



**Audit Report
Business Investment Grants
October 3, 2018**

**City Auditor's Office
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Purpose and Scope

The purpose of this audit was to assess the performance of the Business Investment Program (BIP) through which Business Investment Grants (Grants) are administered, and to ensure the grant agreements were consistent with the criteria outlined in the BIP policy in effect at the time of execution. Auditors also confirmed the accuracy of the reimbursement amounts paid to the grantees and evaluated the effectiveness of the controls established over the Grants. The City of Charlotte and Mecklenburg County partnered to create the program. Unless otherwise stated, references to grant amounts throughout the report reflect only the City share, which is generally about one-third of the total.

The audit reviewed Grants executed since program inception in 1998 through June 2017. Of the 54 Grants approved (\$10,356,083 reimbursed), auditors tested 15 agreements representing 28% of the Grants and 74% of reimbursements (\$7,654,380). Of the 15 grants tested, eight are older grants dating back to 1998.

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

This report is intended for the use of the City Manager's Office, City Council and the Economic Development Department.

Conclusion

Current controls are adequate to ensure program participants meet contract obligations prior to the issuance of Council-approved reimbursements. Deficient controls at the onset of the program allowed a small percentage of payments to be made without ensuring compliance.

Summary Results

Of the \$7.6 million dollars represented in the audit sample, 97.5% of the reimbursements were made to Companies with verified investments. Controls have improved since program inception. Additional controls should be implemented to improve accuracy of calculations and confirmation of grant requirements.

1. Payments from the City totaling \$188,844 were made to companies with unverified investments.
 - Economic Development agrees that Company A did not provide sufficient documentation for its investment. A Standard Operating Procedure was subsequently implemented that requires investments to be documented via paid ad valorem tax bills.
2. The job and wage verification process was insufficient to ensure requirements were met prior to paying reimbursements.
 - Economic Development agrees to require companies to provide all Employer's Quarterly Tax and Wage Reports (NCUI 101) and payroll reports prior to processing future payments. In the instance when the documentation to support job creation and wages is in question, Economic Development agrees to perform site visits to substantiate the data.
3. Economic Development should establish written procedures for the administration of the Grants process.
 - Economic Development agrees that written procedures will ensure proper and consistent payments. A draft Standard Operating Procedure will be completed by June 30, 2019.
4. Tax reimbursements were miscalculated or paid prior to eligibility.
 - Economic Development agrees that Standard Operating Procedures that include reimbursement processes will ensure accurate and consistent payments. Economic Development will also require Mecklenburg County to approve disbursements prior to payment. In addition, the baseline amount and year will be included in all subsequent BIP agreements. Periodic site visits will be conducted as needed.

Background

The City of Charlotte partnered with Mecklenburg County to create the BIP. Since 1998, the program has undergone several revisions that have been approved by City Council. The program seeks to encourage the creation, retention and/or expansion of new or existing businesses and jobs identified within the Business Investment Zone. The program aligns itself with local Smart Growth, Transit, and the Business Corridor Revitalization Strategic Plans.

The program provides incentives to companies seeking to expand or locate new operations and to be competitive with other cities and regions that offer incentives. The program is marketed by the Charlotte Chamber of Commerce and the Charlotte Regional Partnership, both of which actively seek companies to relocate to the region. The City and County work with multiple agencies including the North Carolina Economic Development Partnership. Since inception, more than \$1 billion in private investment has been leveraged and over 10,000 new jobs have been created.

Under the BIP, the City reimburses companies a portion of the new property taxes generated by the private investment made. The amount and terms of the Grants vary depending upon the dollar amount of the investment, the number of jobs created, and the location of the investment. The following table shows the total City property taxes reimbursed to participating companies since the program inception through FY18.

Fiscal Year	Reimbursed
1998-2014	\$ 6,071,893
2015	939,895
2016	2,274,528
2017	1,069,767
2018	1,590,230
Total	\$ 11,946,313

To qualify for a Standard Program grant, applicant companies must be approved by Council and meet the following requirements:

- Planned \$3 million investment in new or expanded services or processes
- Planned addition of 20 or more jobs
- Pay at least 100% of the average regional wage

In addition, Large Impact grants require a minimum of \$30 million in investment and 150 net new jobs at 125% of the average regional wage. Headquarters grants have flexible minimum investments but must be for Fortune 1000 companies that create jobs paying at least 200% of the average regional wage.

Audit Findings and Recommendations

1. Payments from the City totaling \$188,844 were made to companies with unverified investments.

The BIP policy requires that the investment standards will be “set forth in an agreement and must be maintained throughout the Grant term.” Each Grant is unique based on the company’s investment and job creation projection, but all are structured using the BIP criteria.

Two of the 15 Grant agreements tested did not meet investment requirements according to the tax records. While the companies provided documentation that showed the investment was made, a review of tax records could not confirm that these investments were actually recorded with the County tax office. The effect of unverified investments for two companies follows:

Company A: From 2009 to 2013, this Company received an aggregate \$165,431 from the City in error.

The contract which provided a combined City and County grant of \$967,011 required a \$34.9 million investment. The Company provided a capital investment statement indicating an investment in excess of \$40 million had been made as of May 2009. However, tax bills support only a \$15.2 million investment. (The Company has subsequently been sold and it was not practical to follow-up directly with its management.)

Economic Development staff agreed with auditors’ assessment that the tax records do not support the investment, but provided a memo from a former manager approving the payment. The BIP policy does not provide for exceptions.

Company B: In 2008, this Company received \$23,413 from the City in error. The Company provided documentation that it had invested about \$35 million through December 2008. The minimum investment was \$29 million. Tax records do not confirm any investment was made. This Grant was only paid for one year, as the company did not qualify during the remaining years of the Grant term.

For each of the companies above, Section 2.1 of the Grant agreement outlines a verification process that is to be followed, upon completion of the investment. Included in the process is the approval of the investment by the City and County Managers (or their designees). Once approved, the investment schedule shall be attached to the Grant as an exhibit. These exhibits were not included with the Grant agreements provided by Economic Development.

Recommendation: Economic Development should verify investments using the asset listing submitted annually by the company to the Mecklenburg County Tax Office.

Additionally, the investment schedule should be attached to the grant agreement upon approval.

Response: Economic Development agrees that Company A did not provide sufficient documentation for its investment. A Standard Operating Procedure was subsequently implemented that requires investments to be documented via paid ad valorem tax bills.

With respect to Company B, further research identified three tax bills with a total value of \$43.6 million. However, we could not substantiate the baseline to ensure that these values were not duplicated. Therefore, Economic Development agrees that it is possible that Company B was overpaid \$23,413.

Economic Development agrees that for future grants, an investment schedule will be included in the contract.

2. **The job and wage verification process was insufficient to ensure requirements were met prior to paying reimbursements.**

The BIP policy outlines job creation and wage rates as part of the program guidelines. At a minimum, companies must commit to the established requirements. The executed contract agreements specify the actual job and wage rate thresholds that will initiate the Grant repayment term.

Best Practices in Carrying Out Economic Development Efforts (2004) published by the National State Auditors Association states:

“The economic development agency should develop and follow systematic, objective, and independent processes for determining whether service recipients are complying with all requirements to ensure that the program is being carried out as intended and to help ensure that tax dollars are being spent wisely and are achieving the desired results.”

The company reports the number of jobs created and maintained, as well as the average wage rate of those positions on the reimbursement request. As part of the annual request, the company must submit to Economic Development:

- the Employer’s Quarterly Tax and Wage Report (NCUI 101) filed quarterly with the North Carolina Employment Security Commission;
- the company’s fourth quarter payroll report indicating the number of full-time jobs at the grant facility; and
- certification that all reports are accurate.

If a company has numerous locations in North Carolina (covered under the same Unemployment Insurance account), State Statute NC G.S. 96-4(i)(1) requires the company to file a Multiple Worksite Report.

For 14 of 15 Grants reviewed, Economic Development did not have all quarterly NCUI 101 reports. In addition, Multiple Worksite Reports, when applicable, were not available for review. These reports detail the employment data by location, must reconcile to the NCUI 101, and could be used by Economic Development to verify job and wage information. If the City does not independently verify the job and wage requirements, there is an increased risk that a company may be non-compliant with the contractual obligations and reimbursed in error.

Recommendation: Economic Development should enforce the requirement that companies provide all quarterly NCUI 101's and payroll reports for any year payment is requested. Where applicable, multiple worksite reports should be required to assist in the jobs and wages verification. If there is any indication that the information may be inaccurate (e.g., unexpected job growth, higher than anticipated wages, other inconsistencies), the department should perform site visits to aid in the validation of the information. These visits should include a visual observation of the number of employees as well as a review of payroll records or any other information a company could provide to confirm the jobs are at the appropriate location.

Response: Economic Development agrees to require companies to provide all quarterly NCUI 101's and payroll reports prior to processing future payments. In the instance when the documentation to support job creation and wages is in question, Economic Development agrees to perform site visits to substantiate the data.

3. **Economic Development should establish written procedures for the administration of the Grants process.**

Written procedures are an essential part of grant administration activities, providing guidance for decision-making and ensuring compliance with policies. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) was organized in 1985 to provide leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control, and fraud deterrence. One of the five components of COSO's effective internal control framework is "Control Activities." These activities include deploying controls through policies that establish what is expected, and procedures that put policies into action.

While the Economic Development Department has instituted some control activities (e.g., segregation of duties, disbursement checklist), there are no written procedures providing direction on the administration of the Grants process, including the review and approval of payment requests. Economic Development has stated that the complex nature of the Grants process present a challenge in establishing written

procedures that could be used broadly over the entire program. While each Grant agreement is unique, the procedures used to verify program requirements should apply in most circumstances.

The lack of written procedures could lead to inconsistent treatment of similar situations. Development of written procedures will assist with the transition of new employees into different roles in a complex environment.

Recommendation: Economic Development should establish written procedures for verifying and documenting the requirements of the Grants program. These procedures should include a requirement to document exceptions when they occur.

Response: Economic Development agrees that written procedures will ensure proper and consistent payments. A draft Standard Operating Procedure will be completed by June 30, 2019.

4. Tax reimbursements were miscalculated or paid prior to eligibility.

A. Calculation Errors

The BIP provides Grants to companies based on the amount of new property tax revenues generated by the private business investment made. The City and County each pay a portion as stipulated in the Grant agreement. We noted the following errors:

- **Company C:** From 2012 to 2016, the Company was underpaid a total of \$20,575 (City's share \$7,602). The underpayment occurred due to the inclusion of special district taxes in the baseline calculation for property taxes. Special taxes should be excluded from both the baseline and any incremental tax changes.
- **Company D:** The Company was overpaid \$3,404 (City's share \$1,210) in 2013. The calculation was based on an assessed tax value of \$68,307,672; however, the agreement established an investment cap of \$68,000,000, meaning there would be no reimbursement for any tax value over that amount.
- **Other Companies (2 companies/4 grants):** Between 2013 and 2016, the City/County shares of payments for four grants were miscalculated, resulting in a net City underpayment of \$12,884, with a corresponding overpayment by the County.

B. Payments Prior to Eligibility

Each Grant agreement specifies the requirements that must be met before a reimbursement should occur. These include: 1) the investment amount must be

met; 2) jobs and wage numbers must be met; and 3) all taxes must be paid for the property related to the investment, as well as all other taxes owed by the company. For two of the 15 Grants tested, Economic Development reimbursed the company before the requirements were met.

Company E: The 2011 payment on the Grant (City's share \$101,736) was made before the investment requirement was met. While the payment was made early, all of the investment requirements were eventually met and the payment would have occurred the following year.

Company F: The 2015 payment (City's share \$27,138) was made before the Company paid five outstanding tax bills for the year. Section 2.4b of the contract states that all taxes must be paid in full, to remain eligible for the Grant. The outstanding tax bills were paid a few months after the City's payment to the Company.

Recommendation: Economic Development should establish controls to monitor and review the Grant reimbursement process, including the following:

- Obtain formal approval from the County acknowledging their review of the disbursement request
- Establish formal written procedures related to the reimbursement process
- Specify the property tax year and amounts used for the baseline determination in the Grant agreements
- Perform an annual online search of property tax bills
- Verify the tax rates used in reimbursement calculations
- Conduct periodic company site visits

Response: Economic Development plans to request a position to prepare reimbursements. If this position is approved, the payment will be subsequently reviewed and approved by the Financial Services division of Housing & Neighborhood Services and Economic Development.

Economic Development agrees that Standard Operating Procedures that include reimbursement processes will ensure accurate and consistent payments. Economic Development will also require Mecklenburg County to approve disbursements prior to payment. In addition, the baseline amount and year will be included in all subsequent BIP agreements. Periodic site visits will be conducted as needed.