Executive Director approved and funded this request with a loan from the Virginia Tobacco Region Revolving Fund, created in Virginia Code §3.2-3113, with equipment as collateral. This was done without notifying the full Commission. The Commission retroactively approved this loan in September 2018 when the Executive Director disclosed his actions and the underlying purpose.

The Executive Director only has authority to approve a new grant or loan through the Tobacco Region Opportunity Fund Policy. This policy does not give the Executive Director authority to approve loans funded with Virginia Tobacco Region Revolving Funds.

According to the Executive Director, the applicant was having cash flow problems and needed the loan to keep the business operating. In an effort to assist the applicant, the Commission was not consulted prior to disbursement of funds. The original request, approved by the Commission to go to the Authority, was for a 10-year loan for working capital to fund salaries and additional research equipment.

Recommendation(s):

1. The Executive Director should not act outside the scope and authority of his/her position. Instead, he/she should obtain the approval of the Commission after the Financial Viability has been determined.
2. If the Commission agrees there are instances where this authority is necessary, TRRC staff should develop a policy for specific instances where the Executive Director can approve grants or loans prior to the Commission's review and approval.
3. TRRC's process should include requirements that the Code-required financial viability process was properly completed with a positive financial viability assessment documented and submitted to the Commission.

Management Response(s):

A significant quasi-public organization that had received tens of millions of public dollars (above and beyond any granted by the Tobacco Commission) was in danger of failing to meet payroll and ceasing to be a going concern.

This organization was not a private business, but a quasi-public economic development and research asset key to the attraction and retention of thousands of jobs.

At the moment of cash-flow crisis, there existed no other actor capable of saving the organization. The Executive Director exceeded his authority- in consultation with and agreement of Commission leadership - because that was what the situation demanded. It simply was not feasible to convene a special meeting of a 28-member Commission in the timeframe required. The Commission's later, retroactive formal approval of the Executive Director's action indicates that they viewed his action as appropriate.

The Commission's loan of $1.5 million was secured by $3 million in collateral. At no point was the public in danger of losing money- on the contrary, a failure to have taken this action would have squandered tens of millions in public investment, led directly to the loss of dozens of jobs, and hindered future business attraction and workforce development in a major economic sector.

That organization is now re-structured, showing significant growth, and the Commission anticipates loan repayment on schedule. This was a highly unusual circumstance and there is no reason to believe a similar situation would arise again.

Management Corrective Action(s):

Deliverable: N/A
Responsible Position: N/A
Estimated Completion Date: N/A

1. Exigent circumstances required unusual action, as relayed in management comments.
2. This was a highly unusual circumstance that is unlikely to recur.
3. See #2

MONITORING OF ADVANCES FOR GRANTS AND LOANS

Funds advances are made for two purposes: An advance may be made for working capital to get a project started and an advance may be made to allow the grantee to make specific purchases or pay specific expenses. Grants managers are notified of all outstanding advances at least annually and the information is available through the system used by TRRC staff. However, advance policies are not clear on when an advance should be accounted for and what documentation is needed to approve an advance. Six out of 38 grants still open had an outstanding balance for an advance. However, when the advance was expected to be accounted for was not documented in the files.

TRRC policy related to advances in their Funding Policies for Grant Awards states: "Advances are generally limited to up to 25% of the grant award. It is at the Commission's sole discretion to determine if undue hardship exists in requiring Reimbursement for expenditures verses Advance of funds. When an Advance is issued, future payment requests and the final 10% of the grant award, may be held until all Advanced funds are fully documented."

The staff was following the policies as written in the Funding Policies for Grant Awards; however, if the grantee runs into problems with its project(s), it may not have enough money to pay back the advance.

Recommendation(s):

1. TRRC staff should update their advance policy to be more specific on when each type of advance needs to be accounted for and what documentation should be submitted by the grantee for the advance.
2. When advances are made, there should be documentation provided to the grantee outlining the expectations of repayment.

Management Response(s):

While the Commission's practices regarding advances are in keeping with strong grants management practices, our written policies could be more explicit and informative. Staff will add specificity.

Management Corrective Action(s):

Deliverable: Advance policies will be updated
Responsible Position: Grants Program manager
Estimated Completion Date: February 28th

1. The policy will be updated to more-fully describe current practice.
2. Similarly, more specificity can be added to current policies to improve clarity.

REQUIRED MATCH DOCUMENTATION

Policies regarding match requirements are not clear. Virginia Code §3.2-3103 A.7. states: "For each economic development grant or award, including a grant from the Tobacco Region Opportunity Fund (TROF), require a dollar for dollar match from non-Commission sources."

TRRC Funding Policies for Grant Awards: Information for Applicants and Grantees, revised May 2016, IX. Matching Funds, p12, states: "…Required matching funds must be documented by the grantee and approved by staff at the time of disbursement requests…"

TRRC Funding Policies for Grant Awards: Information for Applicants and Grantees, Revised May 2016, IX. Matching Funds, General Match Guidelines, p 13, states: "…The minimum match amount must be documented at the time of each disbursement request. Where this is not feasible based on the source(s) and specific use of matching funds, and where staff has agreed to an alternate schedule, the minimum match expenditures must be documented prior to submission of a final disbursement request and at least by the close of the grant project period. Matching funds should be verified to ensure that they exist and are available to ensure project completion or to ensure that TRRC is not fully funding the project without any match..."

TRRC staff anticipated that the match would be met prior to the end of the project term. However, the project could end and the match may not be met and could be too far along to come up with a match sufficient for the requirements.

As a result, application of match requirements in TRRC Funding Policies for Grant Awards was not consistent. Three out of 31 grant files selected for test work did not have the minimum match amount documented for each reimbursement request and the required match, at the time, had not been met. One of the three grant files did not have minimum match amounts documented with each reimbursement request; however; the total match required had been made up in subsequent disbursement requests. There was also no documentation in the files supporting any exceptions to the minimum match requirement. Further, when the match amounts for TROF grants and loans are to be achieved is not clear in the funding policies.

Recommendation(s):

1. Policies should be updated to reflect when match is due for all programs, including TROF.
2. As part of the policies, define instances when using alternate schedules where the match is not anticipated to be covered with each reimbursement request.
3. These exceptions should be documented in the file and system, and properly communicated to the grant or loan recipient.

Management Response(s):

Not all projects are fully capitalized at the outset; new manufacturing businesses in particular may incur heavy capital costs prior to operations and revenues. As a result, and as OSIG notes, the Commission's policies permit an alternative match schedule in which the match may be "made up" in the later portion of a given grant period. Moreover, for the comment to read "Follow up should be done to ensure that the match is met according to the alternate schedule," fails to capture that match is always fully accounted for according to any alternate schedule.

Grants staff keep a close eye on match throughout the life of the project, and match progress is noted on each voucher request that moves through our system as well as kept updated within the database. Further, weekly staff meetings include any concerns grants staff may have regarding projects, and in the rare occasion a project looks as though it may not be able to provide adequate match, that project's funding is frozen.

As each project is different, and businesses sometimes experience revenue variances outside their control, publishing "alternate schedules" for match amounts would simply be speculative fictions that may provide some documentation for future OSIG inquiries, but would do little to enhance the success of the Commission or project, nor protect the taxpayers.

As OSIG notes, no project was found that failed to have met its match requirement by the end of the project.

Management Corrective Action(s):

Deliverable: Match policies will be updated.
Responsible Position: Grants Program manager
Estimated Completion Date: February 28th
1. Policies already note that match is due upon disbursement of funds unless an alternate match schedule has been agreed upon.
2. Policies can be updated to state that alternate match schedules are available for projects as needed.
3. This already occurs in the database.

UPDATED APPLICATION REQUIREMENTS

SmartSimple is not being properly used to record information for applicants who resubmit an application. The final recommendation or approval is the only documentation easily retrieved from the system, and there is nothing easily viewed in the system that would show the history of an application other than the last decision.

Applicants complete one application and are assigned a unique number through the system for their application. If the original project is approved by the Commission and then resubmitted to the Commission for a different amount or reason, the original application information is used. The applicant is not required to complete a new application and OSIG could not find documentation that TRRC updated the milestones and deliverables if past due. The most recent Commission approval is documented in SmartSimple, overwriting the original approval.

In order to preserve the history of an application, when an application is recommended to the Commission a second time for a term or project different from what was originally approved, SmartSimple could document both the original and updated applicant information.

Recommendation(s):
1. TRRC staff should use SmartSimple to its capability by adding a new field to allow historical information on approvals to be documented.
2. If this is not done, TRRC should require applicants to submit new applications if the original application is approved and then recommended by TRRC staff for a different project or term.

Management Response(s):
If material changes occur to a project and it is resubmitted, there is probably some value, and certainly little cost, in creating a new section noting the history of the application and that there existed an earlier approach. Staff agrees with OSIG's recommendation.

Management Corrective Action(s):
Deliverable: All future instances of resubmitted applications will follow this process.
Responsible Position: Grants Program manager
Estimated Completion Date: Immediate
1. This process will be followed.
2. N/A

SYSTEM REQUIREMENTS

TRRC's system for managing grant and loan files is not flexible enough to provide the necessary public information and, in some cases, information in the system was incorrect. TRRC uses SmartSimple to manage its grant and loan files. At this time, not all of the Code of Virginia required information has been made public. The grants database on the TRRC website contains project number, approval date, current end date, project name, grant program, approved amount net award and paid amount. Match amounts in SmartSimple for six projects did not agree with the documentation in the files. In addition, TRRC did not always update loans approved by the Authority in the system to reflect the status.

Code of Virginia §3.2-3103 D. states: "The Commission shall develop a publically available online database of all Commission awards, listing for each project the project's goals, the means by which the project fits into the Strategic Plan, the project's expected and achieved outcomes, and the total amount of funding the Commission has awarded to the project through any prior grants." Data in a system should be reliable and agree with supporting documentation.

TRRC uses another system, Tableau Software, to publish information on its website. The information required is not easily extrapolated to be included in an online database. In addition, not all of the information is populated or captured in SmartSimple, so it would be a manual process to provide this information. As a result, TRRC is not adhering to the Code of Virginia.

Recommendation(s):

1. TRRC should adhere to the Code of Virginia. Management should determine how or if the system can be populated with the information that is not currently captured in the system.
2. Once all of the information required by the Code is available, TRRC should determine how to make the information available to the public.
3. In addition, TRRC staff should ensure that the database is updated with correct information for the public.

Management Response:

TRRC does adhere to the code of Virginia.

All of the information required by code is available online. The specific Tableau database referred to by OSIG permits searches by: 1) Project number, 2) Project name, 3) Grant program, 4) Approval date, 5) End year, 6) Approved grant amount, 7) Approved net amount (less any clawbacks), 8) total amount paid.

Those searches then yield a table that includes all eight of those columns. More information in that table significantly negatively affected legibility. After multiple attempts, there simply was not a means staff could identify by which all of that information could be displayed across every program in a table that could be read on a standard-sized screen.

Should a member of the public wish to learn more about a project, having determined the approval date, they can then navigate to the full transcript of the relevant meeting and find the staff recommendations as well as full description of the project read into the record.

That said, OSIG is correct that this is not a simple enterprise. The means by which the public could access this information could be made more clear online, and staff will endeavor to include direct links to relevant files so that the public may more easily engage in such navigation.

Management Corrective Action(s):

Deliverable: Tableau will be updated with links to additional information when such information is available. Due to state record retention and destruction rules, specific information prior to the 2015 legislation is more sparse.
Responsible Position: Database Manager
Estimated Completion Date: March 15th
1. Where information cannot be easily displayed in a legible fashion, links will be supplied to more detailed files.
2. See #1
3. TRRC staff will continue to put as much information online as is possible.

POLICIES AND PROCEDURES FOR LOANS CLOSED BY VIRGINIA RESOURCES AUTHORITY

TRRC has not fully developed policies and procedures for their loan program through Virginia Resources Authority (Authority). For this program, TRRC approves the project and a maximum amount. The Authority does the credit analysis and, if approved, disburses the loan proceeds for the purpose approved by the Commission. TRRC staff provides the principal amount of the approved loan to the Authority. Once the loan is disbursed, TRRC staff does not do any follow-up or monitoring to ensure the loans are being repaid. No reports have been provided to TRRC staff to identify the loans closed.

The Virginia Tobacco Region Revitalization Commission FY 2018-2020 Strategic Plan states: "It is the goal of Commission staff to evaluate projects, both before awards are given and in follow-up, on how well they meet the clear metrics laid out in project outputs when grants or loans are awarded." The goal for the program through the Authority is eventually to be self-sustaining.

If TRRC staff is not ensuring that the loans are being repaid, the program may require additional infusions of money.

Recommendation(s):

1. TRRC staff should monitor the repayment of loans approved by the Authority and develop policies and procedures to facilitate this monitoring.
2. Reports needed for this monitoring should be requested and included in any future memorandum of agreement with the Authority.

Management Response(s):

Staff has been intimately aware of all developments related to loans made through the revolving loan fund administered by the Authority. It would be more accurate to state that staff has not "fully developed policies and procedures", as there exist a large number of policy and procedure documents about this program.

However, as loan volume increases, regular reporting is sensible and the MOU between the Authority and the Commission will be updated to include annual reports.

Management Corrective Action(s):

Deliverable: A new MOU will include annual reporting and reference ongoing monitoring.
Responsible Position: Executive Director

<u>Estimated Completion Date:</u> February 28th
1. This is already occurring
2. The MOU between TRRC and VRA will be updated to include annual reporting.

RELATED PARTIES TO GRANT AND LOAN APPLICANTS

The standard grant agreements do not prohibit the grantee from entering into contracts with individuals or entities where there may be a conflict of interest. Although the grant agreements do include the procurement code, this code only applies to government employees. Grants should be free from conflicts of interest to ensure that transactions between grantees and third parties are conducted at arm's length.

The requirement to include the procurement code in grant agreements was completed following the prior audit; however, this does not apply to non-government employees. Grantees could personally benefit from grant funds by purchasing items from related companies or individuals.

Recommendation(s):

1. TRRC staff should require the grantees to identify any related interests that the grantee may use in the grant application. This would alert TRRC staff to any potential related party transactions prior to reviewing reimbursement requests in the event accusations of impropriety are made.

Management Response(s):

It is somewhat regular practice in business - particularly in small towns or in the agriculture industry - to do business with friends and relatives. Moreover, there is no particular reason to believe that a private business owner or other non-governmental entity (OSIG notes that public entities are already bound by our agreements to follow state procurement rules) should be precluded or discouraged from entering into such a business arrangement.

The grants team routinely scrutinizes vendor invoices, and should there appear to be fraud occurring, such activity is flagged and reviewed - sometimes sent to OSIG for further investigation. Such fraud could occur as easily between friends as family. The creation of new reporting requirements adds no new scrutiny of invoices, nor new protections against fraud.

Management Corrective Action(s):

Deliverable: N/A
Responsible Position: N/A
Estimated Completion Date: N/A
   1. Staff already gathers all relevant information from grantees.

AUDIT RESULTS

This report presents the results of OSIG's audit of the Tobacco Region Revitalization Commission. OSIG performed the following audit testing with immaterial discrepancies noted related to TROF policies and procedures.

The following audit results are discussed in detail in the Findings section:

- Adherence to Code of Virginia §3.2.3103
- The Processes for Monitoring Grants and Loans
- Loans Closed by Virginia Resources Authority
- Executive Director Approval Authority

Based on the results and findings of the audit test work conducted of the Tobacco Region Revitalization Commission, OSIG concluded that internal controls, related to the audit objectives, were operating properly except as identified in the report findings.

During the course of the audit, TRRC staff notified OSIG of possible fraudulent activity for one of their grantees, which has been referred to OSIG's investigative unit. We want to thank TRRC staff for bringing this situation to OSIG's attention, and we request that they continue to submit these concerns to our office in the future.