

PERFORMANCE AUDIT REPORT

BALTIMORE DEVELOPMENT CORPORATION

**FOR THE PERIOD FROM
JULY 1, 2013 THROUGH JUNE 30, 2015**

February 9, 2017



**City of Baltimore
Department of Audits**



February 9, 2017

Honorable Joan M. Pratt, Comptroller
And Other Members of the Board of Estimates
City of Baltimore

We conducted a performance audit of the internal controls and related policies, processes, and procedures for selected performance measures within the Service Areas of the Baltimore Development Corporation. The purpose of our audit was to determine whether the Baltimore Development Corporation (BDC) met its targets for selected performance measures and to assess whether the internal controls and the related policies and procedures to monitor, control, and report activities related to those performance measures produced valid and reliable information for fiscal years 2014 and 2015.

As a result of our audit, we found that some of the targets for the selected performance measures were not met. We also noted certain areas where the effectiveness of the control procedures could be improved, and we recommend that:

- BDC establish procedures to report the number of companies assisted in staying in Baltimore City in the correct fiscal year during which companies were actually assisted in staying in Baltimore City. We also recommend that BDC establish or improve its policies and procedures to adequately maintain its records for the companies assisted in staying in Baltimore.
- BDC determine the industry's best practices to properly report the number of jobs retained or attracted to Baltimore City in the correct fiscal year during which the jobs were actually filled. We also recommend that BDC establish or improve its policies and procedures to adequately maintain its records for the jobs retained or attracted to Baltimore City.
- BDC review its performance measures included in the Agency Detail Board of Estimates Recommendations (Budget Book) to ensure that the reported numbers are consistent with the established performance measures and to determine the steps that are necessary to improve actual performance measures so that the targets can be met. We also recommend that BDC review future performance measures to determine whether those targets require updating or revisions based on past actual numbers. Before changing any of its future

performance measures, however, BDC should follow the procedures established by the Department of Finance, Bureau of Budget and Management Research for the review and approval of any suggested changes to performance measures. Furthermore, we recommend that in the future, the inventory for seminars and training sessions be kept on a fiscal year rather than on a calendar year basis.

Sincerely,

A handwritten signature in blue ink, appearing to read "Robt L McCarty Jr", written in a cursive style.

Robert L. McCarty, Jr., CPA
City Auditor

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Background Information

The Baltimore Development Corporation (BDC) is a non-profit organization which was incorporated on August 30, 1991. BDC serves as the economic development agency for the City of Baltimore. As reported in the Comprehensive Annual Financial Report (CAFR) for the City of Baltimore for the Year Ended 2014, BDC is classified as a related organization of the City. According to the Article 8 of the Baltimore City Code, titled "Ethics", BDC is classified as a Baltimore City's agency for complying with the Baltimore City Ethics' regulations only. BDC is contracted by and is funded by the Baltimore City Department of Housing and Community Development. BDC's mission is to retain and expand existing businesses, support cultural resources, and attract new opportunities that spur economic growth and help create jobs. BDC serves as a one-stop shop for anyone interested in opening, relocating or expanding a business in Baltimore City. BDC has the responsibility for city-wide economic and downtown development which included business retention; spurring minority and women participation in business; creating a coordinated marketing effort to promote the development of downtown; promoting urban tourism; improving neighborhood commercial revitalization; and expanding Baltimore role as an international gateway. BDC oversees the Small Business Resource Center (SBRC) which focuses on job development by fostering small business development and entrepreneurship.

BDC's functions focus on increasing jobs in Baltimore's key growth sectors, expanding companies located in Baltimore, investing in Baltimore, providing significant financial benefit to Baltimore and the State of Maryland, and fostering opportunities for Minority Business Enterprises and Women Business Enterprises (MBE/WBE) participation.

The SBRC, an affiliate of BDC, was incorporated on January 22, 2002 to provide business development services to entrepreneurs and existing businesses with less than \$5 million in annual revenues. Services are provided through a series of seminars, one-on-one counseling sessions, outreach events, targeted programming, mentoring and financial assistance.

Audit Scope, Objectives and Methodology

We conducted a performance audit of the internal controls and related policies, processes, and procedures for selected performance measures within the Service Areas of the Baltimore Development Corporation. The purpose of our audit was to determine whether the Baltimore Development Corporation met its targets for selected performance measures and to assess whether the internal controls and the related policies and procedures to monitor, control, and report activities related to those performance measures produced valid and reliable information. We conducted our 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.

The objective of our audit was to determine whether BDC met its targets for selected performance measures in fiscal years 2014 and 2015 and to assess whether BDC's internal

controls and related policies, processes, and procedures were effectively designed and placed in operation to monitor, control, and report valid and reliable information related to those performance measures. As part of our audit, we addressed selected BDC performance measures within the following Department of Housing and Community Development Service Areas:

1. Retention, Expansion, and Attraction of Business – Service 809.

- We conducted our audit of the BDC’s efforts to meet its targets for the number of companies assisted in staying in Baltimore City. The targets for the number of companies assisted in staying in Baltimore City were 123 for fiscal year 2014 and 142 for fiscal year 2015. (Priority Outcome: Growing Economy; Performance Measure Type: Output)
- We conducted our audit of the BDC’s efforts to meet its targets for the number of jobs retained or attracted to Baltimore City. The targets for the number of jobs retained or attracted to Baltimore City were 1,560 for fiscal year 2014 and 1,785 for fiscal year 2015. (Priority Outcome: Growing Economy; Performance Measure Type: Outcome)

2. Small Business Resource Center – Service 812.

- We conducted our audit of the BDC’s SBRC efforts to meet its targets for the number of seminars and training sessions. The targets for the number of seminars and training sessions were 95 for fiscal year 2014 and 100 for fiscal year 2015. (Priority Outcome: Growing Economy; Performance Measure Type: Output)
- We conducted our audit of the BDC’s SBRC efforts to meet its targets for the number of microloan applications reviewed. The targets for the number of microloan application reviewed were 20 for fiscal year 2014 and 28 for fiscal year 2015. (Priority Outcome: Growing Economy; Performance Measure Type: Outcome)

To accomplish our objectives, we conducted inquiries of key individuals in order to obtain an understanding of the internal controls and related policies, processes and procedures, and systems, established by BDC for the selected performance measures. Where possible, we also utilized the systems’ documentation obtained as part of our audit of the City’s CAFR. We also performed tests, as necessary, to verify our understanding of the applicable policies and procedures; reviewed applicable records and reports utilized to process, record, monitor, and control BDC’s functions pertaining to the selected performance measures; assessed the efficiency and effectiveness of those policies and procedures; and determined whether BDC met its performance measure targets. We performed tests of various records and reports for the period from July 1, 2013 through June 30, 2015.

Our audit results, and where applicable, our findings and recommendations are detailed in the Audit Results/Findings and Recommendations section of this report. The responses of the BDC are included as part of each finding.

Audit Results/Findings and Recommendations

Retention, Expansion, and Attraction of Business – Number of Companies Assisted in Staying in Baltimore City

Background

A part of the many purposes of the Baltimore Development Corporation (BDC) is to improve the economic health of the Baltimore City through the attraction of new businesses, retention of existing businesses, and the stimulation and encouragement of growth and expansion of commercial office uses, manufacturing, warehousing, distribution, research, and development, including industrial application of new technologies, particularly in the medical and biotechnological spheres, and “space age” technologies with maximum growth potential.

Finding #1

BDC did not meet its target for the number of companies assisted in staying in Baltimore City during fiscal year 2014. However, because of missing data and discrepancies in data to support the actual reported numbers, we could not determine whether the reported performance measure numbers were accurate and reliable for fiscal years 2014 and 2015.

Analysis

BDC did not meet its target for the number of companies assisted in staying in Baltimore City during fiscal year 2014. The reported number of companies during fiscal year 2014 was 89 compared to the target of 123. However, BDC did meet its target for the number of companies assisted in staying in Baltimore City during fiscal year 2015. The reported number of companies assisted in staying in Baltimore City during fiscal year 2015 was 552 compared to the target of 142. We believe that the actual increase during fiscal year 2015 was caused by BDC’s involvement in assisting businesses affected during and following the civil unrest. During our audit, we obtained from BDC the inventory of the companies assisted in staying in Baltimore City during fiscal year 2014 that totaled 89 companies, which agreed to the number reported to the City. However, the inventory we obtained from BDC for the fiscal year 2015 totaled 564 companies, which was greater than the 552 reported previously to the City. We reviewed the documentation for five randomly selected companies assisted in staying in Baltimore City during fiscal year 2014 and ten randomly selected companies assisted in staying in Baltimore City during fiscal year 2015. We found that documentation provided by BDC was dated prior to the fiscal year reported for two of the five sample selections for fiscal year 2014 and one of the ten sample selections for fiscal year 2015. The discrepancies between the number of companies reported and the number of companies actually assisted in staying in Baltimore City during the fiscal years under review were caused by BDC including the companies during the fiscal year

these companies were first assisted. BDC stated that their reporting practice of the number of companies assisted in staying in Baltimore City has been the same for the past 20 years.

Recommendation #1

We recommend that BDC establish procedures to report the number of companies assisted in staying in Baltimore City in the correct fiscal year during which companies were actually assisted in staying in Baltimore City. We also recommend that BDC establish or improve its policies and procedures to adequately maintain its records for the companies assisted in staying in Baltimore.

Baltimore Development Corporation's Response

BDC accepts the finding and recommendation. Several key staff members, including the President & CEO of BDC at the time of the audit review period, are no longer with the corporation so it is impossible to determine the precise methodology used at that time. BDC has since changed its internal reporting practices and continues to explore best practices for capturing and reporting to the City the number of companies assisted in staying in the City.

Timeline: Ongoing. BDC has already changed to quarterly internal reporting and is exploring a different system for tracking visits. Processes will be continually improved.

Retention, Expansion, and Attraction of Business – Number of Jobs Retained or Attracted to Baltimore City

Background

Another purpose of the BDC is to implement, oversee, and encourage public and private development and rehabilitation projects that will increase Baltimore City's (City) tax base (by, among other things, assisting the City (and new and existing businesses) to finance new and expanding operations), provide permanent and temporary jobs (and job opportunities) in the City, and foster investment and confidence in the City's economy.

Finding #2

BDC reports the number of jobs retained or attracted to the City in the fiscal year when a project is presented to the City Council for approval, rather than reporting the actual number of jobs when different phases of the project are completed and the number of jobs are filled and verified.

Analysis

BDC did meet its targets for the number of jobs retained or attracted to Baltimore City during fiscal years 2014 and 2015. The reported number of jobs retained or attracted to Baltimore City during fiscal year 2014 was 23,244 compared to the target of 1,560, and the reported number of jobs retained or attracted to Baltimore City during fiscal year 2015 was 6,347 compared to the target of 1,785. We believe that the drastic increase between the actual and the target numbers during fiscal year 2014 was caused by BDC's involvement in attracting jobs due primarily to the

Harbor Point development. During our audit, we obtained from BDC the inventory of the jobs retained or attracted to Baltimore City during fiscal year 2014 that totaled 24,148 jobs, which was greater than the 23,244 reported to the City. Also, the inventory we obtained from BDC for the fiscal year 2015 totaled 6,380 jobs, which was greater than the 6,347 reported to the City. For both fiscal years 2014 and 2015, we reviewed the documentation for the top five companies with the highest number of jobs and five additional companies randomly selected from the remaining companies. After several attempts to receive the proper documentation from BDC, our testing revealed that we were able to validate only 4,100 jobs out of the sample of 21,594 jobs for fiscal year 2014 and 668 jobs out of the sample of 2,632 for fiscal year 2015. BDC had documentation to support the number of jobs actually retained or attracted during each of the two fiscal years under review. The discrepancies between the number of jobs reported and the number of jobs actually retained or attracted during the fiscal years under review were caused by BDC including the projected jobs over the entire period life of the project at the time it was presented for approval by the City Council. BDC's reason for such reporting was that the projected jobs would not occur in the absence of the presented project's instrument to the City Council for approval rather than the actual number of jobs to be reported during the fiscal year when different phases of the project are completed and the number of jobs retained or attracted are filled and verified.

Recommendation #2

We recommend that BDC determine the industry's best practices to properly report the number of jobs retained or attracted to Baltimore City in the correct fiscal year during which the jobs were actually filled. We also recommend that BDC establish or improve its policies and procedures to adequately maintain its records for the jobs retained or attracted to Baltimore City.

Baltimore Development Corporation's Response

BDC accepts the finding, but will have to work with the Department of Finance and the City Auditor to find an alternative capturing and reporting method. Jobs have been reported in the year in which the actual project was approved by the City Council or the Board of Estimates, as opposed to incrementally since BDC first started reporting job numbers to the City. For example, it reported the Harbor Point job creation number in the year in which the Tax Increment Financing's instrument was presented and approved as opposed to each year that jobs are actually created and filled. Regardless, we remain open to changing how these numbers are reported and will explore industry's best practices.

Timeline: Ongoing. BDC has already changed to quarterly reporting and is exploring a different system for tracking visits. It has started looking into other economic development agency tracking systems to determine best practices.

Small Business Resource Center (SBRC) – Number of Seminars and Training Sessions

Background

Before SBRC's incorporation, one of BDC's purposes was to provide financial assistance and financial advice, including, but not limited to, activities permitted under programs of the Small Business Administration and other economic development programs of the Federal, State, or local governments; such activities to include buying and selling real property and developing and leasing such property together with the creation of financial instruments and entities appropriate for such purposes. SBRC is an affiliate of BDC and was tasked with providing the seminars and training sessions for BDC. SBRC's purposes were: 1) to develop and administer programs of small and medium businesses development and retention, implement long-range development strategies, and undertake other appropriate activities to foster a strong business climate, urban renewal, and development throughout the City of Baltimore (the "City"); 2) to encourage the development of small and medium size businesses that will increase the City's tax base by, among other things, assisting the City to provide materials that assist in the creation of small and medium size business enterprises, provide permanent and temporary job opportunities in the City, and foster investment and confidence; and 3) to identify and develop leadership skills among residents and to ensure broad-based participation. The SBRC publishes on its website a workshop calendar for various seminars and training sessions geared to helping small businesses start, grow and achieve their goals through education and mentorship.

Finding #3

SBRC, an affiliate of BDC, did not meet its target for the number of seminars and training sessions for fiscal year 2015; the reported number of seminars and training sessions was overstated because it included items that are not considered seminars and training sessions held during the reported fiscal year.

Analysis

The reported number of seminars and training sessions held during fiscal year 2014 was 95 compared to the target of 95. SBRC, an affiliate of BDC, did meet its target for the number of seminars and training sessions for fiscal year 2014. The reported number of seminars and training session held during fiscal year 2015 was 141 compared to the target of 100. However, SBRC did not meet its target for the number of seminars and training sessions held during fiscal year 2015, because that actual number was changed to 95, as reported in the fiscal year 2017 Agency Budget Details. During our audit, after several attempts to receive the population for testing, we obtained from SBRC through BDC the inventory of the seminars and training sessions held during fiscal year 2014 that totaled 108 seminars and training sessions, which was greater than the 95 reported previously to the City. Also, after several attempts to receive the population for testing, we obtained the inventory from SBRC through BDC for the fiscal year

2015 that totaled 95 seminars and training sessions, which was less than its target of 100 and the 141 that was reported previously by SBRC, the affiliate of BDC, to the City in its reporting for the 2017 budget submission. The cause of the confusion in submitting the correct population for testing was that the number of seminars and training sessions were kept on a calendar year basis rather than on a fiscal year. We reviewed the documentation for ten randomly selected seminars and training sessions held during fiscal year 2014 and ten randomly selected seminars and training sessions held during the fiscal year 2015. We obtained from the SBRC the selected twenty seminars and training sessions' rosters which we traced their titles and the dates held to the calendar years 2013, 2014 and 2015 seminars and training sessions offered on the SBRC's website without exception.

Recommendation #3

We recommend that BDC review its performance measures included in the Agency Detail Board of Estimates Recommendations (Budget Book) to ensure that the reported numbers are consistent with the established performance measures and to determine the steps that are necessary to improve actual performance measures so that the targets can be met. We also recommend that BDC review future performance measures to determine whether those targets require updating or revisions based on past actual numbers. Before changing any of its future performance measures, however, BDC should follow the procedures established by the Department of Finance, Bureau of Budget and Management Research for the review and approval of any suggested changes to performance measures. Furthermore, we recommend that in the future, the inventory for seminars and training sessions be kept on a fiscal year rather than on a calendar year basis.

Baltimore Development Corporation's Response

BDC accepts the finding and recommendation and will work with the SBRC to ensure that it accurately reports all activities. Additionally, BDC has taken over all budget activities for SBRC to ensure that the SBRC Executive Director has ample time to conduct and track seminars and visits.

Timeline: Completed. BDC is already requiring the Executive Director report quarterly on seminars and trainings.

Small Business Resource Center – Number of Microloan Applications Reviewed

Background

Before SBRC's incorporation, one of BDC's purposes was to provide financial assistance and financial advice, including, but not limited to, activities permitted under programs of the Small Business Administration and other economic development programs of the Federal, State, or local governments; such activities to include buying and selling real property and developing and leasing such property together with the creation of financial instruments and entities appropriate for such purposes. SBRC's purposes were: 1) to develop and administer programs of small and business development and retention, implement long-range development strategies, and

undertake other appropriate activities to foster a strong business climate, urban renewal, and development throughout the City of Baltimore (the “City”); 2) to encourage the development of small and medium size businesses that will increase the City’s tax base by, among other things, assisting the City to provide materials that assist in the creation of small and medium size business enterprises, provide permanent and temporary job opportunities in the City, and foster investment and confidence; and 3) to identify and develop leadership skills among residents and to ensure broad-based participation.

Beginning with the fiscal year 2014, SBRC started to take part in promoting the newly created Microlending program. In addition to conducting outreach regarding the program, SBRC will also be responsible for the initial review of microloan applications. The Microlending program, known as BaltimoreMICRO, is intended to provide existing small businesses with financing for capital costs associated with operational needs. The primary objective of this program is to stimulate employment, assist small businesses in obtaining fixed rate financing, and to encourage private sector investment in Baltimore City.

The BaltimoreMICRO loan Revolving Loan Fund is administered by the BDC. The purpose of BaltimoreMICRO is to provide small businesses with financing for working capital (the difference between current assets and current liabilities) essential for businesses to meet operational needs, and to remain financially viable. Loan funds are also available for capital purchases such as furniture, fixtures, machinery, and equipment. BaltimoreMICRO is designed to assist small businesses that may not be able to secure financing from a traditional lender. Also, BaltimoreMICRO is used to provide critical financing when credit access is limited, supporting the development and expansion of small, local businesses. The primary objective of BaltimoreMICRO is to stimulate employment, assist small businesses in obtaining fixed rate financing, and to encourage private sector investment in Baltimore City.

Analysis

BDC did meet its targets for the number of microloan applications reviewed in fiscal years 2014 and 2015. The reported number of microloan applications reviewed during fiscal year 2014 was 22 compared to the target of 20, and the reported number of microloan applications reviewed during fiscal year 2015 was 32 compared to the target of 28. During our audit, we obtained from BDC the inventory of the microloan applications reviewed during fiscal year 2014 that totaled 28 loan applicants’ names, which was greater than the 22 reported to the City. Also, the inventory we obtained from BDC for the fiscal year 2015 totaled 34 loan applicants’ names, which was greater than the 32 reported to the City.