



Richmond Office of the City Auditor

Office of the Inspector General

Fighting government waste, fraud and abuse

Umesh Dalal, CPA, CIA, CIG

Richmond City Auditor/Inspector General

September 26, 2012

Mr. Lee Downey, Director of Economic and Community Development

The Office of the Inspector General (OIG) has completed an investigation of the Richmond Economic Development Corporation Community Capital Group (REDC). This letter informs you of the results of the investigation.

Background

The City's Department of Economic and Community Development (DECD) created the Financial Strategies Group (FSG) in July 2010, to provide financial analysis and due diligence services. Prior to the development of the FSG, the City outsourced these services. In 2011, the core duties of the FSG were expanded to begin a review of third party loan servicing relationships that existed prior to the creation of the FSG. Subsequently, in December 2011, the FSG reviewed the Neighborhoods in Bloom (NIB) loans administered by REDC and determined that REDC may have been engaging in "ineligible activities." The FSG reported its findings to the City's Chief Administrative Officer with the recommendation that an independent third party be engaged to review this matter. Accordingly, OIG conducted this investigation. OIG found that some of the issues noted in this report could have been identified earlier through more intensive monitoring for compliance with the contract and federal grant requirements, prior to the creation of the FSG.

After discussion with the City Administration, the OIG completed an investigation to:

- A. Determine if NIB funds were used by REDC for unauthorized or unallowable purposes
- B. Determine the amount of funds owed back to the City from REDC

REDC Overview

REDC is a non-profit organization that provides financing and services to small businesses, in order to create jobs and increase the flow of credit and capital into targeted low-income communities. In 2004, REDC began offering the NIB revolving loan fund under a partnership with the City's DECD. This program disburses the U.S. Department of Housing and Urban Development (HUD) funds to small businesses that are unable to obtain traditional financing. The maximum NIB loan amount is \$50,000 and each loan has an interest rate of 4%. Businesses must be located in one of five targeted areas in the City to receive NIB loans:

- Brookland Park
- Highland Park
- Hull Street
- Jackson Ward
- North 25th Street

Findings

Investigators noted the following issues when performing their testing:

- REDC used the NIB funds to refinance \$20,248 non-NIB debt, which is not allowable under HUD requirements, in accordance with Circular A-87.
- According to the contract, REDC was supposed to keep City funds in a separate bank account controlled by the City. Although REDC complied with this provision in the early stages of the agreement, they discontinued using this account and withdrew remaining funds in January 2008. As a result, REDC comingled NIB funds with their own funds.
- REDC admitted to using NIB funds for their own operating purposes, which is unallowable per the contract with the City.
- The City's DECD disbursed approximately \$900,000 to REDC since 2004 for NIB loans.

The following computation presents the amount payable to the City as of June 30, 2012:

Initial disbursements*	\$900,004
<u>Add:</u>	
Program Income**	\$18,191
<u>Subtract:</u>	
Notes Receivable	(\$444,686)

Charge Offs, Net of \$40,069 in Recoveries	<u>(\$158,313)</u>
Total due to the City***	<u>\$315,196</u>

*In addition to the initial disbursement, the City has also paid REDC an administrative fee of \$123,750, which is not included above

** Program Income per REDC's financial statements is \$18,191 higher than the City's General Ledger. It appears that \$18,191 should be remitted to the City

***Total due to the City does not include \$30,549 that is in the NIB bank account

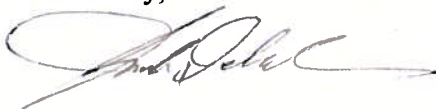
Conclusion

REDC did not comply with requirements under its contract with the City and engaged in unallowable activities with federal grants. However, there is no evidence of criminal wrongdoing based on the procedures employed by the OIG. DECD has improved their monitoring of REDC with the creation of the FSG, who brought this matter to the City Administration.

Recently, DECD concluded their negotiation with REDC. They received a commitment from REDC to reimburse the City \$260,080. Recovery of 91% of the net receivable of \$284,647 (\$315,196 less \$30,549 cash in bank) from REDC is an accomplishment by the DECD that needs to be commended. DECD has notified REDC of its intent to terminate the NIB loan fund administrative relationship in December, 2012.

If you have any questions, please contact me at extension 5616.

Sincerely,



Umesh Dalal, CPA, CIA, CIG
City Auditor/Inspector General

Cc: Mr. Byron C. Marshall, Chief Administrative Officer
Mr. Peter Chapman, Deputy Chief Administrative Officer