

AUDIT REPORT

CITY OF MANCHESTER

NEW HAMPSHIRE



MEDO Performance Audit
March 2013
Prepared by
City of Manchester, NH
Office of the Independent City Auditor

**INDEPENDENT AUDIT REPORT
CITY OF MANCHESTER, NEW HAMPSHIRE
MEDO PERFORMANCE AUDIT
MARCH 2013**

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City of Manchester
Office of the Independent City Auditor

One City Hall Plaza
Manchester, New Hampshire 03101
Phone: (603) 624-6460
Fax: (603) 624-6549

June 3, 2013

Committee on Accounts, Enrollment and Revenue Administration
City of Manchester, New Hampshire
Honorable Aldermen: O'Neil, Arnold, Long, Corriveau, and Shaw

Dear Honorable Committee Members:

With the departure of the City's Economic Development Director in November of 2012 the Board of Mayor and Aldermen began discussion of the elimination of the position. Questions were raised about how effective the Manchester Economic Development Office (MEDO) has been in bringing employers to the City and creating/retaining jobs. A request was given to the Independent City Auditor to conduct a performance audit of MEDO.

I have completed my review of MEDO for the period July 1, 2010 to March 31, 2013. My review was conducted for the purpose of determining whether the Office was providing services in an economical, efficient and effective manner, whether its goals and objectives are being achieved and whether it is complying with applicable City and Office procedures in relation to the audit objectives.

I conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that I plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for my findings and conclusions based on my audit objectives. Due to the poor condition of the records over the performance data that I required and a lack of personnel with knowledge of the operations in place during the audit period to interview, I was unable to achieve all of my audit objectives.

Scope and Audit Objectives

This engagement was to be a performance audit of the effectiveness of MEDO's programs aimed at increasing employment in the City of Manchester. The audit period was the 33 months ended March 31, 2013 and was used to answer the questions below:

- What are the programs MEDO uses to increase employment and attract businesses to the City of Manchester?

- How effective was MEDO during the audit period at attracting businesses to the City and increasing employment?

Procedures

The engagement procedures began with interviews of officials familiar with economic development activities in the City. This included attending the In-Town Manchester Economic Development Summit and talking to business owners in the City about their interactions with MEDO, as well as obtaining an understanding of efforts to increase economic activity and the interaction between business and government in promoting economic activity in the City.

I reviewed legal and policy documents related to the City's economic development programs, reviewed department budgets, organization charts, policies, minutes of committee meetings, economic development program descriptions and where applicable federal regulations governing certain programs. Further, I reviewed the latest version of the City Economic Development Strategy.

To gain an understanding of various components of economic development external to the City's efforts I met with representatives of the Greater Manchester Chamber of Commerce. I also met with members of the Finance Department and the Department of Planning and Community Development CIP Office.

I then grouped the programs at MEDO into four functional areas (grant programs, loan programs, economic development and marketing, and large development projects) and I then selected one program per area handled by MEDO for detail testing. Due to the conditions I encountered and time constraints of the audit I ended the audit field work after testing the Façade Improvement Program and the Revolving Loan Fund. These programs were selected due to their relevance to obtaining MEDO's stated goals of promoting Manchester to new businesses and assisting local businesses. They also are designed to increase employment and attract and retain businesses.

Findings and Conclusion

MEDO has been understaffed for the last few fiscal years due to down sizing and turnover. This has caused many problems in the office's ability to perform its duties properly and effectively and caused serious control environment issues. Control environment issues have been the cause of many of the problems encountered during testing. Problems encountered during testing included:

- Missing records in the project files
- Lack of evidence that MEDO has been evaluating the performance and financial information provided by grant and loan recipients.
- Loan Recipients have not been making loan payments in a timely manner and MEDO has not been enforcing payment or charging late fees. This appears to have encouraged late payments or at least not discouraging them.
- Minutes of meetings of the Revolving Loan Fund Committee have not been kept.
- \$64,197 of checks and cash were not deposited for up to 2 months.

The lack of verifiable performance records made it impossible to evaluate the effectiveness of the programs at MEDO to meet their stated goals and objectives.

Despite the errors and issues noted MEDO has done a very good job of ensuring the City has met a majority of the goals and objectives noted in the last Comprehensive Economic Development Strategy. The seven observations noted in the report have recommendations to help in correcting the deficiencies noted. The recommendations include restoring the number of employees in the office to a minimum of two and one half positions.

All of the employees of MEDO have left City services since the start of the audit so no auditee responses are included. The Mayor's office has assumed most of the duties of MEDO but has chosen to not reply to the report.

Respectfully Submitted,

Kevin Buckley, CPA
Internal Audit Manager

Economic Development

Economic development is a broad concept that refers to increasing the size of the regional economic base and enhancing the economic well being of a community. Effective economic development programs target key industry clusters to advance specific economic goals. It is essential that economic development strategic planning incorporate an assessment of current economic and business conditions, establish a clear mission statement, objectives and actions to fulfill that mission, and measure performance on an ongoing basis.

Economic development can be characterized as the creation of jobs and wealth and the improvement of quality of life. Effective economic development is the result of a collaborative process involving local government, other economic development entities, and private industry. Governments generally achieve economic development through policies and programs designed to support businesses, provide services and infrastructure, and spur sustainable development.

The City's Economic Development Operations

The Manchester Economic Development Office (MEDO) is the face of economic activity in the City. They are often the point of first contact with companies looking for a place to do business. MEDO is responsible for marketing the City through advertising, press releases and attending trade shows. They also promote the downtown by encouraging and organizing events in the City such as trade shows and the Chili Cook Off. MEDO duties include business outreach to existing businesses as well as to businesses considering doing business in the City.

MEDO operates a variety of grant and loan programs such as:

- Manchester Revolving Loan Fund – financing assistance to businesses for the purpose of creating or retaining jobs in the City. Loans of \$10,000 - \$50,000 may be made for working capital and loans of \$10,000 - \$100,000 may be made for fixed asset acquisition and capital improvements.
- Façade Improvement Grants – matching grants for up to \$5,000 per building or \$3,500 per retail space for businesses in targeted areas for visible exterior improvements.
- Section 108 Loans – federal program providing low interest loans for qualifying economic development initiatives

MEDO works with businesses, lenders and government agencies in order to attract develop and coordinate large development projects in the City. This involves keeping track of available real estate and seeking businesses that are the best fit for the parcel of land available in accordance with the City's economic strategy. It also involves aiding businesses in finding financing and grants appropriate to the situation.

MEDO along with other City departments and business partners develops the City's economic strategy through the development of the Comprehensive Economic Development Strategy (CEDS). The CEDS is a requirement of the federal Economic Development Administration in order to:

- Create Jobs
- Foster more stable and diversified economies

- Improve living conditions

Other entities' roles in economic activity

In-Town Manchester – Funded by Central Business District surtax. In-Town manages downtown revitalization efforts such as maintenance and beautification programs, providing technical assistance, summer entertainment programs and organizes promotional activities

Amoskeag Incubator – Provides a supportive entrepreneurial environment, affordable office space and technical assistance to early stage companies

Small Business Development Center – Business counseling and management seminars

Manchester Community Resource Center – Provides education and employment services, adult based education, specific job training, information and resources.

Manchester Greater Chamber of Commerce – Programs aimed at developing, tourism, downtown and communication infrastructure.

Manchester Development Corporation – Makes loans with the Board of Mayor and Alderman Approval. MEDO provides administrative help. Gives 5 year loans whose aim is new job creation.

NH Micro-Credit – Provides Training loans and other support from \$500 to \$5,000 to self employed.

Southern NH Services – Social Service programs and advocacy to low income youth and elderly.

Latin American Center – ESL, Computer Education and other services to the growing Latino community.

Verizon Wireless Arena and Merchants .com Stadium – sporting and entertainment venues.

Institutions of Higher Learning

- UNH Manchester
- Southern NH University (includes School of Community Economic Development)
- Manchester Community College
- Massachusetts College of Pharmacy and Health Services
- Hesser College
- St Anselm College
- Springfield College
- NH Institute of Art
- College of Life Long Learning

Resources for Economic Development

- US Housing and Urban Development (HUD) grants, Community Development Block Grants (CDBG)
- HUD Section 108 Loan Program
- Community Revitalization Tax Relief Program – allows qualifying entities to avoid tax increases on improvements over a number of years
- City of Manchester Revolving Loan Fund - \$10,000 to \$50,000 for working capital, \$10,000 to \$100,000 for capital improvements and equipment (fixed assets)
- Façade Improvement Program - \$5,000 Building, \$3,500 retail space matching grants for external improvements
- Hub Zones – Qualified companies receive preferential treatment for federal contracts. Economic Development Administration provides grants for infrastructure improvements and revolving loan funds.
- Economic Revitalization Zone Credits Program – businesses in zones eligible for BPT tax credits and BET tax credits from State of NH
- Workforce Development Training Fund – grants from State of NH to train newly hired employees for skills upgrading.
- Research and Development Tax Credit – Grants from State of NH to train new workers
- Tax Reduction for Insurance Companies – State of NH program to reduce premium taxes.
- State of NH Business Finance Authority –
 1. Capital Access Program – Start –ups or Expansion Loans
 2. Guarantee Asset Program – loan guarantee for capital intensive businesses
 3. Industrial Development Revenue Bond Financing – tax exempt financing for capital investing
 4. Working Capital Line of Credit – Line of Credit Guarantee
- Citizens Bank Low Interest Loan Program – State of NH loans offered through Citizens Bank
- Ocean Bank energy Efficient Loan Program
- St Mary’s Bank – Loans for west side businesses partially funded by Amoskeag Industries includes loans for home improvement and first time homeowner loans

Manchester Economic Development Office

Mission Statement

To make Manchester an attractive and viable business location by improving the City's business climate and quality of life. This is accomplished through the provision of quality government services to businesses, developers and individuals that will lead to the creation of well-paying jobs and increasing local governmental revenues in order to maintain quality services at a reasonable cost to local taxpayers.

To achieve its mission MEDO has the following goals:

- Promote Manchester to new businesses
- Assist local businesses
- Assist BMA with City initiatives
- Staff Support to Manchester Development Corporation
- Economic Development Coordination
- Comprehensive Economic Development Strategy

Personnel

Until 2005 MEDO consisted of an Economic Development Director, a Development Coordinator, Marketing and Retention Specialist and an Administrative Assistant. The Administrative Assistant position has been left vacant since 2010, the Development Coordinator since 2011, the Economic Development Director since 2012 and the Marketing and Retention Specialist left service March 5, 2013. At the time the audit was started there was only one employee left. Since the beginning of fiscal year 2010 through the end of March 2013 the office has lost 12 employees. Based on interviews with MEDO personnel and outside groups with knowledge of the office it appears that the employees had been feeling a great deal of pressure from the BMA. Also when the Administrative Assistant position was left vacant many of the filing, reporting and accounting duties were left undone or done poorly. This led to a very poor control environment at MEDO which I feel contributed to the problems encountered during my audit.

OBSERVATION 1: POOR CONTROL ENVIRONMENT

CONTROL ENVIRONMENT

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure as the overall effectiveness of policies and procedures that management has established.

The control environment reflects the overall attitude, awareness, and actions of management and others concerning the importance of control and its effect on establishing, enhancing, or mitigating the effectiveness of specific controls. The control environment includes such factors as:

1. Integrity and ethical values
2. Commitment to competence
3. Oversight board or committee
4. Management's philosophy and operating style
5. Organizational structure
6. Assignment of authority and responsibility
7. Human resource policies and practices

The audit was to have been a performance audit of the office and its programs to determine the effectiveness of its operations to meet its goals and objectives. However upon entering the premises it quickly became apparent that an audit may not be possible. The office was found to be in a very poor condition. Only one employee remained and he was soon leaving and many of the important functions of the office had not been performed on a regular basis due to a lack of personnel. This review has generated 9 observation work sheets dealing with the two programs tested. All nine observations are caused at least in part to the environment in the Office. Due to the poor condition of the office files (missing or misfiled documents), testing was ended after testing only two programs due to time constraints and lack of evidence to confirm key performance indicators.

The control environment in the Office was determined to be very poor. The Office was under pressure from the BMA to show results and the threat of closing the Office was ever present on the employees. The personnel turnover was very high during the last several years. Since FY 2010 the Office has had 3 directors, 1 Planner III, 2 Development Coordinators, 2 Marketing and Retention Specialists and 4 Administrative Assistants. This is from an office with a full contingent of 4 employees. On average the Office completely turns over once every 11 Months.

Because of the high turnover, employees have constantly had to cover duties that were outside of their job descriptions. From 11/23/2012 to 3/5/2013 the market and retention specialist was the only employee. The office has been without an Administrative Assistant since October 29, 2010.

There seems to have been a crisis environment in the Office for quite a while. Work seems to have backed up and internal and management controls were mostly non-existent.

From talking to personnel at MEDO, the Greater Manchester Chamber of Commerce and other city departments it appears that MEDO has been understaffed for quite some time. From a study done by the Greater Manchester Chamber of Commerce a survey of 12 New England cities showed that the average number of employees dedicated to economic development activities were four. Of those cities there were seven with populations of over 100,000 that had an average staff of 5.5.

The Economic Development Administration Reform Act of 1998 enacted the Comprehensive Economic Development Strategy (CEDS) program. The City of Manchester prepared its first CEDS in 2003 and again in 2009. The CEDS helps direct the economic development activities of the City of Manchester enabling it to reach its economic goals. The CEDS is due to be renewed soon and this will require many man-hours of work from a fully staffed MEDO.

Recommendation:

The City should hire a new experienced economic development coordinator and provide him/her with an adequate staff and resources to ensure that functions of an economic development office are carried out in accordance with the wishes of the BMA and the City's economic development plan. The new coordinator should develop internal and managerial controls to ensure that activities are conducted in accordance with its goals and objectives. In addition to the economic development coordinator appropriate office staff should include at a minimum:

- 1 marketing and retention specialist
- 1 part-time administrative assistant

Auditee Response:

No Auditee Response

OBSERVATION 2: UNDEPOSITED CASH

City of Manchester accounting policies requires that cash and checks received by employees should be deposited and recorded on a daily basis.

During my test work it was noted that when the Finance Department employees first entered the MEDO office they found 35 checks totaling \$64,197 and \$600 of cash in a locked drawer that had not been recorded or deposited. The checks were for payments from antenna tower leases, small business week, chili cook off and loan payments from the Revolving Loan Fund and HUD Section 108 payments. The deposit done by the Finance Department on November 28, 2012 contained checks that were dated as far back as September 30, 2012.

In addition the Office had a small petty cash fund that could not be accounted for and was most likely deposited by accident into another program's deposit or spent and no invoices were kept to verify that it was spent.

Several invoices for expenditures of the Office were also missing and thought to have been thrown out in error.

The Office had been operated with only two employees since June 30, 2011 and had not had an Administrative Assistant since November of 2010. It is felt that the lack of employees is a large part of what caused these errors.

Recommendation:

The Office should hire enough employees to be able to handle the functions of the office. The office needs at least one part-time administrative assistant to handle the business and financial requirements of the office.

Auditee Response:

No Auditee Response

Revenues and Expenditures

Financial activity for fiscal years 2010, 2011, 2012 and the first 9 months of 2013 are as follows:

OPERATING ACCOUNTS

	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	9 Months FY 2013 Actual
Tower Leases	\$ 169,116.90	\$ 156,373.81	\$ 151,576.08	\$ 123,257.45
Misc Reimbursements	\$ 12,966.41	\$ 16,313.93	\$ 21,277.22	\$ -
Total Revenue	\$ 182,083.31	\$ 172,687.74	\$ 172,853.30	\$ 123,257.45
Salary and Benefits	\$ 322,106.44	\$ 341,764.56	\$ 240,746.02	\$ 134,548.19
Marketing/Advert/Printing	\$ 21,055.95	\$ 5,808.42	\$ 10,732.68	\$ 2,673.15
Other Expenditures	\$ 17,537.71	\$ 13,410.08	\$ 12,974.54	\$ 3,711.75
Special Projects	\$ 30,593.30	\$ 2,400.00	\$ -	\$ -
Total Expenditures	\$ 391,293.40	\$ 363,383.06	\$ 264,453.24	\$ 140,933.09

Expenditures of the MEDO office have been steadily decreasing as it sheds employees. More importantly the budget for marketing the city has been cut from an already low amount. Marketing activities are an essential tool in the city’s economic development. The marketing budget enables MEDO to emphasis Manchester’s many advantages to businesses looking for a place to expand or start a business and to promote programs designed to aid businesses seeking to relocate or expand.

In addition to its operating budget MEDO has control over several CIP projects.

PROJECTS

	FY 2010 Actual	FY 2011 Actual	FY 2012 Actual	9 Months FY 2013 Actual
CDBG	\$ 165,399.00	\$ 73,032.11	\$ 46,064.23	
DRED Marketing Grant	\$ 4,000.00			
EDA Grant	\$ 70,000.00		\$ 44,005.00	
Other Revenue		\$ 204,035.60	\$ 137,137.87	\$ 110,341.48
State Government Grant	\$ 160,000.00	\$ 18,177.89	\$ 175,412.40	\$ 30,219.25
Transfer In		\$ 25,000.00		
Total Revenues	\$ 399,399.00	\$ 320,245.60	\$ 402,619.50	\$ 140,560.73

2012 Chili Cook off Project				\$ 120,567.09
Arts and Cultural Institutions	\$ 10,000.00			
Business Code Compliance		\$ 20,745.17	\$ 16,254.83	
Community Assessment Project		\$ 1,500.00		
Economic Development Admin Grant			\$ 11,920.26	\$ 95.00
Economic Development Impact Study	\$ 5,000.00			
Economic Development Strategic	\$ 70,000.00			
EPA Brownfield Assessment Grant		\$ 2,800.00	\$ 181,485.10	\$ 14,966.25
Façade Improvement Program		\$ 12,273.52	\$ 12,726.68	
Hackett Hill Development	\$ 55,462.03			
Manchester Transit Renovations	\$ 160,000.00			
Neighborhood Pride Bus. Incentives	\$ 64,312.34	\$ 58,987.16	\$ 1,700.50	
Neighborhood Revitalization Econ	\$ 30,757.67			
Revolving Loan Fund	\$ 112,000.00	\$ 57,351.26		
Small Business Week Program				\$ 1,515.44
Strategies Implementation	\$ 40,000.00			
World Championship Chili Cook off		\$ 201,947.79	\$ 139,225.68	
Total Expenditures	<u>\$ 547,532.04</u>	<u>\$ 355,604.90</u>	<u>\$ 363,313.05</u>	<u>\$ 137,143.78</u>

As with the marketing budget the amount of project funds have been slowly reduced in the last four years as well as the number of funded projects. Of particular concern is the lack of funding of the Façade Improvement Program and Revolving Loan Fund that has been responsible for much of the improvement to the look of the downtown area.

MEDO Economic Development Programs

Economic development activity at MEDO can be broken down to the following areas

- Marketing – Activities that market the city to businesses and tourists in order to attract new businesses and the customers they need. Includes web site development, marketing campaigns, and trade shows. MEDO has used marketing funds for several radio and television campaigns as well as print ads in trade publications. MEDO’s web site receives around 500 views per month and they have staffed a booth at several trade shows per year.
- Business Out Reach – Activities to existing businesses aimed at addressing their issues and developing strategies for retention/expansion. MEDO has performed anywhere from 3 to 12 business visits every month and has attended many business grand openings each year. MEDO is the primary liaison for the business community and supports a wide range of activities to support and retain business in the city. MEDO regularly meets with property owners, developers and brokers in the city to help promote available properties.
- Other Events and Programs – One-time or annual events aimed at show casing the City and bringing large influxes of customers to the area. Events include the Chili Cook-off, Small Business Week and hosting expos and seminars in the city.
- Development Projects – Large scale development projects to improve blighted areas renovate historic buildings or bring businesses to undeveloped/under-developed areas of the city. While MEDO is not the only player involved in these projects they are the lead organization in many instances to guide projects through the financing and development

- Incentive Programs – Tax relief incentives used to retain attract businesses.
- Loan and grant programs – Revolving Loan Fund, Façade Improvement and MDC loans. The Revolving Loan Program has loaned \$1,025,875 to 21 businesses since its inception and the Façade Improvement Program has provided \$85,688 in grants to 30 projects in FY 2011 and 2012.

Comprehensive Economic Development Strategy

The Comprehensive Development Administrative Reform Act of 1998 introduced federal legislation to enact the Comprehensive Economic Development Strategy (CEDS) program. The purpose of CEDS is to establish a process that will help:

- Create jobs
- Foster more stable and diversified economies
- Improve living conditions

The City of Manchester prepared its first CEDS in 2003. The CEDS is a five year plan that was last updated in 2009. The 2009 plan builds on the prior plan and incorporates key strategies from the 2006 *Global Economic Development Strategy* prepared by Angelou Economics and the Hillier *Downtown Strategic Plan*. The goals and objectives of the CEDS were as follows:

Southern Elm District

1. Complete Jac Pac/Rivers Edge – Urgent Care Elliot Hospital, Medical Office Building, 35-50 Apartment unit building, 13,000 square foot retail building, and public park. 200 to 250 new jobs, 800 retained jobs
2. Gaslight/ Warehouse District – (MEDO Lead) Gaslight district 250 new jobs, Warehouse district including South Elm Improvements up to 500 new jobs
3. South Elm Improvements – (MEDO and Highway lead)
4. Rockwell Site – Down town grocery store, movie theater, other retail stores, multi-modal transportation center. 750 new jobs (MEDO lead)
5. Elm from Lake to Queen City Ave. sidewalk, street light, landscape, parking and utilities improvements.

Downtown improvements for job creation, retention, impact on distressed populations and environmental impact

6. Promote downtown by working with In-Town and the Chamber of Commerce to develop a marketing plan. (MEDO lead)
7. Develop marketing strategy to promote downtown (MEDO lead)
8. Develop new or expanded convention facilities
9. Create Venues to generate more foot traffic
10. Develop/attract downtown grocery store and anchor retail stores. (MEDO and In-town lead)

Education workforce development to:

- Support expansion of area colleges and universities
- Encourage collaboration with industry
- Develop strategy to keep work force trained through new training and employee recruitment programs

11. UNH expansion on Commercial Street – Science and Technology Center, 150 jobs
12. NH Institute of Art Lowell St Dormitory – Increase enrollment from 300 to 800 50 new faculty and staff jobs
13. Massachusetts College of Pharmacy and Health Services on Elm Street Expansion – Expand enrollment from 226 to 500 students, increase staff by 38 new jobs
14. Manchester Community College Improvements and expansion
15. Southern NH University continued expansion - \$20 million expansion
16. St Anselm – New 150 bed residence hall
17. Collaborative efforts between local industry and universities
18. Strengthen City school system

Business Climate

19. Simplify Zoning Ordinances – (Chamber, MEDO, Planning, Fire)
20. Create plan to recruit more high tech companies
21. Incentives to improve properties
22. Increase flexibility to building renovation code
23. Programs aimed at retaining businesses

Marketing (MEDO)

24. Develop MEDO Website
25. Increase use of earned media coverage
26. Increase use of web based media

Neighborhood Development (MEDO)

27. Create plans for Granite Square, the Hollow, Squag and other neighborhoods
28. Infrastructure improvements
29. Encourage small business development, Neighborhood business district meetings, workshops, loans and grant programs
30. Create and promote more performing arts and cultural events
31. Use natural resources as a development tool

Increase development of downtown housing providing 20 direct new jobs and up to 500 created or retained

32. Riverwalk 165 additional housing units
33. 300 Bedford Street, 89 Units
34. Upper floors of downtown buildings

35. 3 Story residential building at Rivers Edge development
36. Elm Street house

Infrastructure

37. Restore commuter rail and multi-modal transportation center serving downtown and the airport - (MEDO, SNHPC, NHDOT) Commuter Rail 30 to 40 direct jobs Inter-modal facility 5-10 design related jobs, 750 new or retained jobs
38. Pedestrian and bicycle accommodation
39. Complete Riverwalk
40. Standardize streetscape
41. Improve public transportation
42. Improve and expand airport- 500 jobs created or retained by intermodal facility 355 by customs border and international arrival facility

Other Projects

43. Renovate Pandora Building/Seal Tanning/Granite Street lots - (MEDO lead) 350 new jobs
44. Redevelopment plan for South Willow/Gold/Beech St area
45. Hackett Hill development - (MEDO lead) 1,200 new jobs
46. New Convention Center (MEDO)
47. North of Bridge Street improvement area
48. Promote and expand Revolving Loan Fund – (MEDO lead) 50 new jobs

Of the areas that MEDO had the lead or was a major player in, they had many successes and some failures. It appears that all areas of the CEDS have been completed or are being currently worked on.

The Gaslight Warehouse District and South Elm Improvements are a work in progress and in the very beginning stages. The new jobs estimated for these projects have yet to be fully realized.

The Rockwell Site has been developed as a Market Basket providing many new jobs and a much needed grocery store for the new residents that the City is trying to attract to the downtown area. However the other parts of the project such as the movie theater, other retail stores and multi-modal transportation center never materialized.

MEDO in concert with the Greater Manchester Chamber of Commerce and In-Town Manchester have developed a marketing plan and strategy to promote the downtown and attracted a downtown grocery store but not the retail stores they were hoping for. In order to attract new retail stores they have to attract new housing to the downtown area. With the opening of several downtown apartment projects in recent years the critical mass of shoppers needed to attract retail is looking more likely.

Expansion of higher educational facilities in the City has taken place with the expansion of UNH in the Millyard, Mass. College of Pharmacy and Health Services on Elm Street, Southern NH University expansion and the NH Institute of Art. The educational expansions add to the vibrancy

of the downtown area, provide customers for businesses and aid in developing an educated work force for businesses to find employees.

MEDO marketing efforts have been largely met with a new web site, increases in earned media coverage and an increased use of web based media.

Gains have been made in neighborhood development with many infrastructure improvements taking place, and grant and loan programs used to improve the look of downtown and promote job creation. MEDO has also been working with other entities to provide events downtown that promote arts and culture and bring shoppers to the downtown area.

The commuter rail, improved public transportation and multi-modal transportation center, due to many factors beyond MEDO's control, never developed. Riverwalk has made some progress but remains unfinished.

The Pandora building has been renovated and is working on attracting clients. The Hackett Hill development is probably the biggest disappointment as MEDO was never able to attract the businesses that they had hoped for.

Testing Results

Façade Improvement Program

The Façade Improvement Program, an element of the City's Neighborhood Revitalization Economic Incentive Program, uses CIP funds to promote investment in small business owners and their properties. The program encourages property owners and commercial tenants to invest in exterior improvements thereby enhancing both the overall appearance and the market appeal of the neighborhood district. The goal is to enhance the value and facilitate the renting/leasing of commercial properties.

The program provides matching grant assistance from the City of Manchester.

MEDO applies for City funding to the CIP program. Funds used include federal Community Development Block Grant funds which have their own reporting requirements and regulations. The Department of Planning and Community Development is responsible for federal reporting and draw down of federal funds. Reporting is based on information provided by MEDO.

Business must apply for grants to MEDO using the Façade Improvement Program Matching Grant Application Form.. The form requests types of work to be performed to ensure that it adheres to the program requirements and estimated costs. In addition the form includes the HUD requirements of number and type of jobs created/retained and make up of employees hired.

Matching grants can be awarded in amounts up to \$5,000 per building or \$3,500 per retail space. Grants are also provided for up to \$1,700 for technical assistance such as architecture fees and design professionals.

Grants are paid on a reimbursement basis and receipts are required before funds are provided. No funds are provided until the improvements are completed.

Generally eligibility is based upon improvements resulting in the creation or retention of jobs.

The audit tested all 30 grants paid in FY 2011 and FY 2012. Due to inadequate grant files I was unable to verify performance information or to make an evaluation of the effectiveness of the program to create/retain jobs or enhance the value of properties. It is clear from a review of the properties granted funds that the program has enhanced the look of the downtown area. Other outcomes were not able to be quantified.

OBSERVATION 3: FAÇADE PROGRAM FILES LACK DOCUMENTATION

As part of testing to ensure that data reported by MEDO staff was accurate and verifiable I examined the files at the MEDO office of the Façade Improvement Program. Program requirements are such that businesses seeking assistance under the program must complete and sign an application form that describes the type of work to be performed and job creation projections prior to construction beginning so that MEDO staff can determine that goals and objectives of the program are being met. During the construction period the grantee is required to submit invoices for work completed and to submit job creation data forms with verification of jobs created.

Of the 30 projects I reviewed I noted the following issues:

13 projects files did not have a completed signed and approved application

11 project files did not contain Job Creation Data and none of the files showed any indication that job creation data was verified by looking at payroll registers or check registers. It did not appear that any effort was made to determine if job creation reported was actually new permanent jobs or was existing jobs that would have been kept without the grant or were temporary jobs.

1 file lacked invoices showing payment for work that MEDO had reimbursed.

Recommendation:

A complete set of files should provide back-up that supports program goals and objectives. These files are necessary to evaluate program goals and objectives. Job creation data is vital to the program and a requirement to the federal programs providing support to the Façade Improvement Program. Jobs created data should be verified to determine if jobs reported actually existed and to evaluate the quality of jobs created. The data reported by MEDO should be traceable back to the project files. The lack of complete files makes it impossible to determine if the program is meeting its goals or evaluate the performance of the program. In addition, the lack of records could put federal funding of the program in jeopardy.

Auditee Response:

No auditee response

Revolving Loan Fund

The Revolving Loan Fund (RLF) provides low-interest loans to qualifying for-profit businesses undertaking projects designed primarily to create or retain jobs within the City of Manchester. The RLF is an element of the Neighborhood Revitalization Economic Incentive Program. The loans are gap financing primarily used for development and expansion of small businesses.

Loans generally range from a minimum of \$10,000 to a maximum of \$150,000 and may be used for the purchase of real property, fixtures, machinery, and equipment or for working capital.

Financing terms are 3-5 years for permanent working capital or the economic life of the asset for equipment and machinery. Loans for over 10 years may be considered in special circumstances.

Rates will be market rates and may have early payback or job creation incentives. Borrowers are required to contribute at least two thirds of the total project costs from other sources.

Borrowers are generally expected to create or retain one job for every \$10,000 in loan proceeds within thirty months.

51% of new jobs must benefit low or moderate income persons.

To apply an application must be filled out.

The loan application is submitted to RLF Committee for review and approval.

Borrowers must submit information about job creation/retention activities during the job creation/retention period.

To encourage job creation/retention targets, annually interest rates may be increased for not meeting targets.

Target goals of the Revolving Loan Fund program are as follows:

Percent of business sectors	Industrial	50%
	Commercial	25%
	Service	25%
Percent of job Creation	New	20%
	Expansion	40%
	Retention	40%

During the term of the loan borrowers must submit annual financial statements.

The Finance Department is responsible for loan billings and collection

The CIP Office is responsible for reporting and federal grant requirements

The City Solicitor is responsible for review of loan documents and handles defaulted loans and foreclosures

MEDO is responsible for marketing, loan management, credit analysis, loan write-ups and recommendations, and closing and servicing.

I looked at all 21 RLF loans active during the audit period plus the one active Energy Efficiency loan. Due to the poor condition of the files and missing documentation I was unable to evaluate the effectiveness of the RLF program. It appears that the program has allowed some businesses to open in the City but I was unable to determine the number, quality or existence of the jobs data reported. Several issues arose during my testing as noted below.

OBSERVATION 4: RLF LATE PAYMENT FEES NOT BEING CHARGED.

By the polices of the Revolving Loan Fund a late fee of 5% of the monthly amount is to be charged for any loan payment made ten days after its due date. From the 22 projects I tested the majority of them had periods where payments were made past the 10 day period. There were instances where payments had been made in excess of 300 days from the due date. For all loans the average date that payments were made was 88 days after the due date. Only 8 of the 22 projects tested had an average payment date of less then 10 days.

I noted no instances where a late penalty was charged for payments made outside of the 10 day period.

Recommendation:

The Revolving Loan Fund should be charging late fees for payments made in excess of the 10 day period or put in writing the reason the fee is being waived.

Auditee Response:

No auditee response

OBSERVATION 5: RLF TARGETED GOALS NOT BEING MET

The Revolving Loan Fund program set targets as to the type of loan portfolio they are holding. One of the parameters they use is the percent of business sectors that they are lending money to. There targets are:

Industrial	50%
Commercial	25%
Service	25%

The mix is important as it determine the type and quality of created/retained jobs brought into the City. It also helps control the quality of the loans in the portfolio. For example new restaurants have a very high failure rate and provide low paying jobs with little chance of advancement where manufacturing jobs and businesses tend to have a higher success rate and provide better paying jobs with a better path for advancement. They current portfolio of loans contains:

8	Service	42%
7	Commercial	37%
4	Industrial	21%

The current loan make up consists of far too many service businesses that create many low paying jobs that due to the riskiness of running a successful operation turn out being temporary jobs. The eight Service jobs are all restaurants and of the eight restaurants four are no longer in business. In addition two other loans, one restaurant and one retail store have gone out of business and were written off.

Recommendation:

The RLF program should actively seek more industrial companies for inclusion to the program in order to promote a more stable work environment and reach its targeted goals.

Auditee Response:

No auditee response

OBSERVATION 6: RLF LOAN COMMITTEE MINUTES NOT KEPT

Observation:

NH RSA Chapter 91-A Access to Governmental Records and Meetings states that all meetings of a public body shall be open to the public. It also states that “Minutes of all such meetings, including names of members, persons appearing before the public body, and a brief description of the subject matter discussed and final decisions, shall be promptly recorded and open to public inspection...” “and shall be treated as permanent records of any public body, or subordinate body thereof, without exception.” Loans for the Revolving Loan Fund are approved by the Revolving Loan Fund Loan Committee which consists of 5-8 members appointed by the BMA for three year terms. As part of my testing I attempted to trace the approval to each of the 22 loans tested to the minutes of the Loan Committee. This is an important internal control test as it shows that the disbursement of funds occurs only after approval by a body outside of MEDO.

MEDO provides the staffing for the administrative duties of the Loan Committee and as such are responsible for keeping and maintaining the minutes of meetings.

I could not find any record of meetings of the Committee in any of the MEDO files. I asked the City Archives Office if they had or knew where the minutes were and they could find no record of the minutes. Due to the lack of minutes I was unable to determine if loans were approved by the Loan Committee prior to the disbursement of funds.

Recommendation:

MEDO should follow the requirements of NH RSA 91-A and record and maintain minutes for all meetings of public bodies of which they are given administrative responsibility.

Auditee Response:

No auditee response

OBSERVATION 7: RLF LOAN FILES INADEQUATE

From a review of RLF loans examined the following issues were noted:

- 1) After a loan is awarded the business must sign several loan documents such as the promissory note and job creation agreement. From my review of 22 project files one did not contain the executed copy of these agreements. While the unsigned versions of the documents were included in electronic format the paper copy of the signed agreements could not be found. This copy is extremely important as evidence that all parties were in agreement with the terms of the loan. There is no evidence that the agreement was never signed but the signed copy has most likely not been filed properly.
- 2) When a business signs a loan agreement they agree to submit annual financial reports during the term of the loan. Sixteen of the 22 files looked at as part of my testing (72%) showed no evidence that annual financial reports were submitted.
- 3) The loan selection criteria of the Revolving Loan Fund require that a 2:1 ratio of private funding to RLF funding be obtained as a requirement to obtain a loan. In seven of the 22 projects selected either the contribution amount stated by the applicant was insufficient to obtain a 2:1 ratio or the application file did not contain sufficient information to make a determination the ratio was sufficient.
- 4) I selected 22 RLF projects for detail testing and noted the following issues concerning the collecting and verifying required job creation data:
 - One file did not contain the initial job creation/retention form.
 - 19 of the files did not contain any indication that required job creation/retention reports were ever filed during the job creation/retention period.
 - 10 of the businesses that did file initial job creation/retention information showed no indication that the information was ever verified by examining payroll records or other source documentation.
 - Four files contained job creation projections that did not meet the RLF goals of one job per every \$10,000 loaned and yet the loan was approved.
 - By the RLF policies, in order to encourage an early payback and/or job creation, annual increases in rates may be scheduled if a minimum number of new jobs have not been created during the prior year. In addition every contract has a clause that failure to obtain require job creation may result in a breach of the contract making the entire loan payable at once. The files did not contain any indication that failure to make job creation requirements were ever considered for penalty.

Recommendation:

The paper files are an important part of the internal control structure over RLF projects and greater care should be taken to ensure that the files are complete.

MEDO should develop procedures that will ensure that financial reports are submitted from each project in a timely manner and the reports or evidence of their submittal should be included in the project files.

Greater care should be taken to ensure that the project files are complete and up to date. MEDO should follow the loan criteria it has established and maintain the 2:1 funding ratio. A company with a higher amount of owner investment may be more likely to stay current in the loan payment.

As the RLF is partially funded by HUD federal funds, failure to obtain, verify and retain job creation data could result in financial repercussions from the federal government. In addition the failure to obtain, verify and quantify the job creation data makes it impossible to determine if the program is meeting its stated goals of primarily to create or retain jobs within the City of Manchester.

It is recommended that:

- Files should be kept up to date and contain all required information
- Reported job information should be verified by tracing to the underlying financial records such as payroll registers and time cards.
- Failure of a borrower to meet stated job creation/retention goals should be considered along with appropriate action taken to ensure compliance.

Auditee Response:

No auditee response

CONCLUSION:

The City's economic development efforts are a direct investment in the economic prosperity of the City and the region. There are numerous factors that affect economic development and there are limits to what the City can do on its own. Effective economic development is contingent on the coordinated efforts of the City of Manchester, other economic development entities and private industry working together. The City, through a fully staffed and functioning economic development office, is uniquely positioned to have positive direct and indirect impacts on the economic development in Manchester and the surrounding region.

A sound and stable economic development strategy is essential to develop business in the city in a manner that will ensure employment opportunities, business development and an increasing tax base into the future. In order to ensure a satisfactory outcome the City needs a clear articulation of its intended outcomes for economic development and needs to explicitly lay out a path to achieve these outcomes. Further, developing and improving the City's economic development strategic plan is an effort that will likely take many months. But it is a process that needs to begin immediately and to that end the City needs a fully staffed and functioning economic development office.

The economic development office should at a minimum have a Director, a marketing specialist and a part-time office assistant.

The office should have a clearly defined mission statement, goals and objectives that are measurable and verifiable. Careful records should be kept and reports generated for the BMA and general public to show that its programs are working and leading to its goals and objectives.

The current Comprehensive Economic Development Strategy is fast coming to the end of its useful life. MEDO and its economic partners have been able to achieve many of the goals and objectives set out in the CEDS. It is time to re-evaluate the objectives not met and develop new goals and strategies that will take the City into the next economic cycle. It is very important that a new CEDS be developed immediately.