

**Performance Audit 17-01:  
Growing Small Business Initiative**

**May 2017**

**City Auditor**

Stan Sewell, CPA, CGFM, CFE

**Senior Auditor**

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# OFFICE OF INTERNAL AUDIT

## Stan Sewell, City Auditor

May 8, 2017

To: Mayor Andy Berke  
City Council Members

Subject: Growing Small Business Initiative (Report #17-01)

Dear Mayor Berke and City Council Members:

The attached report contains the results of our audit of the Growing Small Business Initiative. Our audit found the Department of Economic and Community Development was generally accomplishing the intent and purpose of the grant program. However, we identified a lack of required written administrative rules, incomplete grant agreements and inadequate supporting documentation.

In order to address the noted areas for improvement, we recommended actions to establish written policies and procedures, as well as involving the Office of the City Attorney in the formation of the grant agreement.

We thank the management and staff of the Department of Economic and Community Development for their cooperation and assistance during this audit.

Sincerely,

Stan Sewell, CPA, CGFM, CFE  
City Auditor

Attachment

cc: Audit Committee Members  
Stacy Richardson, Chief of Staff  
Maura Sullivan, Chief Operating Officer  
Daisy Madison, Chief Financial Officer  
Donna Williams, Administrator, Economic and Community Development

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## AUDIT PURPOSE

This audit was conducted in accordance with the Office of Internal Audit's 2017 Audit Agenda. The objectives of this audit were to determine if:

- The grant recipients were qualified small businesses;
- The new jobs qualified for the Growing Small Business incentive grants; and,
- The payments were supported by the appropriate number of new jobs.

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## BACKGROUND

In conjunction with the Industrial Development Board of the City of Chattanooga (IDB), the City's Department of Economic and Community Development (ECD) is responsible for administering and funding the small business incentive grant program.<sup>1</sup> The small business incentive grants are authorized by the IDB and are intended to encourage economic development by small business enterprises within the boundaries of the City.

The grant awarded to a specific business during any given year is determined by multiplying the number of new full-time jobs created at the business during the preceding year by the amount of five hundred dollars (\$500). This amount is adjusted up or down based upon the average wages being paid to the new employees.

A qualified small business is a for-profit service or manufacturing company that employs no more than 100 full-time persons (regardless of the locale in which they are employed), that created a minimum of five (5) new full-time jobs within the City of Chattanooga and created the jobs within a contiguous twelve (12) month period.

### Financial Information

During the scope of the audit (October 2014 to December 2016), thirteen (13) applicants have been awarded a total of \$75,649.35.

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<sup>1</sup> City of Chattanooga Ordinance Number 12853; Passed on second and final reading: September 23, 2014.

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## FINDINGS AND RECOMMENDATIONS

### Establish Policies and Procedures

We found there was a lack of written policies and procedures, and notice to the City Council for grants made. The oversight, performance and control of the grant program was informal and based on institutional knowledge of staff. The ordinance requires the adoption of written rules for the administration of the program. Upon adoption, the rules are to be filed with the Clerk of the City Council. Additionally, the ordinance requires written notice to the City Council of grants made. Due to the lack of administrative rules, there is a risk for inconsistent practices among employees and discontinuity, particularly if ECD experiences staff turnover.

#### Recommendation 1:

We recommend ECD establish written policies and procedures (administrative rules), including notification to the City Council for grants made under the City's Small Business Incentive Grant Program. A copy of the related policies and procedures should be provided to the Clerk of the City Council.

*Auditee Response: We concur with the audit finding and recommendation. ECD will establish a written framework of policies and procedures (administrative rules), including notification to the City Council, to govern the Growing Small Business Initiative Program. This written framework will serve as reference guide for designated staff administering the program. A copy of these written rules will be provided to the Clerk of the City Council.*

### Grant Agreement Should Be Adequately Formed

We found ECD did not adequately form the "boilerplate" agreement used for all grantees. For example, the grant agreement did not include key information such as the grantor, grantor signature, grant amount and term of the agreement. As a result, the grant agreement does not appear to be binding.

Effective grant agreements<sup>2</sup> include certain elements, such as the amount and purpose of the grant, grant term and payment schedule, notification of changes and other expectations.

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<sup>2</sup> Kevin Laskowski, *Creating an Effective Grant Agreement*, November 15, 2007, page 2, <https://www.ncfp.org/blog/2007/nov-creating-an-effective-grant-agreement.html>.

## Recommendation 2:

We recommend ECD involve the Office of the City Attorney in all phases of the formation of grant agreements.

***Auditee Response:** We concur with the audit finding and recommendation. ECD will work closely with the Office of City Attorney to strengthen the language of the grant agreement per the findings of the Audit Report.*

### Lack of Supporting Documentation

While conducting interviews with departmental personnel and reviewing documentation to understand the process for approving or denying applicants for the incentive grants, we determined ECD did not maintain adequate documentation for the verification of data submitted by applicants. Component 3, Control Activities of the Tennessee Comptroller's "Internal Control and Compliance Manual for Governmental Entities and Other Audited Entities" recommends the review of documentation before issuing checks.

Documentation found for all qualified small businesses included applications, IDB authorizations and grant agreements. However, due diligence worksheets, job creation schedules, committee recommendations and award letters were not located for several grantees.

As a result of inadequate documentation, ECD was unable to provide support for the verification and validation of data submitted by the applicants, as well as the calculation of the award amount. We noted that for 10 of 13 grants the department could not provide complete documentation to support the grants awarded.

## Recommendation 3:

We recommend ECD develop and implement written policies and procedures (administrative rules) that provide reasonable assurance adequate supporting documentation for all transactions will be obtained and retained.

***Auditee Response:** We concur with the audit finding and recommendation. ECD will develop and implement written policies and procedures (administrative rules) that provide reasonable assurance adequate supporting documentation for all transactions will be obtained and retained.*

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## APPENDIX A: SCOPE, METHODOLOGY AND STANDARDS

Based on the work performed during the preliminary survey and the assessment of risk, the audit covers the Growing Small Business Initiative from October 2014 to December 2016. When appropriate, the scope was expanded to meet the audit objectives. Source documentation was obtained from ECD and the IDB. Original records as well as copies were used as evidence and verified through physical examination.

To determine if the qualified small businesses were valid and to substantiate the number and eligibility of new qualified jobs, we conducted interviews with department personnel and reviewed available documentation. We also communicated with and obtained supporting documentation from selected grant recipients.

To develop our recommendations, we reviewed the city code, the State's Internal Control and Compliance Manual, industry best practice documents and consulted with the Office of the City Attorney.

We conducted this performance audit from January 2017 to April 10, 2017 in accordance with generally accepted government auditing standards. Those standards require 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 the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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