



City of Virginia Beach

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January 22, 2021

Patrick A. Duhaney, City Manager
City Manager's Office
City of Virginia Beach
2401 Courthouse Drive
Virginia Beach, VA 23456

**Subject: Results of Agreed-Upon Procedures for the EDIP Part E - COVID-19
Pandemic Assistance Program**

Dear Mr. Duhaney,

We have performed the procedures listed below, which were agreed to by management with respect to the Economic Development Investment Program (EDIP) Part E - COVID-19 Pandemic Assistance Program to determine whether the process for awarding grants is according to policy. The program provides financial assistance to qualified small businesses that are experiencing financial hardships due to the impacts of COVID-19.

We were not engaged to perform and did not perform an audit, the objective of which would have been the expression of an opinion or limited assurance. Accordingly, we do not express such an opinion. Had we performed additional procedures; other matters may have come to our attention that would have been reported to you. We completed the agreed-upon procedures on December 4, 2020.

This report is intended solely for the information and use of the City Manager's Office, the Virginia Beach Development Authority (VBDA), and City leadership. It is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

This agreed-upon procedures engagement was conducted in accordance with Government Auditing Standards (GAS). GAS incorporates financial and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance for performing and reporting the results of agreed-upon procedures. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the

sufficiency of the procedures described herein, either for the purpose for which this report has been requested or for any other purpose.

The Office of the City Auditor reports to City Council through the Audit Committee and is organizationally independent of all City Departments. This report will be distributed to the City's Audit Committee, City Council, City Manager, VBDA, and appropriate management within the City. This report will also be made available to the public through the Office of the City Auditor's webpage.

Background

The EDIP Part E - COVID-19 Pandemic Assistance Program provides financial assistance to qualifying businesses that are unable to make rent payments, utility payments, and other recurring business expenses for their places of operation without risk of laying off employees as a result of restrictions mandated by the Commonwealth of Virginia and the City Manager's declaration of a "Local Emergency."

The VBDA is the administrator of the program and has designated the Department of Economic Development (Economic Development) to review all applications and make recommendations to the VBDA for disbursements of the grants. Each grant recommended for approval shall be voted on by the VBDA at one of its regular or special meetings.

City Council has authorized the use of \$2,500,000 of EDIP funds for the grants. Each grant shall not exceed the lesser of (i) identified rent, utility, and other business expenses related to the COVID-19 Pandemic, or (ii) \$10,000. The funds are for grant payments only and exclusive of any operating costs. As of December 4, 2020, the total amount disbursed was \$1,752,889.

Program eligibility requirements and restrictions are as follows:

Qualifying Businesses	
	To qualify, a business must be able to demonstrate the following:
	a) It is a small business with fewer than 250 employees;
	b) It has operated in the City of Virginia Beach for at least 1 year (12 months);
	c) It continues to operate during the Local Emergency, or was ordered closed by Governor Northam's Executive Order 53 issued on March 23, 2020;

	d) The COVID-19 Pandemic has caused a major disruption to the revenues of the business so that the business will be unable to continue generating sufficient revenue to make rent payments, utility payments, or to meet its other obligations without reducing the number of employees.
	e) The business is operated in a leased space and the landlord is not a related entity to the owner or owners of the business; and
	f) The business agrees that it will forestall any reduction in its workforce during the grant period.

Application Process and Representations by Business	
	A business seeking a grant shall submit before June 30, 2020:
	(i) an application and (ii) a Disclosure Statement Form by mail to: Department of Economic Development, Attn: Director, 4525 Main Street, Suite 700 Virginia Beach, Virginia 23462 or by email: ecdev@vbgov.com
	In the application, the business will make the following affirmations and representations:
	a) A statement of the impact to its operations due to the Local Emergency;
	b) That due to the Local Emergency, it cannot generate sufficient revenue to pay its rent, utilities, and/or other business obligations
	c) Receipt of the grant will allow it to continue operations and forestall any reductions in employees;
	d) That its landlord has agreed to waive all late fees, interest and/or penalties attributable to rent paid via the grant; and
	e) That there is a valid lease in place (applicant shall provide a copy of its current lease to establish the amount of the grant) or other written binding obligation for which the business seeks assistance.

As a condition for the grant, VBDA requires the recipient to sign a recapture agreement form, which essentially addresses the following:

- The recipient's representations of its business and its losses are true and accurate to the best of the recipient's understanding and belief.
- The recipient shall pay back the grant received, if the recipient's representations were found to be materially false or misleading.

The procedures and associated findings are as follows:

(1) In determining the process for awarding grants, we performed the following steps:

- Reviewed the *Part E: Policy and Procedure for the Provisions of EDIP Funds for a Temporary Small Business Rent Assistance Program Related to the COVID-19 Pandemic*.
- Walkthrough the processing of applications to gain understanding and identify internal controls.
- Preliminarily reviewed applications after Economic Development's initial screening to verify adherence to policy. Notified Economic Development of the results of our review.
- Reviewed grant disbursements for appropriateness.

Based on our review, we found that six of 244 (2%) recipients owned the space in which the business is operated. This is not consistent with the *Part E: Policy and Procedure for the Provisions of EDIP Funds for a Temporary Small Business Rent Assistance Program Related to the COVID-19 Pandemic*, which requires the business to be operated in a leased space. However, the City Attorney's Office now acknowledges that operating in a leased space should not have been a requirement when the policy was initially developed. At that time, the uncertainties made it quite challenging to visualize the impacts of the pandemic on the business sector. Because of this, the policy did not truly reflect the intent of the grant, which is to provide financial assistance to struggling businesses, regardless of whether operated in a leased or owned space. Thus, after discussion with the City Attorney's Office, we deem that the six recipients above are no longer considered as exceptions.

In future grants, we recommend that the City Attorney's Office and the Economic Development Department ensure that established requirements are in alignment with the intent of the grant.

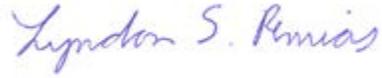
Our finding and recommendation have been discussed and agreed upon with management.

We would like to thank the management and staff from the Department of Economic Development for their courteous assistance during the course of our engagement.

Should you have any questions, please do not hesitate to contact me at 385-5872 or via e-mail at lremias@vbgov.com.

Patrick A. Duhaney, City Manager
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Sincerely,

A handwritten signature in blue ink that reads "Lyndon S. Remias". The signature is written in a cursive style and is contained within a thin black rectangular border.

Lyndon S. Remias, CPA, CIA
City Auditor

LSR/ag

- c: Ronald H. Williams, Deputy City Manager
- David A. Bradley, Deputy City Manager
- Taylor V. Adams, Director, Economic Development
- Mark D. Stiles, City Attorney
- Virginia Beach Development Authority
- Kevin M. Chatellier, Director, Budget and Management Services
- Wendy Hu, Acting Co-Director, Finance
- Jeffrey R. Rodarmel, Acting Co-Director, Finance