

Minding the Candy Store: State Audits of Economic Development

by Good Jobs First

A project of the Institute on Taxation and Economic Policy.

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Executive Summary

An analysis of 122 audits of state economic development programs in 44 states reveals a troubling policy landscape. In a time when these programs – such as tax breaks, grants, and loans – are rapidly proliferating, many audits reveal that taxpayers are getting a poor bang for their buck.

Over the last decade, auditors have repeatedly found primitive oversight by development agencies, including failures to monitor companies that have received development subsidies to determine if they have met their performance goals. In a version of “garbage in, garbage out,” many auditors have found state agency data to be so poor or unverified as to effectively preclude program evaluation.

Other audits have found that agencies and/or programs lack formal goals or benchmarks – that is, no measure of success or failure – so that even if an agency has collected the required data, there is no way to evaluate what the information means. And perhaps most disheartening, the few audits that do evaluate effectiveness find little evidence that development programs are affecting economic conditions in the states.

Worse, some audits find that development agencies are an easy mark, tolerating sky-high loan default rates, awarding grants and loans to companies that have failed to fulfill their performance obligations, or even committing ethical breaches that provoke criminal investigations.

Our review also led to conclusions about the state of performance evaluation in the states. We are struck first that few audits evaluate a program or agency’s effectiveness. At its core, an audit should also be a cost-benefit analysis focused on what the public is getting for its dollar. Most of the audits we reviewed do a poor job of determining effectiveness – in large part because they are hampered by lack of data and objectives – and most fail to compare any of their findings about outcomes to a program’s costs.

Second, we find that performance audits of development programs are conducted far too infrequently. Although financial and compliance audits are done regularly in nearly every state, evaluations of performance are rare. Only 17 states subject agencies to regular performance auditing. We estimate that in those states that do not, development programs are only audited about once every 15 years. Given the rapidly-changing nature of the U.S. economy and the need for development strategies to adapt to those changes, such infrequent audits are clearly inadequate.

Finally, we find that audits are poorly used. Despite their often hair-raising findings, audits usually do not receive media attention and do not often prompt major reforms.

Cumulatively, these audits confirm what critics have been saying for years: many development subsidies are poorly targeted, insufficiently monitored, and often wasteful if not corrupt. State economic development is a national scandal.

We hope that this report will dispel any notion citizens may have that “it’s only happening in our state” and encourage a serious, informed debate about how to make audits an effective tool for reform. Besides summarizing the audits’ troubling findings, we have highlighted audits that do a good job of evaluation, so that concerned readers can come away with specific ideas about what constitutes a good performance audit.



Point 1: Performance Auditing of Development Agencies Is Not Frequent or Thorough Enough

What taxpayers want: States should conduct performance audits regularly enough to ensure that economic development is being monitored and evaluated adequately, and that subsidized companies are being held accountable.

What we found:

- Only 17 states require regular performance audits of agencies. We estimate that in the other 33 states, performance audits on economic development are only done roughly every 15 years.
- Of the states that do have mandated performance audit schedules, four appear to be behind schedule (Massachusetts, Washington, West Virginia, and Wyoming).
- The scope of audits is too limited: they typically miss tax spending on economic development, and rarely review a state’s economic development activities as a whole.



Point 2: Auditors Are Limited by Primitive State Monitoring Practices

What taxpayers want: Agencies should monitor the expenditures of their programs, which includes collecting data to measure their activities and program results and monitoring the performance of companies that receive development subsidies.

What we found:

- Agencies are failing to perform basic data collection and monitoring, such as obtaining job creation and wage levels of subsidized companies.
- Company-submitted data is not always verified.
- Agencies do not collect data on program outcomes such as new job growth or lowered unemployment in a targeted area.
- Agencies lack measurable performance objectives: this is one of the most damning findings, because without any specific benchmarks against which a program or project can be evaluated, it is impossible for auditors to determine effectiveness.
- Agencies rely too heavily on “customer surveys” of subsidized companies.

Point 3: Audits Fall Short in Evaluating Effectiveness

What taxpayers want: Performance audits should evaluate the effectiveness of an agency, program, or economic development strategy. Effectiveness simply means whether the program is achieving the goals it was created to achieve, and whether it is producing a net public benefit, measured by looking at the performance indicators and comparing them to project costs.

What we found:

- Most audits are unable to draw any conclusions about effectiveness because of poor agency oversight.
- Many audits define effectiveness too narrowly, such as focusing on whether a program is performing statutory requirements instead of evaluating its effect on appropriate economic indicators.
- Few audits focus on cost-effectiveness.
- Few auditors try to determine if observed outcomes such as job growth can be attributed to the program being evaluated.

Point 4: Auditors Find Little Evidence That Economic Development Programs Are Effective

What taxpayers want: Economic development agencies should be able to produce measurable indicators of effectiveness, such as job growth in a

targeted industry or decreased unemployment in a certain geographic area.

What we found:

- The few auditors who do look at effectiveness conclude that programs have had a minimal effect on economic development activity and/or the economic conditions of targeted areas.
- Subsidies are being given out when they are not needed.
- Subsidies are not sufficiently targeted.
- Programs are not being used as legislators intended.



Point 5: Government Is An Easy Mark: Auditors Find Many Troubling Practices

What taxpayers want: Agencies should follow concrete policies in place for deciding how to spend taxpayer money, to ensure that it is spent according to the program's intent.

What we found:

- Fourteen agencies are not applying consistent criteria when awarding subsidies.
- Agencies are not following common-sense business practices: 34 audits find agencies allowing loans to default at astonishing rates, giving or lending money to companies that had previously failed to meet program requirements, or otherwise mismanaging taxpayer money.
- Agencies are guilty of ethical and legal lapses: at least seven auditors find that a lack of compliance with program guidelines reaches the level of non-compliance with the law.



Point 6: Audits Are Poorly Used

There is often only limited follow-up of critical audits, and few audits receive the media coverage they deserve. (At the end of this report is a list of things you can do to change this!)

Introduction and Acknowledgements

This report highlights a primary message of our forthcoming research manual:^{*} when researching economic development subsidies, don't reinvent the wheel. Audits are a vastly under-appreciated source of information about state agencies and programs. Unfortunately, not all audits are equally useful, but they represent a good starting point for any investigation of state economic development.

We are not alone in feeling that audits can play a critical role in policy debate. Two surveys conducted in 1998 found state legislators feel that they receive little follow up information about major incentive projects, that they depend most heavily on the executive branch for oversight of economic development programs, and that performance data such as new and quality jobs, overall employment, and dollars invested.¹ Performance audits and similar external evaluations are a key resource for legislators and help them make critical policy decisions.

Performance audits attempt to measure and make recommendations about the effectiveness of a program or agency. State officials also believe that programs should be evaluated on the benefit they provide to the public. As the Pennsylvania Auditor General puts it:

Performance audits have great value to taxpayers. They look beyond the question of how tax dollars are spent to whether a program, organization or activity is 'a good buy.' Performance audits help working families determine – in a timely fashion – if their tax dollars are being spent in the most appropriate, efficient and effective way possible. Performance audits, as the name suggests, look at how well tax money is performing, not just that it is spent according to state laws and regulations.²

Although there is a growing movement in states to increase and improve performance auditing, it has yet to become routine. The quality of performance audits also varies significantly across the states, in large part because there are few uniform standards. The primary set of auditing standards is the U.S. General Accounting Office's "Yellow Book" or "generally accepted government auditing standards" (GAGAS). These standards cover both financial and performance auditing, but are primarily focused on financial audits, for which they were originally generated. Most states adopt these general auditing standards and do not

^{*} No More Secret Candy Store, available later this year.

issue any other specifications for performance auditing, which means auditors have little guidance for performance evaluations.

Why Audits Are So Important

Both legislators and the public feel that not enough is known about economic development. Audits are one tool for increasing these groups' ability to have a positive impact on the economy and increase economic democracy and fairness.

“A performance audit is an objective and systematic examination of evidence for the purpose of providing an independent assessment of the performance of a government organization, program, activity, or function in order to provide information to improve public accountability and facilitate decision-making by parties with responsibility to oversee or initiate corrective action.” (GAO’s Yellow Book)

Auditors play a critical role in the monitoring of state agencies and programs. They have access to information that is not readily available to the public, and many states’ auditors are capable of conducting sophisticated budget and program analysis. Auditors are also usually viewed as credible and objective (although criticized agencies sometimes react by

accusing the auditor of being politically motivated). Many auditing agencies are independent from both the executive and legislative branches, and can choose both the subject and content of their performance audits (see Appendix B: Types of Auditors). And perhaps most important, auditors are often influential with lawmakers, so a critical audit can help spur legislative reform.

Audits are also important because economic development agencies do such a poor job of evaluating themselves. A recent study of the evaluation practices of state economic development agencies found that few of them conduct stringent evaluation, making auditors the only real evaluators in many states.³ Several of the audits we reviewed echo that finding.

Finally, the poor quality of disclosure in most states limits means that the public relies heavily on auditors – who have better access to information – to monitor how development agencies are spending taxpayer money.

Certainly, auditors do not – and should not – bear the primary responsibility for evaluating the effectiveness of economic development programs. Monitoring and evaluation should be built into the mandates of development agencies themselves, and annual evaluation of program effectiveness and reporting of that information to the legislature, the executive, and the public should be also be required. However, external

evaluation and oversight are critical to ensuring that programs are held accountable to their mandates and performance objectives.

What We Collected

We conducted an exhaustive search for reports by state auditors and comptrollers about economic development agencies or programs. For simplicity, we classified audits into two categories – financial and compliance and performance – but there are several sub-categories and states may have different names for the same type of evaluations (see Appendix A: Types of Audits).

We focused on performance audits because we wanted to find substantive evaluations of economic development efforts in the states, but we included financial and compliance audits if there were significant findings, such as the egregious ethical lapses. The scope of the audits ranges from a single development deal to all of a state’s economic development activities.

We also classified several documents as “reports.” These are evaluations or summaries of economic development activities that fall short of being true performance audits, either because they are not focused on a specific agency or program or because they are conducted by an entity that is not officially charged with auditing. The reports are included in our analysis.

We began our research by obtaining lists of state auditing agencies published by two professional associations, the National Legislative Program Evaluation Society (NLPES), and the National State Auditors Association (NSAA; these resources are detailed in Appendix C). We then searched the agencies’ Web sites and requested any documents related to economic development. We also contacted other executive and legislative offices (many of the agencies from which we obtained reports did not appear on either the NLPES or NSAA membership list). NLPES and NSAA also maintain databases of program evaluations, which we used extensively.

“Good oversight agencies are much like a slaving, 100-pound Doberman, pulling against a tether held firmly by the legislature. Agencies, the executive branch and other government officials know the watchdog could be released at any time. It at least keeps them looking over their shoulders.” (Dianna Gordon, “Virginia’s JLARC: A Standard of Excellence,” State Legislatures, May 1994.)

The Audits

We reviewed over 200 documents, of which 122 are included in the findings of this report. Of these 122, 92 are performance audits, 15 are financial and compliance audits, and 15 are reports.

What results is a nearly comprehensive list of all substantive economic development audits in the 50 states over the past ten years.

The audits were performed by 59 agencies representing 44 states. We were unable to obtain any relevant audits or reports from six states: Alabama, Arkansas, Delaware, Idaho, Kentucky,* and North Dakota. For five states, we were able to review only financial and compliance audits; for another five, we reviewed only reports. In other words, we found no relevant performance audits in the last 10 years for 10 states: Hawaii, Indiana, Iowa, Maryland, Nebraska, Nevada, New Jersey, North Carolina, South Dakota, and West Virginia.

The audits we reviewed evaluated entire departments or agencies, or focused on a specific program or development deal. We also found audits that chose themes such as all loans or all tax credits relating to economic development.

The Statutes

We also reviewed the statutes governing the auditing agencies in all 50 states, in order to determine patterns in the frequency, scope, and responsibility for auditing. We sought to answer three questions:

- How often are development agencies subject to performance audits?
- Who selects the topics for performance audits?
- Are there guidelines for performance audits contained in the statutes?

In addition to using the answers to inform this report, we have included them in our Web-based database, described below.

* Kentucky is in the process of auditing rural economic development programs, due later in 2000.

The Database

We created a database that includes information on all of the audits we reviewed, including ones we did not use for this report. The database includes several fields, listed in the box at right. Table 1 includes the title, agency, auditing agency, date, audit type, and a summary for each of the reports that form the basis of our analysis. The full database, including all of the fields in the box at right, is available on our Web site. In addition, you can download an Adobe Acrobat file for each state that includes the information on relevant audits and the details of the state’s auditing agencies.

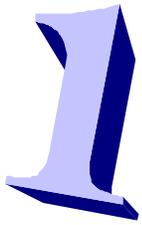
The database is available at www.goodjobsfirst.org, and will be updated as we receive information about new audits.

Database Fields
<u>For each report:</u>
State
Agency being audited
Auditing agency
Report title
Date released
Type of audit
Data included
Scope of the audit
Website (of report or agency)
Phone number / contact name
<u>For each auditing agency:</u>
Governing statute(s)
Web link to statute(s)
How often audits are mandated

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Point 1: Performance Auditing of Development Agencies Is Not Frequent or Thorough Enough

What Taxpayers Want

Performance auditing should be conducted regularly enough to ensure that economic development is being adequately monitored and evaluated, and that agencies not meeting their goals are changed or terminated.



A good external monitoring program would include:

- **Audit regularly:** States should conduct external performance audits of economic development agencies at least every 5 years, ideally as part of a sunset review process (defined in Appendix A).
- **Review of all economic development activities:** States should periodically evaluate economic development activities as a whole, not just individual programs and agencies.
- **Conduct performance audits of privatized development agencies:** States should audit any organization that spends taxpayer money on economic development – even if it’s private (so far, auditors have been successful in getting access to privatized and semi-privatized agencies, but we need to keep watch).

What We Found

Performance auditing is simply not happening regularly enough across the country.



Performance Auditing Is Sporadic

Most states conduct at least one type of financial and compliance audit on every agency every one or two years, but only seventeen states have a law or rule requiring periodic performance audits of every agency. Of the states that do mandate regular performance auditing, four appear to be behind schedule (Massachusetts, Washington, West Virginia, and Wyoming).

In summary, performance audits of any one agency are conducted only infrequently, and we found that in many states an agency can go well over ten years without an external review of its effectiveness. Based on our search, we estimate that in states without periodic requirements,

performance audits on economic development are done roughly every 15 years.

As stated above, six states have not conducted a substantive audit of any kind on economic development for the past ten years and ten more have not conducted any performance audits of economic development. Only a handful of states had three or more economic development performance audits in the last 10 years: New York was the busiest with seven, followed by Kansas with six, then Michigan, Mississippi, Georgia with five, and Texas and Louisiana with four. Alaska, California, Connecticut, Minnesota, Utah, and Wisconsin all had three such audits.

The most effective system for ensuring regular auditing is the sunset review process (explained in Appendix A). A recent survey finds that 12 states conduct sunset reviews.⁴ But only five of the audits we included were sunset reviews, which could mean several things: most sunset reviews are not substantive evaluations; sunset provisions do not cover economic development agencies; or typical sunset periods are more than 10 years.

Few Audits Review All Economic Development Activities

Good audits evaluate economic development efforts overall, not just individual agencies or programs. A comprehensive evaluation of a state's entire economic development activities can be done as a complement to individual program audits, as was done in Georgia (6/99). A comprehensive review not only improves the accuracy of calculating benefits such as job growth, it enables auditors to identify overlapping efforts. A comprehensive review should also focus on the state's strategic plan for economic development and consider how the development programs are working to promote the state's economic goals and objectives.

Here's an illustration of a frequently-encountered problem when agencies or programs are evaluated individually. Program cost per job is commonly used as an indicator of effectiveness. But as several auditors pointed out, when each program is evaluated separately, taxpayer costs per job are understated, because businesses typically receive more than one subsidy. For example, if a business receives subsidies from three programs and the programs are evaluated separately, the jobs they create will be counted three times – once in each evaluation.

Many audits noted this problem and recommended that agencies account for multiple subsidies when they collect data. We believe that states should permit and encourage auditors to conduct regular

evaluations of economic development activities collectively. Unfortunately, fewer than 20 audits or reports did so.

Audits Miss A Big Part of the Picture: Tax Spending

Because performance audits typically focus on agencies and programs, they look at direct spending, that is, money appropriated in the state's budget. Much of economic development spending is hidden in the tax code; it is not related to any specific agency, so it is not evaluated in the auditing process. Tax expenditure reports, which are published by many states, may provide total dollar amounts, but typically lack any accompanying analysis. We did find three audits of tax credit programs: Missouri (12/98, economic development tax credit programs), Kansas (1/00, sales tax exemption and economic development income taxes), and Oregon (3/98, property tax exemptions).

Auditors May Have Trouble Auditing Privatized Agencies

One important consideration is that in some states privatized (called "quasi-public" or "public-private") economic development agencies may not be subject to auditing. The proliferation of privatized, or partially privatized, development agencies – invariably set up as non-profit corporations – is troubling for many reasons. Foremost among them is that such entities are not subject to all of the accountability mechanisms set up for state agencies, such as regular auditing.

For example, the Vermont Economic Progress Council, featured in the case study beginning on page 42, is a semi-private entity that tried to use its governing statute to deny the auditor access to its records. In two other audits we reviewed, the Magnolia Venture Capital Corporation in Mississippi (3/97) and the Greater Minnesota Corporation (3/91), auditors noted the problems posed by those agencies' semi-private status. Fortunately, in all of these cases auditors were able to gain access to necessary records, but we have no way of knowing how many auditors were denied such access.

Our forthcoming research manual will include a section on state public records laws and the problem of oversight of and disclosure by quasi-public agencies.



Point 2: Auditors Are Limited by Primitive State Monitoring Practices

What Taxpayers Want

Every economic development agency should collect data on its activities and monitor the companies to which it gives money. Collecting basic data such as characteristics of businesses served, job creation by subsidized companies, and economic conditions of targeted areas is necessary for agencies to determine whether they are being effective. Auditors also rely heavily on agencies to be following sound data-collection and monitoring procedures, so that they can use these data to evaluate a program's effectiveness.



There are several elements of good oversight:

- **Collect good data:** Agencies should collect data that enables tracking of efficiency and effectiveness, and auditors should use that information for their evaluations. Auditors should evaluate the kind of data that agencies are collecting and determine whether it is sufficient for evaluating effectiveness.

Auditors should also assess the quality of the data that agencies collect, such as by evaluating how well agencies verify company-submitted data. The GAO's Yellow Book recommends that auditors evaluate controls over the validity and reliability of data collected: "(1) assess the risk that the data gathered by the entity may not be valid and reliable and (2) design appropriate tests of the data."⁵ So, for example, auditors may review unemployment insurance payment records of subsidized companies to verify job-creation data and to assess the quality of those jobs.

- **Monitor companies that receive subsidies:** Agencies should routinely verify that subsidized companies are meeting performance requirements.
- **Develop and track performance goals and objectives:** Agencies should have well-developed and measurable goals and objectives, which should in turn guide both internal and external monitoring and evaluation. Auditors should measure collected data against these goals and objectives, in order to draw conclusions about whether an agency or program is achieving its public purpose.

- **Collect outcome data that permits evaluation of effectiveness:** Agencies should collect data that speaks to the results of their programs, beyond simple inputs and outputs.



What We Found

Too often, these practices are not followed, which means that agencies and auditors lack the data they need to make meaningful evaluations. This problem is so widespread that auditors are handicapped from the start in most states, unable to draw any conclusions about a program's benefit to taxpayers and the economy.

Agencies Do Not Collect Data Needed for Evaluation

The most common finding echoed by auditor after auditor is the failure of development agencies to collect adequate data. A disturbing share – over half – of the audits report that agencies fail to collect data that would enable someone to evaluate whether a program is achieving any public purpose. Nearly a third of the reports, representing over 20 states, find weak or inconsistent monitoring of companies receiving grants and/or loans. And about 10 auditors find agencies failing to enforce company reporting requirements.

An audit of Colorado's enterprise zone program (4/95) typifies this problem: the auditor finds that no one knows if the 10,000 created jobs were filled by residents of the zones or if the jobs resulted in an increase in per capita income. The auditor also finds that no data exist on the indicators the program is intended (by statute) to address, such as unemployment, population loss, or economic dislocations.

"The tools necessary to monitor and evaluate the Program's effectiveness, particularly performance measures, have not been developed." (New Mexico 11/96)

Auditors also find that files lack crucial financial documentation (e.g. Montana (1/91), that companies consistently submit required data late (e.g. Maryland (2/98)), and that some states do not collect any data from companies in one or more program (e.g. California (12/99); Kansas (2/94); New York Economic Development Program (5/96); Mississippi (12/87)).

In some cases, programs are not actually required to collect the most basic data; for example, New Mexico does not require local government reporting of state tax-exempt industrial revenue bonds, which makes a statewide assessment of their impact "extremely difficult, if not impossible" (12/97). In others, agencies are failing to collect data that is required by law (see next section).

All of the reports mentioned above emphasize the need for better data-collection systems to track the performance of companies receiving financial assistance, such as the numbers of jobs created or retained, wages paid, or the number of workers trained. For example, the Connecticut enterprise zone audit (12/97) recommends that the Department of Community and Economic Development maintain a database on enterprise zone activities and outputs, including whether a company is a start-up, relocating and from where, or an expansion; the current number of employees (if applicable) at time of certification; job retention and creation numbers; the actual increase in assessed value of any real property due to acquisition, expansion, construction or renovation; whether the certified business claimed various other tax credits, and details on amounts; and whether a company has gone out of business, or moved out of the zone or municipality. Nearly 100 of the audits we reviewed recommend improved data collection and performance tracking.

Agencies Do Not Collect Data Required by Law

In addition to not collecting data that are required for basic monitoring, more than a quarter of the audits find that agencies are failing to collect data that is explicitly required by statute. This includes both data on the performance of subsidized companies and data that agencies are required to obtain before awarding subsidies. Here are a few examples:

- An audit of New York's enterprise zone program (2/98) finds that the Department of Economic Development has not sought legislative authorization for information from the Department of Taxation and Finance that is necessary to conduct a cost-benefit analysis and evaluate the effectiveness of the zones.
- The Michigan Jobs Commission is not producing mandated evaluation information on economic activity (7/95).
- An audit of Oregon's Property Tax Exemptions (3/98) finds several monitoring failures: 40 percent of enterprise zone property tax exemptions that the auditor tested did not meet all of the statutory and rule requirements necessary to receive an exemption; instances in which exemptions were granted without obtaining or validating information need to make appropriate granting decisions; and several instances of exemptions granted that may not meet the intent of the program.

Agencies Do Not Verify Company-Submitted Data

In some cases, agencies collect required data from companies but fail to verify them, such as by comparing reported job creation against unemployment insurance data. About thirty of the audits reveal that state agencies are not independently verifying information submitted by companies when they apply for financial assistance or in post-grant periodic reports. About two-thirds of those indicate that agencies did not verify whether companies were eligible for program participation before awarding incentives (this was particularly common to enterprise zone programs).

Relying on companies to self-report accurate data is simply not good business practice, either at the application stage or during the performance period. Any private lender would perform “due diligence” before risking money; any bank would perform a credit check rather than rely on an applicant to report his or her own history. And failing to verify performance data submitted by a subsidized company is no different than a state highway department asking a contractor how many miles of road it paved, rather than inspecting the road itself.

- An audit of California’s Trade and Commerce Agency (12/99) questions studies that claim to show the program’s success because of the auditor’s concerns over data collection methods, in particular the failure to verify of company-submitted data.
- An earlier California audit (4/96) also emphasizes the inherent bias of some kinds of collected data, such as company estimates of jobs created as a result of project spending, especially on applications for assistance if there is no penalty for failure to provide the stated number of jobs. In this case, the auditor asked the state’s Employment Development Department to verify information on some of the employers, and found that applicants had overstated the number of jobs they had at the time of application, often by significant amounts.

Other examples of agencies not verifying company-submitted data include: the Colorado Enterprise Zone program (2/98); Louisiana Office of Rural Development (12/95); Michigan Strategic Fund (7/93 and 6/94); Michigan Department of Commerce (6/91); Mississippi Department of Economic Development (12/87); Missouri economic development tax credits (12/98); and Washington Community Economic Revitalization Board (9/92).

Agency-Collected Data Is Inaccurate

Auditors also criticize the quality of data collected by the agencies themselves. Audits in nearly 20 states find that economic development agencies reported job creation numbers that are overstated or otherwise inaccurate. Errors include counting both created and retained jobs, counting ineligible job categories such as temporary workers, or reporting estimates rather than actual jobs created.

To cite a few examples:

- An audit of South Carolina’s Jobs-Economic Development Authority (7/95) finds that the authority overstated job creation and retention.
- The Mississippi auditor questions job creation numbers reported by the state’s Institute for Technology Development (7/91).
- The Michigan Strategic Fund reported projected jobs instead of actual jobs, and counted jobs more than once because of lack of coordination in reporting, according to that state’s auditor (7/93).
- Colorado’s auditor finds that more than one economic development program counts the same job in their performance measures (2/96). In one year, the auditor found that every company incentive project received at least one other incentive, so every job was counted at least twice.
- An audit finds that the Illinois Department of Commerce and Community Affairs frequently overstated claims of jobs created or retained (7/89).

In some cases, the cause of the error was not clear; auditors simply report that data did not match external sources. For example, an audit of Missouri’s economic development tax credits (12/98) finds significant differences between spending amounts reported in tax expenditure reports and in Department of Revenue records (the differences have been as much as \$14 million for one year). The auditor concludes that the Department of Economic Development cannot properly assess the effectiveness of tax credit programs in the absence of such important information.

“Overall, the tax credit programs administered by the Department of Economic Development lack fiscal accountability.” (Missouri 12/98)

Agencies Lack Measurable Performance Objectives

Nearly two-thirds of the audits find that economic development agencies lack measurable goals and objectives, which are critical to assessing the achievements and effectiveness of an agency, program, or project. A lack of program performance measures makes it impossible to evaluate the effect of economic development activities on a state's strategic plan or overall economic well-being.

Collecting and reporting indicators of a program's performance is good but not sufficient; those indicators must be compared to appropriate standards, i.e. the benchmarks set by the program. Performance can be compared to set targets (such as actual jobs created or wage standards), to performance by similar agencies or programs, to established norms (such as wage standards or cost per job), or to past performance. Setting targets is not always easy, and can be subject to "low-balling" (setting artificially-low targets that they are easy to meet) or "creaming" (achieving good numbers by helping only the companies that need it least), so auditors should evaluate the targets themselves as part of the evaluation.

Several agencies are criticized for having dysfunctional or inappropriate performance measures. Colorado (2/96) economic development programs' goals are not always measurable (e.g., one program reports on number of jobs that the program created, but has not determined the number of jobs it should create or the level of wages that should result). The auditor finds it impossible to determine the program's success because there is no standard for performance, performance measures do not always relate to program activities, and performance measures are sometimes based on flawed information. The audit also criticizes the state for not updating its plan since 1990 and for failing to link goals with quantifiable performance measures, leaving no way to determine whether program activities are achieving their intended purposes. The same audit finds that the performance measures adopted by the Colorado FIRST training program do not reflect statutory goals.

"[I]mproving the overall business climate,' is a means to an end, not the end itself. The 'end' or 'outcome' needs to focus on how a good business climate would translate into improving the economic lives of the state's residents." (New York 2/97)

Auditors also recommend that agencies adopt performance goals for specific economic development projects, such as a specific number of net jobs created or retained, workers trained, or certain wages paid to workers, and that these goals be tied to specific timelines. For examples see

the audits of the Michigan Department of Commerce (6/91) and the Louisiana Department of Economic Development (11/97). Colorado's auditor criticizes the Colorado FIRST program for lacking a cost-per-trainee guideline and for not linking the amount of subsidy to the wage being paid to a trainee (2/96). New Mexico's legislative finance committee notes that there is no correlation between the hours of training provided through the Development Training Program and hourly wage rates received by training graduates (11/96).

Some auditors go so far as to recommend specific performance objectives. For example, the Virginia auditor (2/91) recommends that companies assisted by the Department of Economic Development be required to create at least 15 jobs, invest at least \$500,000, and pay starting wages of at least \$6.50 an hour.

Auditors also criticize agencies for reporting results and outcomes that are not connected to program objectives. In the words of the California State Auditor: "While recognizing outcomes is important, not matching them to expressed objectives can lead to efforts that do not achieve desired results and can cause the inefficient use of resources" (4/96). A New York audit (2/97) finds the activities and focus of a number of the state's economic development programs no longer seemed to reflect a clear sense of expected "outcomes."

A few audits criticize states for failing to develop or update their strategic plans for economic development: New Mexico's Development Training Program (11/96) lacks a well-defined strategic plan and is not coordinated with other economic development programs. Other examples include California (4/96, 12/99) and Colorado (2/96).

Agencies Do Not Collect Data on Outcomes

For purposes of evaluation, an agency should collect three types of data: inputs, outputs, and outcomes. Outcomes, which reflect the results of a program's activities, are rarely collected by development agencies.

- **Inputs** are the resources the program or agency expended, such as money, personnel, and capital assets.
- **Outputs** measure the quantity of service provided, such as the number of businesses served, number of contacts made with businesses, number of grants made,

"A clear definition of desired outcomes is fundamental to the development of a useful performance measurement and benchmarking system. If the state does not explicitly identify what it wants to achieve, it is not possible to develop measures and monitor its success." (New York 2/97)

number of on-site monitoring visits conducted, dollar value of loans made, etc.

→ **Outcomes** are results occurring at least in part because of the agency or program, such as number of new retail establishments, employment growth in a particular area, increased pool of skilled workers, et cetera.

Outcomes indicate the quality or effectiveness of a service. Outcomes also include measures such as number of jobs added or retained by firms receiving loans, loan default rate, client satisfaction, or percentage of payments made on time. Outcomes should be compared to results from previous years, to entity-established goals and objectives, and/or to other jurisdictions.

Outcomes are derived from performance goals and objectives, and should be measured against benchmarks, as described in the previous section. Obviously, some outcomes are more directly connected to an agency's efforts than others, and evaluators must be careful to address the issue of cause and effect, which is explained below.

Few audits differentiate outputs from outcomes. The latter, of course, gets at the real effectiveness of a program. One of the reasons that agencies are not collecting these data is that outcomes have to refer to an agency's goals and objectives, which many agencies lack.

Agencies Rely Too Heavily on Customer Surveys

We found several agencies – and auditors – relying too heavily on “customer surveys” to assess effectiveness. Such surveys are administered to businesses (often only to subsidized businesses) and are geared to evaluating such things as the companies' satisfaction with the assistance provided by the agency, whether businesses would have made different location decisions if the agency's service had not been available, or whether businesses have future relocation or expansion plans.

Surveys can be a useful evaluation tool, but in the case of corporate subsidies they must be interpreted with particular caution and are certainly not a suitable basis for evaluating effectiveness. That's because businesses have an obvious self-interest in overstating the role of the agency's services in their location decisions or other matters. In effect, the companies are being asked: “The state has just provided you a subsidy that substantially reduced your taxes or your cost of capital. How do you feel about the agency that helped you obtain this subsidy?” As Wisconsin's auditor notes, it is difficult to determine the reliability of survey results on this subject because it can be assumed that businesses will answer such questions in their best interest.

For example, Kansas, Inc.'s evaluation of the cost effectiveness of economic development tax credits and exemptions (1/00) consists almost entirely of an analysis of the results of a statewide survey of businesses that had recently been certified for projects in the state. A survey was also used to analyze the effectiveness of Kansas' High Performance Incentive Program (HPIP). The goal of that survey was to determine whether the program had influenced certified firms' decisions to make the capital investment, locate the project in Kansas, raise wages, increase investment in worker training, or increase sales outside the state. Despite obvious problems with the reliability of such answers, they were then used to assess the impact of the program.

Other examples:

- An audit of Connecticut's economic development programs (2/94) reports results from a survey of state businesses that asked to what degree state government can influence the business climate, and how well state government treats business.
- Tennessee's auditor conducted two surveys of businesses that had been assisted or contacted by the state's Department of Economic and Community Development (7/92) and asked for their opinion of the usefulness and timeliness of the department's services.
- An audit of Utah's Technology Finance Council (10/93) interviews assisted companies to get their impressions of the council and the usefulness of the loans.
- An audit of New York's economic development programs (2/97) bases most of its analysis on client survey responses. The auditor claims to find that client surveys provide strong evidence that program funds have leveraged increased investment, improvements in firm competitiveness, and substantial job retention and growth, but does not question the credibility of the responses from the surveyed businesses themselves.

Some of the audits that rely on surveys report surprising results:

- Wisconsin's auditor finds that 15 businesses subsidized by the Housing and Economic Development Authority would have expanded without that department's loans (4/90); in an audit of the state's tax increment financing (TIF) program, six of 16 businesses surveyed by the auditor indicated that the projects probably would have happened without the financing (6/91).

- A Colorado enterprise zone audit (2/98) reports results from a survey of 36 businesses in the zones: of the 18 who responded, 55 percent said they had been operating in the zones prior to designation, 55 percent reported that the zone program did not influence their decision to expand or create new jobs, and 20 percent stated that a majority of their employees reside outside of the zones.
- In a review of the Mississippi Department of Economic Development (12/87), the state's legislative auditor surveyed all businesses that had located or expanded in the past year, asking whether the department had had any influence on or involvement in the company's decision. The auditor finds that 80 percent were not influenced by DED.

Agencies Are Not Evaluating Themselves

Auditors also find that agencies are not conducting self-evaluations, in some cases even when the law requires that they do. The failure of agencies to monitor and evaluate themselves is troubling by itself, but it also hampers auditors' efforts. About two-thirds of the audits we reviewed make no mention of internal evaluation, and most of the others note its absence or inadequacy. For example:

- An audit of Colorado's economic development programs (2/96) finds that they collect job creation data but don't do anything with it, such as analyze the data to estimate the return on its investment. The state's Customized Training program does calculate return on investment, but fails to include in its estimate any of the other state funds that go to its projects, so it overstates the benefits. The audit also criticizes the economic impact study that the state contracted for its small business development center program for not comparing data to statewide averages, for using only self-reported data, and for reporting untimely results.
- An audit of California's Trade and Commerce Agency (11/95) finds that it has not met all of the monitoring and reporting requirements, including required audits of certified businesses in program areas, and has not developed an adequate framework to review and evaluate the progress of the programs or measure their effectiveness.
- According to the state comptroller, New York's Department of Economic Development (5/96) has not implemented the mandated system to evaluate the effectiveness of the economic development

zone program because DED has not yet established the criteria for making the evaluation. In the absence of program effectiveness and program cost information, the auditor could not determine whether the benefits of the program exceed its costs.

- A New York comptroller evaluation of economic development programs (12/97) finds that there is no analysis to substantiate claims that statewide employment and other economic indicators are the result of Empire State Development Corporation activity.
- An audit of Louisiana's Office of Rural Development (12/95) finds that the agency has made no assessment of the program's impact on economic or area living conditions.

Other agencies that auditors find to be failing to seriously assess their effectiveness include the Mississippi Department of Economic Development (12/87), New Mexico's Industrial Training Board (11/96), and the Tennessee Department of Economic and Community Development (7/92).



Case Study #1: The Empire State: Not Keeping Tabs

Over a period of four years, New York State Comptroller Carl McCall has criticized the Empire State Development Corporation (ESDC) agencies and programs for failing to monitor job creation. In his audits of the Economic Development Zone (now called Empire Zone, the state's term for enterprise zone) program in 1996 and 1998, the Regional Economic Development Partnership Program in 1999, and the ESDC's job development programs in 2000, the comptroller recommended that ESDC use a job-tracking system to keep tabs on how many promised jobs were actually being created.

The comptroller's findings have been strongly disputed by the ESDC, the state's umbrella economic development agency. The disagreement is apparently fueled partly by partisan political issues, building on a long history of critical audits and defensive retorts between the state's comptrollers and economic development offices. The criticisms of both sides have been covered extensively by newspapers and business journals. According to the *Syracuse Business*, "criticism of the state's administration and economic development programs began when Edward Regan, McCall's Republican predecessor, was state comptroller in the 1980s."⁶ Then, it was a Democratic administration being criticized. Today, a Democratic comptroller is criticizing a Republican administration.

The 1996 report on the economic development zone program found inadequate monitoring efforts, which kept program officials and the public in the dark about program costs, benefits to taxpayers, and the number of jobs created in the zones. The *Wall Street Journal* and *Crain's New York Business* reiterated the audit's findings.⁷ The *Albany Times Union* reproduced the ESDC's response that "the program's cost effectiveness was secondary to the job of establishing the economic development zones." The *Times Union* declared that "we have a program about whose cost and benefits (if there are any) we are ignorant. And we have an administration that doesn't think measuring either is of first concern. We can hardly think of a better prescription for waste and fraud."⁸ The *New York Times* quoted a community critic: "the state is basically subsidizing the relocation of businesses from one site to another, and the businesses aren't being held accountable to create jobs."⁹ The *Buffalo News* also reported the findings, even though the six economic development zones in Western New York were not reviewed, and quoted the comptroller as saying that the overall criticisms probably applied to those zones as well.

Others challenged the audit's findings: the Westchester County Business Journal argued that the Yonkers economic development zone was being effectively monitored: "...keeping a close watch on all of the businesses within the 2-square mile zone to verify they are in compliance with state guidelines. If they're not in compliance, they won't get the benefits." The comptroller's office responded by saying that the audit was "designed to provide the comptroller's office an overall picture of the EDZ program...not that the program is not worthwhile, but the DED oversight is not good."¹⁰ The director of Empire State Development's Western New York operations said that "the economic development zones are tricky areas to fill as some have environmental problems," and that "it's important to assist businesses in getting located and started in the zones."¹¹ The ESDC's Chairman and Chief Executive acknowledged that the criticisms were well-founded, but said that they are the responsibility of a previous administration (the audit examined program records for 1991 through 1993), and that significant organizational changes had been made to curtail previous program weaknesses. The ESDC chief detailed those changes in an op-ed article in the New York Times, including "sanctions for zones that fail to file complete reports, annual site visits, and de-certification of businesses that fail mandatory reporting requirements."¹²

In 1998, the comptroller's audit criticized the Department of Economic Development for failing to implement the 1996 recommendations for measuring program effectiveness and developing a job-tracking system. The report acknowledged many of the ESDC's accomplishments: "there are fewer and more flexible economic development programs and the cost to administer the programs is lower...yet problems remain."¹³ The Department's spokeswoman claimed that a job-tracking system was close to completion. In an article in The Times Union, several zone administrators emphasized the complexity of the program, and argued that "excessive expectations" often diminish many of the zone's successes.¹⁴

The 1999 audit of the Regional Economic Development Partnership Program (REDPP) received substantial coverage in local newspapers; it highlighted the ESDC's inability to account for jobs created or retained. After doling out \$130 million in loans and grants to 100 business for 80,000 promised jobs, the ESDC was unable to account for the number of jobs actually created or retained. The story was widely covered in local newspapers, including the Albany Bureau, the (White Plains) Journal News, the (Rochester) Democrat and Chronicle, the Albany Times-Union, the (Utica) Observer-Dispatch, the Sarasota Herald Tribune, the Poughkeepsie Journal, and the Ithaca Journal. Most of the articles quoted Greg LeRoy of Good Jobs

First on the need for a mandated job-tracking system to ensure a true bang for the buck when taxpayers are footing the bill. In a model investigation, the Gannett News Service sought to interview the 100 companies to get their job creation numbers; 18 of the subsidized companies provided job creation figures and only four of those had met their job projections.

In February 2000, the state comptroller released a report reviewing the ESDC's job development programs, again claiming that the agency can't tell whether funded projects have resulted in the creation or retention of jobs. He reiterates the basic issue: "taxpayers have a right to know if their multimillion-dollar investment in job-creation programs is working, and lawmakers need solid information to determine what programs are the best investments."¹⁵ He also questioned the reliability of some of the data collected, and found a lack of measurable program performance objectives and adequate timetables for meeting the objectives. The ESDC criticized much of the audit, and claimed that the comptroller may have distorted facts to support his political aspirations. In its written response, the ESDC claimed that companies receiving subsidies had exceeded projections by 10.5 percent and asserted that the data were in fact available but that the comptroller's audit team did not request a detailed discussion of the projects. The comptroller responded that the ESDC's statements were "contrary to the facts" and reiterated the need for a "consolidated, accurate, verifiable system to track the status of job creation programs."¹⁶

Frank Mauro of the Fiscal Policy Institute also reinforced the need for better business accountability through legally binding agreements that would enforce subsidy provisions.¹⁷ Syracuse Business editorialized that "a job tracking and verification process is long overdue."¹⁸

The audits and responses to them reflect the sad state of economic development policy debates in New York state. New York City continues to dole out eight-figure "retention" packages to Manhattan firms that threaten to leave.* And while the financial services industry has brought a measure of economic growth to the New York City area, upstate New York by itself would rank #49 among the states in economic performance for the 1990s, according to *The State of Working New York* by the Fiscal Policy Institute. Despite such terrible results, and despite two decades of solid reform proposals from Republican and Democratic comptrollers alike, programs remain poorly monitored.

* Good Jobs New York, a project of Good Jobs First and the Fiscal Policy Institute, maintains a database of such deals on its Web site: www.goodjobsny.org.



Point 3: Audits Fall Short in Assessing Effectiveness

What Taxpayers Want

Performance audits should evaluate the effectiveness of the project, program, or agency they are assessing. This means assessing how well the entity is achieving its intended results, such as increasing economic diversity or creating additional quality jobs.



Evaluating effectiveness is a complex process. Simply counting the jobs created by subsidized companies fails to answer critical questions, such as: would the jobs have been created anyway without the subsidy? Is the subsidized company creating good jobs? Do the jobs created merely represent the movement of economic activity from one place to another? Granted, these questions can be difficult to answer, but if auditors are going to assess whether a program is providing a net positive public benefit, they must address such issues.

In an evaluation of effectiveness, auditors should do the following:

- **Evaluate the program against its objectives and goals:** A good audit compares performance indicators against a program/agency's objectives and goals, whether those are indicated by a statute or elsewhere. However, many auditors find themselves unable to make such a comparison because programs usually lack measurable objectives (see Point 2).
- **Address the issue of cause and effect:** A good performance evaluation should attempt to determine whether the agency's actions are actually affecting performance outcomes, rather than assuming that any observed outcomes are a result of the agency's efforts.
- **Look at both benefits and costs:** Any evaluation of a program's effectiveness should determine whether it provides a net public benefit in the long-run. This means comparing observed benefits to costs.
- **Use accepted economic development evaluation techniques:** Auditors should use established methods for evaluating the performance of economic development programs and subsidies. This means looking at economic and fiscal impacts, conducting cost-benefit analyses of projects, and evaluating how well programs are targeted. The National Association of

State Development Agencies (NASDA) and the Economic Development Administration (EDA, part of the U.S. Department of Commerce) recently published a summary of state practices of evaluating economic development subsidies, in which they state that the most important questions to be addressed in monitoring and evaluation of economic development programs are:

- What is the economic impact of a program/incentive on the state, region, or community?
- What is the net public benefit generated from the public investment in a project/program?
- How effectively are the resources being used to generate as much economic impact and public benefit as possible?¹⁹



What We Found

Auditors take many different approaches to defining and evaluating effectiveness. Some define it very narrowly – for example whether the program is performing simple statutory functions, such as processing applications for subsidies. Others try to determine whether the program is actually improving the economic conditions of the state. The majority of audits are handicapped by the lack of data and measurable objectives, as described above, but others simply fail to raise the issues of long-term results, cause and effect, or economic impact. Overall, fewer than 20 percent of the 92 performance audits we reviewed look at effectiveness.

Few Audits Explore Effectiveness

Most of the performance audits simply do not mention or attempt a real evaluation of effectiveness. Others report they are unable to assess effectiveness because data on outcomes are not available. But some audits use outputs as indicators of effectiveness, which are indicators of activity but not results. For example, Wisconsin's enterprise zone audit (2/93) declares "[b]ecause the effects of the Development Zone program on the overall economy cannot be measured directly, we evaluated other aspects of program activity that may indicate program success."²⁰ The auditor looks at the number of certified businesses, the dollar amount of credits allocated, the progress of businesses in meeting investment plans and claiming credits, and compliance with statutory guidelines. The auditor does not attempt to determine outcomes, such as whether the certified businesses would have carried out their expansions without the

program (see cause and effect section below) or whether businesses are producing quality jobs or contributing to economic diversity.

A few auditors actually find a net public benefit without conducting a full evaluation. For example, an audit of South Carolina's Coordinating Council for Economic Development (6/90) finds that the council provides a net public benefit, but never quantifies the benefits that the council allegedly provides. An audit of Utah's Technology Finance Corporation (10/93) states that although the auditor is unable to isolate the economic impact of the programs, he finds that UTFC is contributing to the establishment of new businesses, jobs, and taxes.

Few Audits Focus on Cost-effectiveness

A good performance audit focuses on the public benefits of a program or agency. Taxpayers and their representatives have a right to know how the government's money is being spent and whether further investment in a program is justified. Cost-benefit analysis is an accepted technique for evaluating individual economic development projects, but it can also be used to assess whether an overall program is providing a net public benefit. Unfortunately, only about 15 of the 122 audits we reviewed explicitly evaluate programs this way.

Only a handful of audits focus on whether the subsidies agencies hand out are cost-effective. Here are some examples:

- Colorado's auditor (2/96) emphasizes the need to measure return on investment. For example, in evaluating job training programs, the auditor carries out a return on investment calculation for training participants, taking into account the wage they earned and state benefits they received at the beginning and end of a 13-week cycle.
- An audit of Colorado's enterprise zone program (1/98) finds that the cost per job created has increased in the seven years the program has existed and emphasizes the importance of measuring cost-per job as well as wage levels to determine net public benefit.
- New Mexico's audit of industrial revenue bonds (12/97) emphasizes the need to ensure that each project provides a net public fiscal benefit, conducts a sample fiscal impact analysis, and suggests that formal cost-benefit studies be required for all projects.

A handful of audits also recommend or use cost-benefit analyses to assess effectiveness. In some states, programs are required to conduct a cost-benefit analysis of all subsidy deals; a few auditors evaluate the quality of those analyses, or note that they are not being carried out (see

also the section on agencies not evaluating themselves, page 24). Others recommend that cost-benefit analyses be adopted, e.g. Vermont (9/99), New York (6/95), and Georgia (8/98). The Texas state auditor criticized the cost-benefit methodology that the Department of Commerce contracted for its enterprise zone program. According to the auditor, the assumptions used in the analysis may overstate the benefits of the program (10/94).

Few Audits Look at Cause and Effect

A critical step in evaluating effectiveness is determining whether changes in outcomes can be attributed to program activities. For example, if the unemployment rate in an enterprise zone drops, an evaluator should try to determine whether it dropped at least partially because of the enterprise zone program or entirely as a result of other factors. This determination can be difficult to make, but is certainly not impossible. More importantly, evaluators should never assume that any observed benefits can be attributed to an agency or program. Making such an assumption skips over the most basic element of assessing effectiveness. And taxpayers are certainly not eager to pay for programs that cannot demonstrate responsibility for any economic benefits, so attribution is important for establishing credibility with the public.

Unfortunately, few audits explicitly acknowledge the issue of attribution. Instead, many auditors seem to assume that all performance indicators are the result of actions by the program or agency being evaluated. The audits that do pay attention to causality emphasize the difficulty of establishing it. About 10 audits conclude that effectiveness is too difficult to assess because of the difficulty in attributing results to programs or agencies.

- An audit of California Trade and Commerce Agency (11/95) concludes that isolating the effect the enterprise zone and other incentive programs have on economic activity may not be possible.
- Colorado's auditor (2/98) concludes that he is "unable to measure the relationship between enterprise zone status and economic conditions," in part because data problems make it difficult to isolate zone areas from non-zone areas for several of the indicators. Instead, the auditor evaluates whether, even if all of the positive changes could be attributed to the program, those benefits outweigh the costs of the program. The auditor looks at unemployment rates and per capita incomes in the zones, which have improved, but also notes that the state overall has experienced positive economic change, and that the improvements

were not enough to make any of the 16 zones ineligible for zone status. The audit also cites other states' evaluations of zone programs, which overall have been inconclusive or found only tenuous relationships between incentives and changes in economic indicators.

- An earlier audit of Colorado's economic development programs (2/96) repeatedly emphasizes agencies' failure to demonstrate ways that their programs contributed to performance outcomes, such as an improved unemployment rate and per capita income.
- Also in Colorado, the Legislative Council's review of the state's enterprise zones (2/96) drew a similar conclusion, that "research conducted on the relationship between state tax policies and state employment and income growth does not suggest a strong or consistent relationship." For the rural zones that had improved their relative position, the Council concluded that it could not determine the extent to which this improvement could be attributed to the enterprise zone program. "That businesses within enterprise zones took advantage of tax credits does not indicate whether the overall impact of enterprise zones on Colorado's economy and the state's total revenue collections was positive, negative, or neutral."²¹
- Connecticut's audit of economic development (2/94) notes that job creation can be a misleading performance indicator, in part because it's impossible to determine whether job creation would have occurred without subsidies.
- Texas' auditors, in their evaluation of the state's enterprise zone program (10/94), declared that it was "neither possible nor cost-effective to assess the success of the Program."



Point 4: Audits Find Little Evidence That Economic Development Programs Are Effective

What Taxpayers Want

If all of the tools need for evaluation are at hand – adequate performance data are available, performance goals and objectives exist, auditors are able to rate outcomes against performance benchmarks, and auditors can attribute outcomes at least partially to economic development activities – then taxpayers would expect to see some evidence that economic development efforts are positively affecting states' economies.



What We Found

Of the 15 or so audits that are able to seriously evaluate effectiveness, the results are disheartening. Nearly all of those audits find little concrete evidence that programs are improving the economic conditions they were intended to address.



Serious Administrative Problems Hinder Effectiveness

A handful of auditors find such severe administrative and procedural problems that the agencies could not be effective. For example:

- An audit of Mississippi's Department of Economic Development (12/87) finds that the department suffers from problems that debilitate its effectiveness, such as a failure to maximize the use of agency resources, a lack of accountability, and a serious employee morale problem. The state's economic development organizational structure "prevents the state from maximizing the effectiveness of its economic development efforts" (12/87).
- An audit of Wisconsin's tax increment financing programs (6/91) finds numerous procedural problems contributing to ineffectiveness. Among them: no state agency is authorized to review the approval process for individual TIF districts; and local officials likely have a disincentive to question approval of TIF districts. Because of these problems, the auditor concludes that the state should take a larger role in oversight and enforcement of current requirements.

Financial mismanagement and failure to apply program policies consistently may also hamper effectiveness, as is the case with Texas' Smart Jobs program (see case study beginning on page 53).

Programs Are Not Being Used As Legislators Intended

Auditors also measure a program against its governing statute, and more than 15 audits find that economic development programs are not being implemented as legislators originally intended. In some cases that simply means that an agency is not doing everything legislators intended. In others, agencies are acting in ways specifically counter to the legislature's express intent.

- An audit of Colorado's enterprise zones (2/98) finds that the most frequently-used incentive – the investment tax credit, which accounts for 70 percent of the credits since inception – does not have a strong relationship to the issues the program was created to address: job creation, population growth, income, and unemployment.
- An earlier audit of Colorado's Department of Local Affairs finds that the agency created enterprise zones that have few if any residents, which the auditor finds is contrary to the statutory intent of the program (4/95).
- An audit finds that the Illinois Department of Commerce and Community Affairs (12/89) often exceeded the department's subsidy cost-per-job guidelines (in the case of Diamond-Star Motors, the ratio exceeded \$86,000 per job).
- In Kansas, the auditor finds that TIF money was used to move a business from one enterprise zone to another and to finance projects in what appear to be economically healthy areas (2/97). Kansas' Economic Development Initiatives Fund is also found to have assisted companies that relocated within the state, against the intent of the fund (7/95).
- An audit of Ohio's Department of Revenue (3/98) finds many instances of program use that are not in accordance with the original intent of stimulating employment and industrial growth.
- An audit finds that Utah's Redevelopment Agencies (12/91) have strayed from the mission the legislature intended and that their use of TIF is harming school districts and antagonizing property owners.

- The Utah Technology Finance Corporation is criticized by the state’s auditor for losing sight of the primary aspects of its original legislative mission (10/93 and 6/98).
- An auditor finds that Vermont’s economic development awards have gone to the counties that need them the least and are not helping the counties that need them the most (6/00, see case study beginning on page 42).
- Wisconsin’s auditor (6/91) finds that tax increment financing is being used to finance competition among the state’s municipalities and recommends amending the TIF law to “provide different standards for redevelopment projects than for those involving new development, to reduce competitive disadvantages suffered by redevelopment projects.”

Subsidies Are Given When Not Necessary

Thirteen audits opine or conclude that development projects would have occurred without subsidies, leading many auditors to believe that officials did not properly assess project needs, or that they had other motives when awarding incentives. One of the assumptions behind economic development subsidies is that if they are not given out, the investment won’t happen. So one of the most troubling findings that auditors can make is the awarding of subsidies to projects that would have occurred anyway.

The clearest indicator that subsidies were unnecessary, of course, is an admission by the subsidized company to that effect. Unfortunately, firms are unlikely to make admissions that might jeopardize their ability to get future subsidies (see the discussion of “customer surveys” on page 22).

However, auditors did find numerous cases where businesses admitted that their behavior was not influenced by subsidies or other economic development assistance:

- Colorado’s auditor (2/98) surveyed 36 businesses in the enterprise zones after a 1996 Legislative Council review concluded that “there is conflicting evidence as to whether state tax policies significantly impact business location decisions.” The majority of respondents did not attribute their business activity to the program.
- The Illinois auditor finds that subsidies were awarded non-competitively and in some cases to firms that did not need them (7/89).

- An audit recommends that the Oklahoma Department of Commerce (2/99) exercise greater discretion so that incentives do not simply reward natural business growth (also recommends higher thresholds for new payroll and job creation goals).
- An audit of the Oregon Business Development Fund (6/88) finds that 30 to 40 percent of new jobs would have been created without assistance from the fund.
- An audit finds that the Vermont Economic Progress Council awarded many subsidies that did not meet the state's "but for" requirement (6/00, see case study beginning on page 42).
- The Wisconsin Legislative Audit Bureau's study of the state's Business Development Bond Program (4/90) finds that "it is virtually impossible to determine the extent to which economic activity would have occurred without the program," and concludes that "a substantial portion of the economic activity would have likely occurred without the loans."²²

"The concentration of VEPC [Vermont Economic Progress Council] awards in high growth regions represents a major shortcoming of the program as it was originally envisioned and reinforces the sense that much of this activity would have occurred in part or in whole without the incentives." (Vermont 9/99)

- A Wisconsin TIF audit (6/91) finds that some tax increment financing districts include property that does not need a TIF subsidy.

Subsidies Are Not Sufficiently Targeted

A handful of audits find that agencies are not successfully serving targeted businesses or people, a fairly strong indication of ineffectiveness. For example:

- A Colorado enterprise zone audit (2/98) finds that the program is too broad and ambiguous to be effective; "[i]t is used as a multi-purpose tool for assisting distressed areas, enhancing competitiveness, and contributing to charitable causes. However, it is not effectively targeted to any of these purposes."²³
- An audit of Arizona's Department of Commerce (4/93) finds that funds are not getting to companies that most benefit the state: small, expanding Arizona businesses.

- A Maine report on economic development (12/97) discusses the need to tailor program qualification criteria to better address the state's business development needs and environment.

Subsidized Companies Are Not Meeting Performance Requirements

Auditors also track the performance of companies receiving economic development assistance, in order to assess whether those companies are likely to be benefiting the economy as intended. Unfortunately, several audits find that states are subsidizing low-wage jobs or that subsidized companies are not performing well. For example:

- An audit of the Georgia Advanced Technology Development Center (1/99) finds that the average annual wage paid by mature companies helped by the center is lower than the state's average in the same industries.
- Minnesota's auditor (2/96) also evaluates the quality of jobs created by state grant and loan programs, and finds that the distribution of jobs created by subsidized companies is skewed towards lower wage levels, with 63 percent paying less than \$8 per hour.
- An audit of the Pennsylvania Department of Commerce Economic Development Programs (12/95) analyzes the wage growth of assisted companies (adjusted for cost of living), in order to estimate the overall economic impact of the programs, and finds that clients of most programs had negative real wage growth during the three years following assistance.
- An audit of Wisconsin's enterprise zone program (2/93) finds that 79 percent of targeted individuals were being paid \$6 or less per hour. Forty percent were being paid \$5 an hour or less.

Programs Are Not Affecting Economic Conditions

The most disheartening finding of our research is that of the audits that do thoroughly evaluate effectiveness, few find evidence that economic development programs are positively affecting economic conditions. Fewer than 10 percent of the audits try to determine whether programs are affecting the economic conditions of targeted areas or otherwise improving economic conditions in measurable ways. The following findings were made in audits that evaluated effectiveness:

- A Florida enterprise zone audit (2/93) finds that economic well-being has not changed in most zones.

- A Colorado enterprise zone audit (4/95) concludes that the economic impact of the Enterprise Zone Program is unknown. No areas have been terminated from enterprise zone status; program participation is concentrated in investment tax credits, which appear to have little relationship to employment; and no data establish an overall net dollar benefit to the state.
- A Connecticut enterprise zone audit (12/97) finds that property tax data indicate that tax base has been augmented in municipalities within zones, along with increasing occupancy of previously idle space. These two elements are interpreted as indications that the program has had a positive impact, but the audit also finds that need has not diminished in the state's cities.
- In an audit of New Mexico's Development Training Program (11/96), the auditor's survey of program participants found that 62 percent of trainees were unaware that they were participating in a state-sponsored training program. Almost all respondents reported that they received fewer training hours than the company was paid for – 18 percent of respondents said they received no training at all!
- A Texas enterprise zone audit (10/94) finds that the program has had a minimal impact on unemployment and other socioeconomic conditions. The program has not targeted areas of highest unemployment and has had minimal impact on business relocation decisions. New jobs created through the enterprise zone program comprise just 0.1 percent of the total labor force in seven of the 21 counties participating in the program. Only two of the 10 counties with the highest unemployment rates received jobs from this program. Auditors also find that there has been no creation of capital wealth in six of the 10 counties with the lowest levels of per capita property wealth or any other direct contributions to the tax base, since Texas does not impose a personal income tax.
- An audit of the Utah Technology Finance Council (6/98) finds that subsidized companies had job growth below industry averages. The audit also evaluates the UTFC's loans against its mandate: that it provide loans to companies that cannot get them in the private market. It finds that many borrowers may qualify for private lending; in other words, UTFC may be lending to companies that do not need its assistance.
- An earlier audit of UTFC (10/93) declares "[W]e cannot demonstrate quantitatively the effect that either UTFC or the total [high-tech

funding] system is having on the economy. This is because a cause/effect relationship cannot be established.”

Other audits find that effectiveness cannot be assessed:

- In an evaluation of the Minnesota Department of Economic Development (3/85), the legislative auditor expresses skepticism that any economic development program can have a significant impact on state or regional economies: “simply providing financial assistance to manufacturing businesses that apply for programs does not ensure that the programs are creating jobs.”
- A New Mexico Industrial Revenue Bond Impact study (12/97) finds that there is a “great deal of work” necessary for developing and applying a model to measure fiscal impacts of IRB projects.
- An earlier audit of the New Mexico Development Training Program (11/96) concludes that the overall impact of the program on the state’s economy cannot be measured because “data are extremely difficult to obtain and the causes of economic growth are the result of a variety of factors.”



Case Study #2: Vermont Economic Progress Council: “But for” Nothing

The audit of the Vermont Economic Progress Council (VEPC) was “controversial in the making and harshly critical in its conclusions.”²⁴ After a six-month struggle to conduct the review, the state auditor issued findings that confirmed what many legislators and citizens already suspected, that the VEPC “has given out millions [of dollars] of tax credits to businesses that did not need them to expand.”²⁵ Specifically, the VEPC had done an inadequate job applying the “but for” test, intended to ensure that “but for” the tax credits it was issuing, the new economic activity would not have occurred.²⁶ After citing numerous cases where tax credits were awarded to businesses before applications were approved—or even before they were submitted—the report concludes that VEPC applied a but-for-nothing test.

The VEPC, a group of nine business leaders appointed by the Governor, was formed to administer the Economic Advancement Tax Incentives (EATI) program. Adopted in 1998, the EATI program is intended to stimulate new economic activity by offering a wide range of tax incentives to businesses making new investments in the state. In the two years since its inception, the Council has already authorized nearly \$65 million in tax credits to businesses—including \$34 million during its first three months alone (note that tax credits are dollar-for-dollar reductions in corporate income taxes). Numerous legislative committees, individual legislators, and citizens of the state requested a review of the Council’s books and funding decisions, voicing concerns about the size of corporate tax breaks being given out and the lack of public information about program accountability.

Early criticisms of the VEPC emerged in a legislative oversight report released in September 1999. The report, conducted by an economist for the Joint Fiscal Committee, found that the Council was overly optimistic in its estimation of business activity, such that the claims amounted to “gross exaggerations” of the VEPC’s benefit to the state.²⁷ He also expressed serious doubt about VEPC’s claim that none of the projects would have occurred in whole or part “but for” the VEPC subsidy, in light of high economic growth rates in many regions of the State where awarded projects were based. Among the other criticisms: 65 percent of small-business grants were awarded to four of Vermont’s largest companies and the vast majority of tax breaks were granted in counties such as Chittenden County, where unemployment is quite low.²⁸

Making Headlines

News that the audit was being conducted emerged months before its release because the VEPC refused to release key documents. Newspapers such as the Rutland Herald, the Times Argus, and the Caledonian-Record, ran numerous articles documenting the conflict between the auditor and the VEPC over access to records of specific deals.

Controversy arose when the VEPC refused to release its records, claiming that its governing statute deemed as confidential “information and materials submitted by a business applicant” and that the law prohibited disclosure of such materials to the public.²⁹ After the auditor clarified that he was not the “public” and had explicit statutory authority to see all records of any state agency, the VEPC asked that he sign a confidentiality agreement. The auditor refused, arguing that “he [had] faithfully observed the state’s confidentiality laws during seven years in office” and “is perfectly capable of following the state’s confidentiality laws without any guidance from an agreement with VEPC.”³⁰

The tension mounted when the auditor sued the VEPC for refusing to comply with a subpoena of its records. The dispute was heavily criticized by legislators and state officials for being “a potential waste of taxpayers’ money and unnecessary use of judicial resources” and triggered a barrage of accusations and media coverage.³¹ The suit was later withdrawn by the attorney general after he asserted that “only [his] office could authorize such suits under state law,” and that he had authority over all legal claims involving state government.³² A week after the suit was withdrawn, in a special meeting of the senate finance committee, the senate president pro tempore accused the auditor of filing the lawsuit “as a maneuver to bolster his political aspirations to higher office” (the auditor had announced his candidacy for the U.S. Senate a month prior to the audit’s release).³³ The auditor steadfastly defended his position, saying that he was only trying to do his job.³⁴ He was finally able to do so when the attorney general issued an opinion supporting the auditor’s right to conduct a full audit of the Council.

Released in June 2000, the final report listed 20 findings which stressed the inadequate internal controls over the “but for” test, the process by which businesses first state their need for the tax credits, the VEPC’s review of the proposed project’s need for tax credits, and the determination of the amount that would indicate a net benefit to the state. These major flaws in the EATI program and VEPC’s internal controls are reflected in numerous findings:

- The VEPC makes no effort to obtain supporting documentation or verify any submitted financial information that would substantiate an applicant's "but for" statement;
- The VEPC's determination of the size of tax credits appears to maximize the award for the company rather than the benefit to the state;
- The VEPC has awarded tax credits for investments made prior to companies' application. This violates program guidelines that tax credits are only issued after adequate assessment that projects cannot occur without them;
- The VEPC has awarded tax credits for job retention, which violates program intent that tax credits be used only for new economic activity; and
- The VEPC has no means of monitoring the fiscal costs and benefits associated with the tax credits and no way of determining if companies fulfill their obligations under the agreements.

In its formal response, the VEPC disputed nearly every one of the audit's findings. The VEPC's main retort was that the VEPC did not have statutory guidelines for many of its procedures, and that its policies were still evolving. (This last admission by itself was astonishing; the VEPC was acknowledging that it had been doling out subsidies without first developing basic criteria!) The auditor responded that two years was ample time to come up with formal written policies and procedures, and that \$65 million is a great deal of money to be practicing with.

Two days after the audit's release, Governor Howard Dean publicly defended the VEPC, as well as his own involvement with it. He challenged the auditor's finding that the governor had given the VEPC some indication that it could weaken its "but for" standard. Instead, the governor claimed, he was promoting the VEPC's discretion in light of complaints by rejected companies.³⁵

Despite the partisan politics motivating some of the controversy, the auditor's actions did garner public support and succeeded in promoting public accountability. Two editorials in the *Caledonian-Record* strongly supported the auditor's actions and demanded an answer to the Council's actions with: "Why the secrecy?" Both editorials stated that it was taxpayers' business to know how the Council was using state revenues.³⁶

Two months into the audit, a commissioner of the economic development department acknowledged that the debate over the audit

“raised important issues,” which were overshadowed by the disclosure conflict. At that time, the VEPC proposed to change its tax incentive program; its proposed changes ranged from minor law revisions to better coincide with current program needs to major modifications, including the addition of a tracking system. This would enable the VEPC to produce aggregate performance data that would not violate confidentiality.³⁷ Two months later, the Vermont House introduced a bill to “give lawmakers greater oversight of VEPC without restricting the amount of tax credits it is allowed to give out.”³⁸ The VEPC resisted the proposed changes; its executive director said that “more oversight will mean more leaks of confidential business information to the public.”³⁹

The House measure was never signed into law; it died in the appropriations committee. In allowing the bill to fail, the legislature demonstrated its vulnerability in face of aggressive lobbying by economic development and business leaders. Only the taxpayers themselves can press the legislature to fulfill its responsibility to hold VEPC accountable.



Point 5: Government Is An Easy Mark: Audits Find Many Troubling Practices

What Taxpayers Want

At a minimum, economic development agencies should:

- **Comply with laws and standards of ethics:** agencies should comply with all governing laws, standard accounting procedures, applicable financial management policies, and general rules of ethics governing the spending of public money.
- **Practice good financial management:** agencies should follow basic business sense. This applies to management of their own funds (salaries, administrative expenditures, et cetera) as well as to grants and loans given to companies.
- **Develop criteria for distributing subsidies and apply them consistently:** agencies should have concrete criteria for distributing subsidies or other program benefits, and apply them consistently, to ensure that taxpayer money is spent according to the program intent and that the award process is not subject to favoritism.



What We Found

Many agencies are so lax in their administrative and financial practices that companies are able to get away with defaulting on loans, failing to meet performance requirements, and obtaining subsidies for which they are not qualified. Thirty-four audits find that agencies are violating basic business practices in these ways. The practices found include: unacceptably high loan-default rates and little or no effort to recoup monies from companies that have defaulted; awarding subsidies to companies that are not meeting performance requirements; and general financial mismanagement.



Agencies Are Not Applying Consistent Criteria When Awarding Subsidies

Fourteen audits find that agencies lack formal written policies and procedures detailing program procedures. Instead, many agencies rely on subjective internal recommendations and apply criteria arbitrarily when awarding development subsidies. This lack of specific criteria and

consistent application has in many cases resulted in an unequal and irrational distribution of funds among localities, such as funds failing to reach areas with the highest rates of unemployment or poverty.

For example:

- Audits find that both the Louisiana Office of Rural Development (12/95) and Office of Urban Affairs and Development (12/95) lack formal policies for grant process, and grants are not approved systematically or consistently.
- Two reports from Montana find that the lack of formal policies and procedures caused inconsistencies in grant awarding procedures.
- An audit finds that New Mexico's Development Training Program (11/96) has no criteria for setting priorities for the selection of companies for participation in the program.
- An audit of Oregon's Property Tax Exemptions (3/98) finds that 40 percent of program participants do not meet all of the statutory requirements, which the auditor ascribes partly to inadequate documentation prior to certification and partly to insufficient policies and procedures in granting tax exemptions.
- The Tennessee auditor questions the objectivity of grant procedures by that state's Department of Economic Development (6/99).
- According to an earlier audit, Tennessee's industrial training service grants were awarded without any policies or procedures for determining the level of assistance or documenting the rationale for assistance (7/92).
- The Vermont auditor finds that Vermont Economic Progress Council (9/99) awards have been concentrated in high growth regions. Despite a cost-benefit model designed to favor counties with relatively high unemployment rates, actual awards have been inversely related to unemployment rates. In fact, the three Vermont counties with the highest unemployment rates have received no VEPC awards.
- An audit finds that Washington's Community Economic Revitalization Board (9/92) is not using the statutorily-mandated criteria to set priorities for loan and grant applications. The auditor finds that the board was so flexible that it lacked a "viable decision-making process."

Other problems auditors report include agencies failing to conduct required cost-benefit analyses before awarding subsidies (e.g. Missouri, 12/98) or conducting them inadequately (e.g., Vermont (6/00)).

In some cases, the absence of objective criteria leads auditors to suggest that agencies may be exercising favoritism. An audit finds that the Pennsylvania Community Revitalization Program (5/97) does not base grant awards on formal, written criteria, but instead makes awards based on referrals from the governor's office or legislative offices. Arizona's auditor finds that the state's Department of Commerce / Commerce and Economic Development Commission (4/93) "has inconsistently applied its loan criteria, which at a minimum gives the appearance of unfairness." That audit also finds cases which "produced an appearance of special treatment," such as not performing the required tax revenue calculation or documentation.

Agencies Are Not Enforcing Performance Standards and Agreements

Many states also lack formal policies or procedures for handling companies that default on loan payments or fail to meet performance requirements attached to incentives. Fifteen audits find agencies still giving money to companies that had not fulfilled the terms of grant or loan agreements.

- Kansas continued to give training grants to a company that had failed to provide training to the number of workers specified in its agreement (7/95).
- An audit finds that New York's Empire State Development Corporation (ESDC) continued to provide full training grants (under the Regional Economic Development Partnership Program) to companies that had not provided their workers with the required wages or training hours (8/98). The audit also finds that ESDC's Job Development Programs are not monitoring subsidized companies.
- Companies certified to receive enterprise zone tax credits in Wisconsin's economic development zones are found by the state's auditor (2/93) to be paying wages below the level required for certification.
- An audit of the Texas Department of Economic Development (4/00) finds numerous unfulfilled training agreements and vendor contracts.

- An audit finds that the Nevada Department of Business and Industry (2/95) needs to improve procedures for ensuring that only qualified businesses participate and that on-site inspections are conducted regularly in order to verify compliance with program requirements.
- The state comptroller finds that New York's Department of Economic Development (enterprise zone program) did not notify Department of Taxation and Finance that it had decertified certain companies and they should therefore no longer be allowed to claim tax credits (2/98).

Agencies are Mismanaging Taxpayer Money and Not Following Common-Sense Business Practices

More than ten percent of the audits find violations of basic accepted business practices that reach the scale of financial mismanagement. Many of these violations cost taxpayers significant amounts of money.

- An audit of the South Carolina Jobs-Economic Development Authority (JEDA, 7/95) finds several problems with financial transactions between JEDA and its private not-for-profit corporation, the Carolina Capital Investment Corporation, Inc. (CCIC); JEDA used an estimated \$583,000 in state funds to capitalize CCIC's revolving loan fund, which may be in violation of state law.
- An audit finds that promotional expenditures by the Arizona Department of Commerce (4/93) were not always used in conjunction with an actual business client, which is against state policy.
- An audit finds that New Mexico's Development Training Program (11/96) has failed to enforce program policy in awarding training hours, costing the state at least \$500,000 in excessive training costs.

Failure to perform due diligence on applicants, coupled with weak program monitoring, has even put some economic development funds at financial risk.

- An audit found that seventy-seven percent of Louisiana's economic development loans were in default (3/94) and that the Louisiana Economic Development Corporation's recovery procedures for defaulted loans were ineffective.

- A later sunset review of Louisiana Department of Economic Development (5/96) also finds high loan defaults and low recovery and other violations of board and commission law. The department sustained \$6 million in defaulted or written-off loans, and only recovered 13 percent of dollar losses.
- An audit finds that the Maryland Department of Business and Economic Development (12/98) forgave a total of \$4 million in loans without verifying that waiver criteria had been met. The same audit found that the department insured a loan that another state agency refused to insure; the insured company later defaulted, leaving the state to pay out \$2.5 million.
- Mississippi's venture capital corporation has spent more money on extravagant procurement and services than on economic development investments, says the state's auditor (3/97), and is consequently losing substantial financial resources.
- According to the state comptroller, in 1995 New York's Job Development Authority had a deficit of over \$57.8 million, mainly from major losses on loans, guarantees and foreclosed property, losses that an audit attributes to poor oversight (12/95). The audit also finds that the authority did not verify information submitted by applicants and did not follow standard loan review practices. The audit also finds possible evidence of negligence, fraud, abuse, or other irregularities and recommends further investigation.

Ethical and Legal Violations

A few audits even uncover questionable ethical practices by agency employees and/or companies seeking or receiving development assistance. Among the findings:

- **Company gifts:** The Louisiana auditor finds that in the England (Louisiana) Economic and Industrial Development District (1/99), two officials received gifts from contractors totaling \$10,000 and the former director of the Louisiana Small Business Bonding Assistance Program authorized bond guarantees for a company that provided him with cash and services. The company later defaulted on the loan, costing the state \$138,516. The audit recommends a review by the Louisiana Board of Ethics and the District Attorney General.
- **Conflict of interest:** An audit finds that the Michigan Jobs Commission (7/95) failed to inform the board and commission members of their obligation to disclose personal or financial

interests. An audit of the Northeast Mississippi Planning and Development District's Revolving Loan Fund (6/91) finds numerous ethical and legal problems, including violations of federal conflict-of-interest guidelines. A Kansas audit of the state's economic development agencies (9/96) identifies a number of relationships between employees at economic development agencies and companies receiving assistance. Not all of the relationships represented conflicts of interest, but the audit notes that the state's efforts to manage such conflicts are not adequate.

- **Election law violation:** A corporation formed by the staff of the Maryland Small Business Development Financing Authority (MSBDFA), which contracts with the state's Department of Economic Development to administer a small business financing program, spent \$35,000 of the money received from the state through this contract on political campaigns. The state prosecutor later fined the corporation \$15,000 for violating state election laws, and the law was amended to prohibit such use of state money.
- **Failure to disclose:** Audits of the Connecticut Community Economic Development Fund (4/98) and Missouri Department of Economic Development (12/98) find that those agencies failed to comply with public disclosure / freedom of information laws.
- **Mishandled funds:** A Minnesota TIF evaluation (3/00) cites numerous violations of TIF policy, such as improperly mixing tax increment money with other fund sources, spending tax increment revenues in excess of line-item budget amounts, exceeding statutorily-allowed administrative expenses, and improperly waiving the tax increment.

Violations such as these typically turn up in financial and compliance audits, but many states authorize special or investigative audits to look into alleged ethical and legal violations.



Case Study #3:

Texas Department of Economic Development: Gross Fiscal Mismanagement

The Texas Department of Economic Development has been the subject of scrutiny for years; but after two scathing reports this year, the agency is now fighting for its life.

In a January 2000 performance audit of the Department, auditors found “gross fiscal mismanagement” of the Smart Jobs program. The Smart Jobs program was created in 1993, and it is the state’s largest customized training program (57 percent of the Department’s overall budget in 1998). Every heading in the 30-page report levels a serious criticism:

Inadequate fiscal and administrative oversight of smart jobs contracts limits the department’s ability to meet program objectives and ensure that state funds are used appropriately

Contract provisions allow employers to receive payment for training employees who have not met program requirements

The department’s oversight of employers provides little assurance that state funds are used appropriately and that contract requirements are met

Practices used to establish contract awards do not provide adequate assurance that the state pays a fair and reasonable price for training services

The department does not collect accurate and meaningful data to measure and report the success of the smart jobs program

Poor business practices allowed state resources to be wasted and abused in other department operations

Poor contracting procedures allowed the department to pay nearly \$540,000 for a database that was never completed

This marked only the second or third time in Texas history that a state agency had been cited for gross fiscal mismanagement – a term that can include misuse of state funds. The audit’s findings made the front page of the Austin-American Statesman, Corpus Christi Caller-Times, and the Houston Chronicle when it was released on January 27, 2000,⁴⁰ and ran in the San Antonio Express-News later that week.

The Smart Jobs program was already in jeopardy because its funding source, unemployment insurance payments, was projected to dry up in 2001, and the program would need additional funding from the legislature to continue: “This black eye will make it difficult for agency

officials to get state lawmakers to approve a new funding source.”⁴¹ But the auditor claimed that Smart Jobs owed the Workforce Commission \$63 million (the program is funded with an annual surplus in the unemployment compensation fund which did not run a surplus the last fiscal year). There were reports that the House Committee on Economic Development, the House Appropriations Committee, and the Senate Finance Committee might call in agency officials to answer lawmakers’ questions. Suggestions to restructure or dismantle the department echoed proposals made by lawmakers in previous legislative sessions. State officials demanded that the department recoup any money wrongfully awarded to Texas businesses, with one legislator calling what happened “fraud and theft.”⁴²

In its published response to the criticisms, the department agreed with the findings and claimed that changes made in response to the allegations would resolve the problems. But the scathing audit was followed by another blow, this time to the entire agency. Just three months later, in April 2000, the Sunset Review Commission echoed the auditor’s findings and recommended the department be renewed for only a two-year “probationary” period. The department is up for renewal in 2001 by the legislature, and the commission’s report could be strong fuel for a refusal to renew the agency at all. The report’s first finding said it all: “The Department Has Yet to Succeed as an Effectively Run State Agency.”

The blistering Sunset Advisory Commission report re-ignited public attention to the agency; the state’s major papers covered the findings and recommendations prominently in metro and business sections. Among the recommendations: the department should be stripped of its core functions and nearly 75 percent of its budget; and lawmakers should transfer Smart Jobs to the Texas Workforce Commission and the department’s tourism duties to the Texas Department of Transportation. Although these large-scale changes need legislative approval, and many observers speculate that lawmakers will be inclined to give the agency another chance, the department will certainly remain under sunset scrutiny until at least 2003, and the extensive press coverage will pressure lawmakers to remain vigilant over the agency.

Editorial boards of newspapers across the state took up the fate of the department: the San Antonio Express-News argued for saving the Smart Jobs program, but said “[t]his lack of proper management is particularly appalling because of the program’s importance.”⁴³ The Austin-American Statesman used the opportunity to comment on the “almost magical power” that economic development exerts over government officials. The

answer? “Texas should join Minnesota and Maine in demanding that businesses enjoying taxpayer assistance prove that their deal helped the public,” argued the Statesman’s editors.⁴⁴ The Fort Worth Star-Telegram said “[f]ew state agencies can match the record of TDED when it comes to embarrassing episodes, internal and external criticism, and reorganizations.”⁴⁵ The editorial board argued that a large part of the agency’s problem was “constant reorganization, changed missions, and undue influence,” and raised the question: “[d]id TDED provide Smart Jobs grants to unqualified companies and then fail to monitor those companies because of political pressure?”

The political ramifications of the commission’s findings could be deep: according to the Houston Chronicle, the recommendations “are a blow to [George W. Bush] because the presumptive Republican presidential nominee has been telling the nation to look at his record in Texas as a guide to what kind of administration he would have as president.”⁴⁶ The audit opened up space for Representative Garnet Coleman, (D-Houston), to get press for a disclosure bill being drafted for the 2001 session. The press surrounding the audit also put a little-noticed criminal indictment related to the Smart Jobs program back into two of the state’s largest papers. An indicted Houston business owner, accused of fraud over unfulfilled contracts, claimed the agency was using him as a scapegoat for its own failure to administer the Smart Jobs program. The audit drew attention back to the indictment, and investigators suggested that future criminal cases might arise from leads in the audit.

The immediate fallout for the agency has been severe: lawmakers ordered the department to freeze the Smart Jobs program soon after the auditor’s report. And just a month after the Sunset report, the TDED’s deputy executive director said he was forced to resign because he had been truthful about the agency’s problems. The issue was still on the front page of metro and business sections in May, as papers followed the Sunset Advisory Committee’s grilling of TDED officials and heard testimony from witnesses advocating preservation or abolition of the department. “Agency Stripped of Respect” opined the Austin American-Statesman on the front page of its business section on May 21, after a week of “public whipping” by the Sunset Advisory Committee.

In June, the Sunset Commission voted to make several changes:

- Continue the department for just a two-year “probationary” period, with the Sunset Commission evaluating the agency to ensure changes have been made before the agency is up for renewal in 2003.

- Move the Smart Jobs program to the Texas Workforce Commission.
- Require the Smart Jobs program to include more clearly defined contract provisions and monitoring practices, which would require all contracts to contain: clearly defined goals, outputs, and measurable outcomes; and clearly defined sanctions or penalties for non-compliance with contract terms and conditions, and clearly specified reporting and auditing requirements for funds received.
- Abolish the Texas Economic Development Corporation.
- Not re-authorize the Texas Strategic Economic Development Planning Commission.



Point 6: Audits Are Poorly Used

What Taxpayers Want

As we explained in the introduction, audits represent a great opportunity to galvanize interest in economic development, obtain detailed information about program performance, and promote legislative reform. Audits should be used as stepping-off points for broader investigations into how the public is benefiting from economic development spending. And they should ultimately inform meaningful reforms to make programs more effective.



What We Found

Most audits receive little media attention and are not distributed widely, though every document we reviewed was clearly denoted as a public record. Audits are often wrongly regarded as internal documents and go unnoticed. Some agencies publicize the audits themselves, and occasionally citizen organizations follow the audits and publicize them.



In a few cases, like the three we summarized, audit reports on economic development agencies have been the subject of newspaper articles and have made economic development agencies the subject of public debate.

What You Can Do

Make sure your state is auditing economic development:

- Compare your state's audit requirements to others; if your state does not require regular performance auditing, press your legislator to change the requirements.
- Find out how audits are triggered, and whether you can request an audit (using the information on our Website). In many states, legislative committees determine the priorities for performance audits each year, and in some states individual legislators have the power to request evaluations. (The Minnesota auditor's website allows visitors to submit a request for an audit!)
- Contact the business editor of your daily paper and ask him or her to make more of the lack of audits.

- Use our Web-based database and the resources appended to this report to monitor future audits in your state. And send us news of future audits (or ones we missed) to include in our database.

Follow up on a critical audit in your state:

- Put the audit together with other sources to develop a fuller picture. Our forthcoming research manual will detail such sources as applications for subsidies, loan records, media reports, and other sources.
- Publicize auditors' findings and use them to start a dialogue about whether taxpayers' money is being well-spent.
- Use the auditors' criticisms of data collection and monitoring to push for better disclosure and monitoring requirements in your state.
- Demand further evaluation of the criticized agency. In many states, auditors are required to follow up their reports to evaluate progress on their recommendations.* Track the follow-up of audits in your state and advocate for regular follow-up by auditors.

* Look at the NLPES Web site to find out your state's follow up procedure for audits (see Appendix C for details).

Conclusion

The 122 audits we reviewed paint a troubling picture of financial mismanagement, lack of oversight, and inability to demonstrate effectiveness. This picture dramatically illustrates the need for greater public disclosure of economic development activities, more rigorous internal evaluation by development agencies, and much more frequent external evaluation by state governments. Without these changes, state-sponsored economic development will continue to be a national scandal. And the findings of this report are based on performance audits from only 34 states and financial and compliance audits or reports from only ten others. There are no doubt many more egregious practices and illustrations of ineffectiveness yet to be uncovered.

Public trust in government is dependent upon information. Periodic, reliable reporting of performance indicators helps citizens determine whether government is spending their money wisely. The details of development subsidies – i.e. the data necessary to evaluate their effectiveness – must be made available to the public in order to maintain credibility and to ensure that development agencies are held accountable.

Our findings indicate that there is much work to be done in making development agencies and subsidized companies accountable to taxpayers. Both the public and the policymakers that represent us have a responsibility to follow up on such audit findings and use them to reform economic development policy.

Finally, both auditors and economic development agencies need to remember that economic development is intended to increase the economic opportunities available to residents in the long term. Given that, evaluation of economic development activities should take the viewpoint of those residents, not just of businesses. As Mt. Auburn Associates so eloquently state in their report to the New York State Department of Economic Development (2/97):

The ultimate customer of the state's activities is really the citizens of the state of New York. In other words, the justification for a state's economic development efforts is that through improving economic conditions in the state, the economic well-being of its residents will be improved. If the state's economic development activities do not improve the economic life of residents ... they cannot be justified. Residents of the state are, thus, the key 'constituency' by which outcomes should be judged.

Appendix A: Types of Audits

As explained in the introduction, we divided the audits into two categories: financial and compliance, and performance. The findings of this report are based primarily on performance audits, although several of the ethical and financial mismanagement findings are made in financial and compliance audits. Following is a detailed explanation of audits in the two categories. The definitions come from the Government Accounting Standards Board (GASB), which publishes the generally accepted government accounting standards (GAGAS, also called the “Yellow Book”).

Financial and Compliance Audits

These types of audits may contain valuable information about expenditures and revenues for state agencies, and in extreme cases they will include egregious findings of noncompliance and mismanagement.

Financial and compliance audits of state agencies are conducted with far greater regularity than performance audits – in every state, some type of financial and compliance audit is conducted of every agency every one or two years.

Financial Statement: assesses whether the financial statements of an entity present fairly the financial position, results of operations, and cash flows in conformity with generally accepted accounting principles (or other applicable accounting standards).

Financial Related: determines whether (1) financial information is presented in accordance with established or stated criteria, (2) the entity has adhered to specific financial compliance requirements, and/or (3) the entity’s internal control structure over financial reporting and/or safeguarding assets is suitably designed and implemented to achieve the control objectives.

Compliance Only: determines whether the entity is complying with the laws and procedures that govern it, as well as with generally accepted financial practices.

Management: evaluates whether the entity is being managed effectively and efficiently to ensure compliance with the agency’s mandates and to enable the agency to meet its objectives.

Performance Audits

Performance audits are where real evaluation takes place, but they are performed much less frequently.

Program: determines:

- (1) the extent to which the desired results or benefits established by the legislature or other authorizing body are being achieved;
- (2) the effectiveness of organizations, programs, activities or functions; and
- (3) whether the entity has complied with significant laws and regulations applicable to the program.

Economic and Efficiency: determines:

- (1) whether the entity is acquiring, protecting, and using its resources economically and efficiently;
- (2) the causes of inefficiencies or uneconomical practices; and
- (3) whether the entity has complied with laws and regulations on matters of economy and efficiency.

Performance Measures: in states that have adopted performance measures for state agencies, evaluates an agency's progress against those measures.

Other Types

Investigative: Some auditing agencies are empowered to look into allegations of legal or ethical lapses, such as embezzlement or conflict of interest. Investigative audits might be triggered by allegations that an agency was awarding incentives unfairly or not verifying information submitted by subsidized companies.

Single Audits: These are required by the federal government for all state and local governments that receive more than \$100,000 of federal funds, and must cover all of that government's financial operations, with a separate schedule of federal funds received. These audits review the accounting and management controls of each department in the state, so there may be specific information about the department of economic development. Single audits also includes the total expenditures of federal money for the Community Development Block Grant program as well as a compliance audit to determine whether funds have been used appropriately, national objectives have been met and required procedures have been followed. Single audits may be released for each agency or as a single document for the state.

Comprehensive Annual Financial Reports: These reports are a state's consolidated financial statements. CAFRs ("Kay-fers") are used by investment companies to determine a state's fiscal integrity and creditworthiness and to set bond rates. They often include a line for economic development expenditures.

Both Single Audits and CAFRs are done annually. They are done by either the state auditor or state comptroller; CAFRs are more likely to be performed by a state's comptroller.

Sunset Reviews: In a handful of states (12, according to a recent survey), agencies can only be authorized by the legislature for a certain number of years, and must undergo a "sunset review" before being renewed. The length of time before review ranges from 7 to 12 years.

The sunset reviews we collected vary in quality, but are all focused on performance and effectiveness of the agency. Each review recommends that the agency be renewed, renewed for probationary period, or not renewed. The legislature or a legislative committee has the ultimate decision about the agency's fate, but the reviews often play an important role (see, e.g., the case study of Texas beginning on page 53).

Appendix B: Types of Auditors

The responsibility for auditing varies widely among the states; each state has different laws assigning responsibilities for financial auditing and – in most but not all states – performance auditing.

The National Association of State Auditors, Comptrollers and Treasurers (NASACT) conducts an annual survey of auditing agencies, which contains a wealth of information about the structure of auditing in the states.⁴⁷ The 2000 summary contains information about 55 agencies in 50 states (two agencies responded from Idaho, Minnesota, Pennsylvania, South Carolina, and Utah). Thirty-one of the agencies are part of the legislative branch, 16 are part of the executive, and the remainder are a hybrid or independent. Thirty-one agency heads are directly responsible to the legislature or a legislative committee; 18 are elected by citizens; 34 are appointed (typically by the legislature or a legislative committee; only California, Wyoming, and Indiana are appointed by the governor).

Although most auditing agencies are relatively independent in their operations, the subject and schedule of performance audits is not always entirely up to the auditing agency itself. Of the 38 states that conduct performance audits, the subject of performance audits is designated by law or rule in 17 states, selected by the governor in four states, by the legislature in 28, and by the agency head in 25 (there are multiple provisions in some states).

Executive

A “state auditor” or “auditor of public accounts” is usually an executive officer authorized by the constitution and elected by the public. Auditors in the executive branch are generally seen as overseers of public funds, or taxpayers’ watchdogs, and primarily conduct financial and compliance audits of state and local government accounts, which include accounts of counties, cities, towns, townships, schools, public utilities, public hospitals, and state colleges. Some also conduct performance audits.

Legislative

Most legislative auditors are appointed by and report to a legislative auditing committee, which also determines the auditing schedule. Legislative auditors usually conduct performance reviews of government agencies and programs to assess if they are operating at the lowest cost

without waste, providing a benefit to the state or locality, and fulfilling their intended purpose as stated in their authorizing statutes.

Legislative support offices also produce program evaluations, overview reports, and informational papers for legislative committees when legislatures are deliberating bills pertaining to economic development activities. Sunset committees are often considered legislative support committees that are specifically charged with determining if agencies are fulfilling their statutory duties and intent and, if not, whether they should continue to exist.

Note: In nearly all states, auditing agencies are also allowed to contract with private accounting or consulting agencies to perform or provide assistance on audits.

More information about the statutes that govern auditing agencies in all 50 states can be found on our Web site.

City Auditors

We came across a few audits conducted by city auditors' offices. We know that New York City, Kansas City, Dallas have all conducted strong performance evaluations of tax incentives, tax increment financing, and property tax abatements, respectively. We did not investigate these and did not research how many cities have auditing staff and conduct performance audits, but interested citizens should investigate whether their local governments are also keeping an eye on economic development.

Appendix C: Resources

Auditing and Evaluation

American Evaluation Association: www.eval.org

National Legislative Program Evaluation Society (NLPES):

www.ncsl.org/programs/nlpes/

This group is hosted by the National Conference of State Legislatures (NCLS). Many state auditing agencies are members of this society (there is at least one member group from every state). NLPES maintains a searchable database of NCSL documents, which include program evaluations.

- ☞ Follow-up procedures for auditing in the states:
www.ncsl.org/programs/nlpes/research/followup.htm

National Association of State Auditors, Comptrollers and Treasurers (NASACT): www.sso.org/nasact/

National State Auditors Association (NSAA): The NSAA is a subset of NASACT. Their website includes a database of audits searchable by subject, with links to some of the documents: www.osc.state.ny.us/nsaa/

National Academy of Public Administration (NAPA): www.napawash.org
NAPA has produced reports on performance measurement and analyses of the Government Performance and Results Act of 1993 (GPRA), which sets forth the performance information required of federal agencies and their grantees and contractors.

Government Accountability Standards Board: www.gasb.org

- ☞ **GAGAS or the “Yellow Book”:**
www.ignet.gov/ignet/internal/manual/yellow/yellow.html#content
- ☞ **Service Efforts and Accomplishments Reporting:** Since 1990, the Government Accounting Standards Board (GASB) has been publishing a series of research reports entitled “Service Efforts and Accomplishments Reporting: Its Time Has Come.”⁴⁸ These reports emphasize that outcome measurement is important, in addition to

the more commonly-used input and output indicators. The reports suggest that collecting data for the indicators should be the responsibility of the particular agency but that the data should be verified by an independent agency, such as an auditor, who should also handle compilation, production, and dissemination of the indicators. For more information about SEA, go to the following Web site: www.rutgers.edu/Accounting/raw/seagov/pmg/index.html

Table 1: State Audits of Economic Development

If you printed this report from our Website, you will need to print Table 1 separately:

go to www.goodjobsfirst.org/audit.htm and then go to the Audit Table

Endnotes

- ¹ Ron Snell. March 1998. A Review of State Economic Development Policy: A Report from the Task Force on Economic Development Incentives. National Conference of State Legislatures: Denver. National Association of State Development Agencies, et al. August 1999. Evaluating Business Development Incentives. Economic Development Administration, U.S. Department of Commerce: Washington, D.C.
- ² Pennsylvania Auditor General's Web site viewed September 13, 2000: www.auditorgen.state.pa.us/Department/Info/Performance/.
- ³ Evaluating Business Development Incentives (see note 1).
- ⁴ 2000 Auditing in the States: A Summary. Available on NASACT's website: www.sso.org/nasact/Auditors/Audit_2000/2000_auditing_in_the_states.htm.
- ⁵ Government Accounting Office Yellow Book, p. 44.
- ⁶ "McCall Wants More Scrutiny," Syracuse Business, April 1, 2000, page 1. Regan was a pioneer crusader for subsidy accountability. His 1988 booklet, "Government, Inc." proposed sweeping disclosure of all state and local subsidies, including tax breaks.
- ⁷ "Government Watch: A New York Audit Spotlights Problems of Assessing Enterprise Zones," Wall Street Journal, October 1, 1996, p. B2. "Week In Review; New York Enterprise Zones Lag: Jobs Overstated, Benefits Uncertain, Comptroller's New Report Claims," Crain's New York Business, August 12, 1996, p. 26.
- ⁸ "How many Jobs?" The Times Union (Albany, NY), August 17, 1996, p. A6.
- ⁹ Raymond Hernandez, "Questions Raised on Development Zones," The New York Times, August 8, 1996, p. B3.
- ¹⁰ Mary T. Prenon, "Yonkers Economic Development Zone Attracts Businesses," Westchester County Business Journal, September 9, 1996, p. 5.
- ¹¹ "State Comptroller Says No One Monitors Economic Zones," The Buffalo News, August 7, 1996, p. 7B.
- ¹² Letter to the Editor, Charles A. Gargano, Chairman and Chief Executive of Empire State Development Corp., The New York Times, August 20, 1996, p. A18.
- ¹³ Tracey Tully, "State Auditors Want Proof of Job Growth, The Times Union (Albany, NY), February 5, 1998, p. B2.
- ¹⁴ James M. Odatto, "McCall Takes A New Swipe At Economic Zones," The Times Union (Albany, NY), March 28, 1998, p. B2.
- ¹⁵ William Tuthill, "McCall, Agency Spar Over Accountability," Capital District Business Review, March 6, 2000.
- ¹⁶ "McCall Wants More Scrutiny, Syracuse Business, April 1, 2000, p. 1.
- ¹⁷ William F. Hammond, Jr., "Job-grant Oversight Is Faulted," The Daily Gazette, February 12, 2000, p. A1.
- ¹⁸ "McCall Wants More Scrutiny," Syracuse Business, April 1, 2000, p. 1.
- ¹⁹ Evaluating Business Development Incentives (see note 1).
- ²⁰ Wisconsin Legislative Audit Bureau. February 1993. An Evaluation of Development Zone Program,, p. 13.
- ²¹ Memorandum to Senator Tom Norton from Warren Olson, et al., February 20, 1996, "Economic Analysis of Enterprise Zones."
- ²² Wisconsin Legislative Audit Bureau. April 1990. Wisconsin Housing and Development Authority, Report 90-10, p. 5.
- ²³ Colorado State Auditor. February 1998. Enterprise Zone Program, p. 50.
- ²⁴ David Gram, "Auditor: Economic Council May Be Violating Law," Associated Press State and Local Wire, June 6, 2000.
- ²⁵ Ibid.
- ²⁶ Ibid.

- ²⁷ Vermont Joint Fiscal Committee. September 1999. Periodic Legislative Oversight Report: VEPC EATI Program, p. 5
- ²⁸ Ibid. p. 2.
- ²⁹ 10 VSA Section 7.
- ³⁰ David Gram, "Sorrell Pulls Rank, Yanks Lawsuit Filed by Flanagan," Times Argus, February 26, 2000.
- ³¹ Tracy Schmalzer, "Senate President Attacks Flanagan Over Council Audit," Rutland Herald, March 2, 2000.
- ³² David Gram, "AG Offers To Referee Dispute Between Flanagan, Economic Council," Associated Press State & Local Wire, February 18, 2000.
- ³³ Schmalzer, March 2, 2000.
- ³⁴ Ibid.
- ³⁵ David Gram, "Governor Defends Council's Handling of Tax Breaks," Rutland Herald, June 9, 2000.
- ³⁶ Editorials, February 23, 2000 and March 16, 2000, Caledonian-Record.
- ³⁷ David Gram, "Flanagan: Council's Reluctance To Release Records Could Hurt State's Credit," Rutland Herald, February 23, 2000.
- ³⁸ "Vermont House Pushing Economic Progress Council Reforms," Associated Press State & Local Wire, May 10, 2000.
- ³⁹ Ibid.
- ⁴⁰ Amy Schatz, "Audit Faults Texas Agency on Money Use; Review Says Department," Austin American-Statesman, January 27, 2000, page A1. Ty Meighan, "Grant Program Under Scrutiny / Smart Jobs Audit Finds Problems," Corpus Christi Caller-Times, January 27, 2000, page A1. L.M. Sixel, "Auditor Blasts Texas Jobs Program, Says Millions Wasted in Mismanagement," The Houston Chronicle, January 27, 2000, p. A1.
- ⁴¹ Russell Gold, "State's Jobs Program Is At Risk; Retraining Plan Lacks Funding," San Antonio Express-News, January 29, 2000, p. 1D.
- ⁴² Schatz, January 27, 2000.
- ⁴³ Editorial, "The State's Economic Development Agency Is Responding Properly To A Blistering Report," San Antonio Express-News, February 2, 2000, p. 4B.
- ⁴⁴ Editorial, "Bedazzled by 'eco devo'," Austin-American Statesman, March 17, 2000.
- ⁴⁵ David Sampson, "Setting Texas' Economic Development Program On The Right Road, Fort Worth Star-Telegram, February 8, 2000, p. 13.
- ⁴⁶ R. G. Ratcliffe, "2 State Agencies Under Fire Over Management," Houston Chronicle. April 21, 2000, p. 33A.
- ⁴⁷ 2000 Auditing in the States: A Summary (see note 4).
- ⁴⁸ Service Efforts and Accomplishments: Its Time Has Come – An Overview, Harry P. Hatry, James R. Fountain, Jr., Jonathan M. Sullivan and Lorraine Kremer, editors. See also Concepts Statement No. 2, Service Efforts and Accomplishments Reporting, April 1994.

Table 1: State Audits of Economic Development

Agency	Auditing Agency	Date (Type)*
Alaska		
Alaska Science and Technology Foundation	Division of Legislative Audit	9/98 (P)
Department of Commerce and Economic Development Alaska Science and Technology Foundation Grant Procedures		
Findings: little initial independent verification of information submitted by grant recipients and weak monitoring controls over ongoing reports. Recommendations: increase efforts to monitor grants, particularly monitoring benchmarks and budgets; and enforce post-grant reporting requirements to ensure compliance with agreements and repayment.		
Industrial Development Export Authority	Division of Legislative Audit	2/91 (P)
Department of Commerce and Economic Development Alaska Industrial Development and Export		
Recommendation: develop general criteria for project evaluation, but do not adopt specific provisions so that the Authority maintains the flexibility to negotiate concessions on an individual project basis.		
Department of Community and Regional Affairs	Division of Legislative Audit	11/90 (P)
Department of Community and Regional Affairs Rural Development Division Job Training Partnership Act Program and Rural Economic Development Initiative		
Findings: JTPA program has attracted employers with mainly short-term interests, but has had a positive impact on rural areas where economic resources and employment opportunities are otherwise unavailable or limited; the REDI program is moving towards funding economic development projects with long-lasting effects and away from short-term community development projects; the REDI program has not had a great impact in the rural parts of northern and western region and program managers are working on providing better outreach and technical assistance to those communities.		
Department of Commerce and Economic Development	Division of Legislative Audit	3/90 (F)
A Report on the Department of Commerce and Economic Development		
Findings: nine instances of noncompliance with accounting procedures; questionable program costs of nearly \$20,000 stemming from an improper timekeeping system; other accounting and logistical problems related to the Department's outstanding receivables. Recommendation: conduct a detailed review.		
Arizona		
Department of Commerce	Auditor General	4/93 (P)
A Performance Audit of the Department of Commerce		
Findings: inconsistent use of criteria when awarding funds and inefficient operations of the Arizona Enterprise Development Corporation. Recommendation: privatize the Small Business Administration loan program.		

* P = Performance audit; F = Financial and compliance audit; R = Report
Go to www.goodjobsfirst.org for more information about each audit

Agency	Auditing Agency	Date (Type)
California		
Trade and Commerce Agency	Bureau of State Audits	12/99 (P)
Trade and Commerce Agency: It Has Not Demonstrated Strong Leadership for the Manufacturing Technology Program, Collected Data Necessary to Measure Program Effectiveness, or Ensured Compliance with Performance Requirements (Report 99025)		
Findings: no comprehensive statewide strategy; inconsistent data collection; unable to measure program effectiveness or ensure that centers meet all program requirements.		
Trade and Commerce Agency	Bureau of State Audits	4/96 (P)
Trade and Commerce Agency: More Can Be Done To Measure the Return on the State's Investment and To Oversee Its Activities (Report 95118)		
Findings: agency has no overall strategic plan; some administrative and operational improvements are necessary; benchmarks or targets are not always established; results are not always measured when benchmarks were used, or targets were set so low that they were easily met; and annual reports not always made.		
Trade and Commerce Agency	Bureau of State Audits	11/95 (P)
Trade and Commerce Agency: The Effectiveness of the Employment and Economic Incentive and Enterprise Zone Programs Cannot Be Determined (Report 93109)		
Finding: unable to draw any conclusions about program effectiveness because of the lack of and difficulty in obtaining data about jobs and wages. Recommendation: better data collection so that program evaluation is possible.		
Colorado		
Economic Development Commission and Department of Local Affairs	State Auditor	2/98 (P)
Enterprise Zone Program		
Findings: difficult to determine whether economic improvements are related to the program; significant data-related problems and ambiguous goals limit the auditor's ability to make thorough comparisons or draw conclusions about effectiveness; and investment tax credit does not have strong impact on job creation. Recommendations: better program oversight for stronger participant accountability, particularly monitoring program eligibility and criteria; increase efforts to ensure that incentives are better tied to economic conditions and are better coordinated with the state's overall strategy.		
Economic Development Programs	State Auditor	2/96 (P)
Economic Development Programs: Small Business Development Centers, International Trade Office, Customized Training Programs, Governor's Job Training Office, Performance Audit (Report 12251)		
Findings: job creation measurement and reporting are inconsistent; lack of coordination has caused insufficient staffing and service duplication; and programs lack adequate program assessment. Recommendations: better measurement of job creation; better planning; conduct more performance measurement; and revise program goals and objectives.		
Enterprise Zones	Legislative Council	2/96 (R)
Economic Analysis of Enterprise Zones		
Findings: enterprise zones do not necessarily create job growth at a faster pace than the state as a whole; and the size of potential tax credits are probably too small to offset other locational considerations.		

Agency	Auditing Agency	Date (Type)
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Department of Local Affairs	State Auditor	4/95 (P)
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Performance Audit of Enterprise Zone Program

Findings: economic impact of the program is unknown; no areas have been terminated from enterprise zone status; program participation is concentrated in investment tax credits, which appears to have little relationship to employment; data required for evaluating success is inaccurate or incomplete; and no data establishes an overall net dollar benefit to the state. Recommendations: a moratorium on designation of additional zones or zone expansions; annual, systematic evaluation of program's impact on state's economy.

Connecticut

Community Economic Development Fund	Auditors of Public Accounts	4/98 (F)
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Auditors' Report Community Economic Development Fund Calendar Years 1994, 1995 and 1996

Findings: fund would have been more cost-effective if created within the Connecticut Development Authority instead of as an independent public-private agency; fund failed to provide certain information in reports and failed to comply with freedom of information laws.

Department of Economic and Community Development	Legislative Program Review and Investigations Committee	12/97 (P)
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Enterprise Zones

Finding: inadequate performance monitoring. Recommendations: renew commitment to accountability and collaboration; and develop and maintain a database including job retention and creation numbers, other tax credits, grants, and loans received by participating businesses, and current status of businesses.

Department of Economic Development and Connecticut Development Authority (now DECD)	Legislative Program Review and Investigations Committee	2/94 (P)
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Economic Development

Findings: no formal process for revising the state's development policies; no agency has clear leadership mandate for state economic development policy; and state's outdated economic development is outdated. Recommendations: target sectors rather than specific companies; establish agency for economic research; and consolidate activity and responsibility in DED.

Florida

Enterprise Zone Program	Office of Program Policy Analysis and Government Accountability	3/00 (P)
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Program Review: Use of Enterprise Zone Incentives Has Increased, But Challenges Continue

Looks mainly at the distribution of incentives among the state's enterprise zones. Findings: urban zones account for 99 percent of the state and local program incentives; insufficient information and absence of research design hinders makes it impossible to analyze the effectiveness of the program; rate of small businesses using incentives has not increased since 1993 review; and businesses have made very limited use of incentives in non-urban zones. Recommendations: provide assistance for program administration in rural and net ban-affected communities; mesh zone incentives with other state and local economic development initiatives; and identify legal impediments to the use of incentives.

Agency	Auditing Agency	Date (Type)
Enterprise Florida (International Trade and Economic Development Board)	Office of Program Policy Analysis and Government Accountability	1/99 (P)
<p>Review of the International Trade and Economic Development Board of Enterprise Florida, Inc. Describes functions of the board's many divisions, which include Business Recruitment, Expansion and Retention and Targeted Business Recruitment. Finding: board uses expected instead of actual sales to evaluate the Division of International Trade. Recommendations: continue funding for the board; increase efforts in rural and distressed urban communities; and develop better outcome measures.</p>		
Enterprise Florida	Office of Program Policy Analysis and Government Accountability	12/95 (R)
<p>Summary Review of Enterprise Florida Findings: successful in involving Florida business leaders to leverage private sector financial support. Recommendations: improve performance measures; and exercise stronger oversight of affiliated partnerships.</p>		
Florida Economic Development Programs	House Committee on Finance and Taxation	11/95 (R)
<p>Incentives for Economic Development: Forming Good Public Policy Recommendation: develop a strategic plan for economic development which includes economic analysis, prevalence of incentives in other states, and explanation of incentive programs in Florida.</p>		
Department of Commerce	Auditor General	11/95 (F)
<p>Operational Compliance Audit of the Florida Department of Commerce Finding: department has not fully implemented available monitoring mechanisms of agencies with economic development involvement. Recommendation: establish means for ensuring that the activities and direction of the quasi-governmental agencies (including Enterprise Florida, Inc.) support the department's responsibilities.</p>		
Enterprise Zone Program / Department of Commerce	Auditor General and Office of Program Policy Analysis and Government Accountability	2/93 (P)
<p>Review and Evaluation of the Enterprise Zone Program Findings: economic status has not changed in most of the enterprise zones; no apparent substantial impact on small businesses; and weak coordination of the five administering agencies. Recommendations: establish performance measures; change process for designating enterprise zones; consider additional incentives; make incentives easier for small businesses to claim; and require more local government effort.</p>		

Georgia

Economic Development Programs	Department of Audits and Accounts / Office of Planning and Budget	6/99 (R)
<p>State Economic Development Efforts: An Overview Summarizes economic development programs and compares available incentives with those offered by other states. Finding: public benefit analyses may not include all of the costs and are not followed up to determine the resulting benefits. Recommendations: formally monitor total cost and benefits of financial incentives provided; address the human and social factors that could potentially impact the state's future economic growth; consider making one organization responsible for developing and overseeing a coordinated economic development approach that includes formal goals and objectives; and monitor and facilitate economic growth in underdeveloped counties.</p>		

Agency	Auditing Agency	Date (Type)
Department of Community Affairs	Department of Audits and Accounts / Office of Planning and Budget	3/99 (P)

Regional Economic Business Assistance Grant Program

Finding: program has clear positive benefit (companies receiving direct project assistance since 1994 are projected to create 20,135 jobs). Recommendation: more collection of performance indicators; follow-up to confirm project outcomes, such as actual job creation/retention, private investment, and subsequent company location/expansion; and discontinue using program funds for regional projects.

Advanced Technology Development Center	Department of Audits and Accounts / Office of Planning and Budget	1/99 (P)
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Advanced Technology Development Center

Finding: strong performance by program and assisted companies, but also difficult to estimate the net economic benefits. One concern: the average annual wage paid by mature companies helped by the center is lower than the state's high tech average, but higher than state average for all industries. Recommendation: get better estimates on the amount of revenue generated for the state by the program.

Department of Community Affairs	Department of Audits and Accounts / Office of Planning and Budget	1/99 (P)
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Employment Incentive Program

Compares program performance (such as share of jobs held by low- and moderate-income people) to federal CDBG requirements. Recommendations: Revolving Loan Fund should make more loans and monitor the cost per job of funded projects.

Department of Community Affairs	Department of Audits and Accounts / Office of Planning and Budget	8/98 (P)
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Incentive Loans for Industry Program and Loans for Rural Industry Programs

Recommendation: allow more types of companies to get loans; conduct cost benefit analysis of loans; and more uniformly evaluate potential loans.

Housing and Finance Authority	Department of Audits and Accounts / Office of Planning and Budget	6/95 (P)
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Georgia Housing and Finance Authority: Controls Over Economic Development Programs

Finding: insufficient and unavailable data on programs (only two of the five disbursed funds). Recommendations: incorporate performance criteria, such as job creation/retention numbers, into loan documents; develop of monitoring procedures to ensure that program requirements are fully met; and adopt repayment procedures to follow in the event that companies do not meet program requirements.

Hawaii

Department of Business, Economic Development and Tourism	Legislative Auditor	2/00 (F)
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Review of Revolving Funds, Trust Funds, and Trust Accounts of the Department of the Attorney General, the Department of Business, Economic Development, and Tourism, and the University of

Describes activity of the department's 21 revolving funds, two trust funds, and seven trust accounts. Reports five-year financial summary, purpose of fund, and conclusions about use; no comment on program effectiveness. Finding: a discrepancy with the department over one fund which has questionable self-sustainability due to irregular revenue flow.

Agency	Auditing Agency	Date (Type)
Illinois		
Development Finance Authority	Auditor General	3/00 (F)
<p data-bbox="196 392 634 424">Illinois Development Finance Authority</p> <p data-bbox="196 428 1422 489">Finding: no financial plan for allocating funds to various programs. Recommendation: establish a plan before the authority runs out of money.</p>		
Department of Commerce and Community Affairs	Auditor General	2/00 (F)
<p data-bbox="196 594 751 625">Department of Commerce and Community Affairs</p> <p data-bbox="196 630 1430 690">Findings: six areas in which the department was noncompliant with the its governing statutes. Recommendation: improve monitoring of subgrantees (one subgrantee was owed \$140,000 in unpaid loans).</p>		
Department of Commerce and Community Affairs	Auditor General	7/89 (P)
<p data-bbox="196 798 1328 856">Supplement to the Management and Program Audit of the Department of Commerce and Community Affairs Economic Development Programs: Report on Individual Programs</p> <p data-bbox="196 867 1211 898">Summarizes the activities of the 69 economic development programs run by the department.</p>		
Department of Commerce and Community Affairs	Auditor General	7/89 (P)
<p data-bbox="196 1005 1308 1064">Management and Program Audit of the Department of Commerce and Community Affairs Economic Development Programs</p> <p data-bbox="196 1075 1455 1226">Critical of the costs per job, especially for the Diamond-Star Motors deal. Findings: subsidies awarded non-competitively and sometimes given to firms that didn't need them; department frequently overstated claims of jobs created or retained; subsidy cost per job guidelines were often exceeded (over \$86,000 per job for Diamond-Star Motors); in some cases, program requirements were waived or subsidies awarded without statutory authorization.</p>		
Indiana		
Department of Commerce	Interim Study Committee on Economic Development Issues / Indiana Legislative Services Agency	10/99 (R)
<p data-bbox="196 1404 1089 1436">Final Report of the Interim Study Commission on Economic Development Issues</p> <p data-bbox="196 1440 1455 1625">Describes major committee actions, including public hearings, and findings on economic development issues in the state, particularly on property tax abatements, tax increment financing, enterprise zones, rural economic development, workforce and infrastructure issues, and state gaming issues. Recommendations: extend property tax eligibility to research and development companies; conduct more tax increment financing burden-benefit analyses; further examine and possible modify enterprise zone program; and permanently renew research expense credit.</p>		
Iowa		
Enterprise Zones	Legislative Services	12/99 (R)
<p data-bbox="196 1772 613 1803">Legislative Guide to Enterprise Zones</p> <p data-bbox="196 1808 1370 1869">Outlines program policies and regulations and describes current activity: 22 certified businesses, 1,043 jobs created with average hourly wage of \$10.52, and total capital investment of over \$150 million.</p>		

Agency	Auditing Agency	Date (Type)
Kansas		
Kansas, Inc.	Kansas, Inc.	1/00 (R)
Sales Tax Exemption and Economic Development Income Tax Credits Report		
Assesses impact of incentives based on a survey of businesses who used them. Evaluation is made more difficult by the questionnaire system currently in place to get information from users of the credits. Only 14 percent of businesses using the credits have filled out the survey.		
Kansas Department of Commerce & Housing	Kansas, Inc.	5/98 (P)
Evaluation of the High Performance Incentives Program		
Conducts an economic impact analysis of the program using REMI, but includes little discussion of the results. Findings: firms are satisfied with the services (as determined through survey); incentives had a greater impact on recruitment efforts than on retention of existing firms; and none of the firms said they increased wages to meet program requirements. Recommendations: allow insurance companies and financial institutions, and firms in the warehousing, wholesale trade and distribution sectors to be eligible for the program's incentives; take extra precautions when doing external auditing of eligibility determinations; and take steps to ensure that existing firms are receiving the same quality of services as out-of-state firms.		
Tax Increment Financing	Legislative Division of Post Audit	4/97 (P)
Tax Increment Financing in Kansas, Part II: Reviewing a Sample of Districts		
Findings: one city used TIF to move a company from one enterprise zone to another; several other cities used TIF in ways "the Legislature might not have anticipated;" school district revenues were lost only in tax increment districts created to remedy environmental contamination; and state had to make up \$1 million loss.		
Tax Increment Financing	Legislative Division of Post Audit	2/97 (P)
Reviewing Tax Increment Financing in Kansas, Part I: An Inventory		
Summarizes TIF activity: TIF spending by cities ranges from \$200,000 to \$10.2 million; TIF used in 32 redevelopment districts; cities are not required to report any information about establishing redevelopment districts, making it difficult to know how many districts exist.		
Economic Development Agencies	Legislative Division of Post Audit	9/96 (P)
Reviewing the Compensation of Executives of the State's Economic Development Agencies		
Finding: numerous relationships between staff and companies receiving assistance, especially technology companies, and inadequate management of potential conflicts of interest.		
Department of Commerce and Housing; Kansas Technology Enterprise Corporation	Legislative Division of Post Audit	7/95 (P)
Examining the Use of Economic Development Initiatives Fund Moneys		
Findings: numerous instances where fund moneys were given to companies that relocated within the state or to companies that did not provide the required training or create the required jobs; no accurate system to monitor training and job creation and to account for the actual usage of fund moneys. Recommendations: continue efforts to recover new hire training funds from a company which did not hire nor render training services; develop a new database system to track job creation and retention; and mandate company reporting.		
Department of Commerce and Housing	Legislative Division of Post Audit	2/94 (P)
Reviewing Economic Development Activities: A K-GOAL Audit of the Kansas Department of Commerce		
Findings: many programs lack performance measures and objectives; and weak data collection and program monitoring. Recommendations: develop clearer measurable economic objectives; improve monitoring and job tracking; and establish a computerized database system.		

Agency	Auditing Agency	Date (Type)
Kansas City*		
Kansas City	City Auditor's Office	3/99 (R)
Review of the Submitted Budget for Fiscal Year 2000, March 1999		
Findings: city expenditures for TIF and STIF (super tax increment financing) projects constitute a growing constraint on operating expenditures, nearing \$20 million for fiscal year 2000; inadequate determination of financial feasibility or of whether development would occur without use of the incentive; program lacks focus on public goals and an absence of controls to ensure fulfillment of City expectations; and questionable allocation of funds in light of budget shortages for important capital improvements.		
Kansas City TIF Commission	City Auditor's Office	9/98 (P)
Performance Audit, Tax Increment Financing, September 1998		
Summarizes program history, public benefits, economic impact, job creation/retention numbers, affirmative action policy, and financial administrative issues. Findings: systematically overstated revenue projections for the projects; several problems with management and controls in the program; overstated numbers of minority and women's business enterprises; inadequate staffing which has inhibited its project management and monitoring efforts; and lack of written program procedures. Recommendation: establish formal procedures for compliance with the sunshine law.		
Louisiana		
England Economic and Industrial Development District	Legislative Auditor	1/99 (F)
Investigative Audit Report England Economic and Industrial Development District		
Two officials received gifts from contractors totaling \$10,000. Recommends a review by the Louisiana Board of Ethics and the District Attorney General.		
Department of Economic Development	Legislative Auditor	11/97 (P)
Department of Economic Development: Analysis of Program Authority and Performance Data		
Findings: the department is generally meeting its performance objectives (which are fairly narrowly defined); some overlapping functions exist within the department; and inadequate measurement of progress in meeting goals due to unmeasurable objectives. Recommendations: eliminate the Local Economic Development Support Program for lack of use.		
Department of Economic Development	Legislative Auditor	5/96 (P)
Department of Economic Development		
Summarizes previous findings and recommendations from performance, financial and compliance, SECURE reports, and other information on boards and commissions to assist in the sunset review deliberations. Findings: problematic fragmentation of workforce development efforts and low certification rate; deficient management of the minority and women's enterprise program; absence of a departmental internal audit division; and inconsistent monitoring of certificates of depositing and other violations with board and commission law. Previous audit of economic development loan programs show that from inception to December 1992, the department sustained \$6 million in defaulted or written-off loans, only 13 percent of dollar losses recovered, overall weakness in loan program monitoring, especially tracking performance indicators (actual jobs created or retained) or confirming company compliance with all program criteria. Also finds business recruitment activities performed by nine agencies without a coordinated focus or strategy.		

* Although audits from Kansas City and New York City are included in the database, they are not included in the findings of the report.

Agency	Auditing Agency	Date (Type)
Office of Urban Affairs and Development Office of Urban Affairs and Development Findings: no formal policies and procedures for grant application and approval process; funds are not approved systematically or consistently; inadequate monitoring of all grant recipients for compliance with program criteria and objectives; funds not restricted to urban areas; and possible duplication of efforts with other state agencies.	Legislative Auditor	12/95 (P)
Office of Rural Development Office of Rural Development Findings: program funds administered without any statutory guidelines or internal rules or regulations; program lacks clear purpose or objectives; grant awarding process is deficient and inconsistent and does not appear to maximize program benefit or uphold job creation or retention intent; program funds were granted many times despite locality ineligibility; no assessment of program's impact on economic or area living conditions; and weak program monitoring, including no verification of employer-submitted data of how funds were actually used.	Legislative Auditor	12/95 (P)
Department of Economic Development and Department of Agriculture and Forestry Economic Development Loan Programs Findings: 77 percent of loans made are in default; LEDC does not confirm tax status for corporations; LEDC does not establish and track performance indicators for loan agreements; and LEDC has ineffective recovery procedures for defaulted loans. Recommendations: LEDC should develop written procedures and improve monitoring and controls over loans in order to protect itself and the state from future losses on defaulted loans.	Legislative Auditor	3/94 (F)

Maine

Department of Economic and Community Development	Office of Policy and Legal Analysis, Business and Economic Development Committee	12/97 (P)
Department of Economic and Community Development Government Evaluation Program Report		
Describes the performance criteria, benchmarks, timetables, progress, and goals of every economic development program in order to determine if the state is working in accordance with its strategic plan for economic development and describes the status of current projects and beneficiaries of financial assistance. Discusses the need to better tailor program qualification criteria in order to better address the state's business development needs and environment.		

Maryland

Department of Business and Economic Development	Legislative Auditor	12/98 (F)
Audit Report, Department of Business and Economic Development		
Findings: the department routinely waived repayments due on Sunny Day Fund loans, close to \$4 million, without verifying that waiver criteria (i.e. jobs retained or created) had been met; \$2.25 million in state money was used to finance investments in out-of-state companies; monitoring efforts of borrowers are impaired because the department is not receiving timely financial information; a \$2.5 million loan guarantee application was approved by the department without adequate justification, after the application had been rejected by the Maryland Industrial Development Financing Authority (the company defaulted and the department had to pay its insurance obligation); inadequate contract performance standards; improper contracting procedures; insufficient review of a potential conflict of interest case; and a possible violation of election law due to questionable political contributions by the department.		

Agency	Auditing Agency	Date (Type)
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Massachusetts

Office of Business Development	Senate Post Audit and Oversight Bureau	12/93 (P)
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A Performance Review of the Massachusetts Office of Business Development, No. 1872

Recommendations: adopt a new economic performance strategy upon each new gubernatorial administration to ensure that there is a coordinated approach to improving the state's long-term economic situation; closer monitoring and follow-up procedures of its on-site and intensive counseling activities; more formal self-assessment; a performance and client progress monitoring system; and a performance evaluation section in the annual report.

Office of International Trade and Investment	Senate Post Audit and Oversight Bureau	8/93 (P)
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A Program and Performance Audit of the Massachusetts Office of International Trade and Investment (MOITI), No. 1717

Concludes that with certain program and personnel adjustments, MOITI can continue to deliver the export promotion, development, and investment services that will have a positive effect on the creation of jobs. Recommendations: develop a formal monitoring, tracking, and reporting system.

Michigan

Michigan Jobs Commission	Auditor General	7/95 (P)
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Performance Audit of the Michigan Jobs Commission, March 1, 1993 through February 27, 1995

Discusses the transition of economic development and workforce development activities to the newly created department. Findings: commission has not fully informed or required board and commission members to disclose personal or financial interests; commission has not produced mandated evaluation information of economic activity, which would benefit the state and the commission's efforts to ensure program efficiency of economic development and expansion in the state.

International Trade Authority	Auditor General	1/95 (P)
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Performance and Financial Audit of the Michigan International Trade Authority

Findings: the authority has not met all of its objectives, but has succeeded in generating state revenue; some weakness in internal control pertaining to cash receipting process and year-end transactions records; and no instance of noncompliance which could affect the authority's financial schedule.

Department of Commerce	Auditor General	6/94 (P)
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Special Report Follow-up Review of the Michigan Strategic Fund

Findings: the fund has taken action to review methods to obtain actual employment data, but has not verified employment data reported by companies that received financial assistance; staff is exploring ways to verify employment data reported companies and estimates that this part of the recommendation will not be implemented until 1995.

Department of Commerce	Auditor General	7/93 (P)
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Performance Audit of the Michigan Strategic Fund, Department of Commerce, October 1, 1998 through October 31, 1992

Findings: the fund reported to the legislature projected job creation, not actual jobs created by the Industrial Development Revenue Bond and Inducement Loan Programs; lack of coordination in reporting job creation outcomes, resulting in duplication; lack of program criteria or benchmarks to evaluate the effectiveness of the BIDCO Program on an interim basis; MSF grant staff have not independently monitored, verified, or evaluated grant recipient data or performance, such as minority ownership for Minority Direct Loan Program; lack of written procedures; inadequate management of loan officers to monitor loan portfolio.

Agency	Auditing Agency	Date (Type)
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Department of Commerce	Auditor General	6/91 (P)
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Performance Audit of the Selected Economic Development Programs, Department of Commerce, October 1, 1987 through September 30, 1990

Findings: department has not developed adequate performance measures to evaluate the effectiveness and efficiency of its economic development programs; inadequate internal management controls over grants and procurement procedures and conflict of interest policy; and inappropriate use of appropriated money for minority business enterprises and women business owners.

Minnesota

Tax Increment Financing Districts	State Auditor	3/00 (R)
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Tax Increment Financing Report

Provides information on TIF policies, TIF Act, and (unaudited) statistics on TIF use and source of funds. Summarizes violations of TIF policy by districts, including pooling tax increment, unauthorized expenditures of tax increment, administrative expenses in excess of statutory limit, improper tax rate, and improper waiving of tax increment. Also summarizes noncompliance with statutory regulations, such as spending tax increment in excess of line-item budget amounts and commingling tax increment with other fund sources.

Tax Increment Financing Districts	Legislative Auditor	3/96 (P)
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Tax Increment Financing

Details the current state of tax increment financing in Minnesota cities. Describes the effects of changes in the law and suggests further restrictions in the way tax increment money can be used and how it must be reported.

Department of Trade and Economic Development	Legislative Auditor	2/96 (P)
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State Grant and Loan Programs for Businesses

Findings: high proportion of businesses receiving funds for the Economic Recovery Grant Program have met their job creation goals, although many of the jobs created are not permanent; distribution of jobs created is skewed towards lower wage levels, with 63 percent paying less than \$8 an hour, but most jobs created provide employee benefits; and Challenge grants created jobs that averaged \$7.67 an hour with only a small percentage providing employee benefits.

Greater Minnesota Corporation	Legislative Auditor	3/91 (P)
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Greater Minnesota Corporation: Structure and Accountability

Findings: no compelling reason why GMC's functions could not be carried out by a state agency, such as the Department of Trade and Economic Development; problems at GMC result primarily from (1) unclear mission and (2) inadequate oversight and accountability. No state elected official is accountable for GMC's performance. Audits in 1989 and 1990 noted lack of control and raised questions about excessive and inappropriate spending; many of these problems can be attributed to GMC's quasi-public status. Recommendations: state should develop comprehensive economic development policy and determine GMC's role; governor should appoint new board members; and legislature should adopt a uniform "Quasi-Public Agencies" statute.

Department of Economic Development	Legislative Auditor	3/85 (P)
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Economic Development

Findings: the department has done a good job implementing its economic development programs, and targeting manufacturing firms for financial assistance. Emphasizes that the department needs to examine its funding practices in order to ensure that business subsidies are most cost-effective by: not harming other Minnesota companies in the same market, actually contributing to job creation, and not merely replacing private financing. Recommendations: legislature should reexamine some of its business tax credit programs and consider options or additional program guidelines.

Agency	Auditing Agency	Date (Type)
Mississippi		
Planning and Development Districts	Joint Legislative Committee on Performance Evaluation and Expenditure Review	1/98 (P)
A Description of Mississippi's Planning and Development Districts, an Assessment of Their Oversight, and a Review of Their Fairness in Administering Loan Programs, Report #372		
Findings: inadequate oversight of PDD's effectiveness due to lack of performance indicators to assess impact on economic development; inconsistent monitoring by state agencies; fragmented oversight of fiscal compliance; and weak program procedures for avoiding conflicts of interest, ensuring program outreach, and establishing a clear, open, and fair application process.		
Magnolia Venture Capital Corporation	Joint Legislative Committee on Performance Evaluation and Expenditure Review	3/97 (P)
A Review of Implementation of Venture Capital Act of 1994 and the Operations of the Magnolia Venture Capital Corporation		
Findings: corporation has made only one venture capital investment; the CEO and board have authorized numerous questionable and extravagant procurement of goods and services; operations conducted in a manner resulting in loss of substantial venture capital financial resources; program does not meet many statutory requirements; and board fails to oversee program operations by mandating an annual report. Recommendation: termination.		
Institute for Technology Development	Joint Legislative Committee on Performance Evaluation and Expenditure Review	7/91 (P)
Limited Review of Mississippi's Institute for Technology Development		
Finding: possible inflation of job creation numbers due to the inclusion of questionable job categories and of generated income estimates. Recommendation: obtain more information before making a decision about discontinuing the institute.		
Planning and Development Districts	Joint Legislative Committee on Performance Evaluation and Expenditure Review	6/91 (P)
Review of the Northeast Mississippi Planning and Development District's Revolving Loan Fund,		
Finding: districts are not in compliance with guidelines to advertise the Fund or with specific federal regulations for monitoring construction projects and requiring certification of non-relocation and loan fund employment; weaknesses in loan fund underwriting and monitoring procedures when handling problem loans; and violations of federal conflict of interest guidelines.		
Department of Economic Development	Joint Legislative Committee on Performance Evaluation and Expenditure Review	12/87 (P)
Management Review of the Mississippi Department of Economic Development		
Findings: reported job creation numbers are based on program participant estimations which are often overestimated; department often fails to collect or compile information necessary to estimate and measure job creation in relation to its programs; department has not maximized the use of its resources, including its employees, its marketing tools, research, and support services; and department did not greatly influence businesses in their decisions to relocate or expand.		

Agency	Auditing Agency	Date (Type)
Missouri		
Department of Economic Development	Committee on Legislative Research, Oversight Division	12/98 (P)
<p>Department of Economic Development: Evaluation of Tax Credit Programs</p> <p>Findings: tax credit programs lack fiscal accountability; weak financial control and accounting procedures; many discrepancies in information reported in tax expenditure reports, Department of Revenue records, and Department of Economic Development records; weak monitoring of job creation and utilization of investments; inadequate retention of financial and compliance records for projects; insufficient audits; inadequate system for tracking amounts of credits approved, claimed, and outstanding; and noncompliance with statutory cost-benefit analysis. Recommendation: separate duties of authorization and monitoring within the Department.</p>		
Montana		
Department of Commerce	Legislative Audit Division	12/99 (F)
<p>Financial-Compliance Audit, For the Two Fiscal Years Ended June 30, 1999, 99-14</p> <p>Findings: the department improperly disbursed cash from the Coal Severance Tax Trust Fund to establish permanent loans for the Micro Business Program; the department's 33 boards lack required documentation to support the fees it has charged; and other acts of noncompliance with state laws.</p>		
Department of Commerce	Legislative Audit Division	6/95 (P)
<p>Limited Scope Performance Audit, Regional Development Program, 94P-38</p> <p>Findings: lack of program clarity and specific program guidelines. Recommendations: clarify what client information is confidential and what is public record; improve monitoring efforts; and collect data which would enable an assessment of performance success and ensure program's accountability to legislative intent.</p>		
Department of Commerce	Legislative Audit Division	1/91 (P)
<p>Limited Scope Performance Audit, Montana Board of Science and Technology Department, Montana Science and Technology Alliance, 90P-30.4</p> <p>Findings: inadequate record-keeping and maintenance of deal logs; many project files missing required paperwork and have confidential and public documents mixed together; inadequate monitoring of funded seek capital and research and development projects; and lack of written program polices and procedures for most program activities.</p>		
Nebraska		
Research and Development Authority	Legislative Program Evaluation Unit	4/97 (R)
<p>The Nebraska Research and Development Authority, A Preevaluation Inquiry Prepared at the Request of the Legislative Program Evaluation Committee</p> <p>Finding: legislature has not taken any action regarding NRDA since 1992, when it adopted a strategic plan for reorganization which resulted in partnering with Heartland Capital Funds, a private venture capital firm. Recommendations: committee should not proceed with a full program evaluation; legislature should determine whether the authority should continue to exist in its present form; legislature should review and revise the statutes governing the authority; and legislature should establish a policy to direct the use of NRDA money resulting from the Heartland Capital Fund portfolio sales and the subsequent impact on NRDA's other partner, the Nebraska Investment Finance Authority.</p>		

Agency	Auditing Agency	Date (Type)
Nevada		
Commission on Economic Development	Legislative Counsel Bureau, Audit Division	5/96 (F)
Audit Report, State of Nevada, Commission on Economic Development (Report LA 96-21)		
Findings: commission is non-compliant with its accounting and budgetary procedures because it used money appropriated for other expenses to cover deficient funds; and commission used independent contractors who did not fit the approved criteria.		
Department of Business and Industry: Industrial Development Revenue Bond Program	Legislative Counsel Bureau, Audit Division	2/95 (F)
Audit Report, State of Nevada, Department of Business and Industry, Industrial Development Revenue Bond Program, 1995		
Finding: program accounting does not provide accurate and comprehensive financial information because it does not maintain separate revenue and expenditure accounting records. Recommendations: improve procedures to ensure that only qualified businesses participate in the program, and conduct on-site inspections on a regular and timely basis in order to verify compliance with program requirements, such as job creation.		
New Hampshire		
Department of Natural Resources and Economic Development	Legislative Budget Assistant	10/97 (P)
Department of Resources and Economic Development, Economic Development Programs Performance		
Findings: need more evaluations of economic development programs and services and of fund recipients.		
New Jersey		
Department of Commerce and Economic Development	State Auditor	7/97 (F)
Department of Commerce and Economic Development, July 1, 1995 to June 20, 1997		
Focuses mainly on weak administrative controls within the department. Recommendation: increase audit activity over urban enterprise zone project; develop a plan to prioritize audits based on risks.		
New Mexico		
Industrial Revenue Bonds	Legislative Council Service	12/97 (P)
Industrial Revenue Bond Impact Study		
Details all IRB/private activity bond activity and provisions and discusses current issues facing local policymakers. Recommendations: create a central state agency which governs the issuance of bonds and can make a statewide assessment of the impact of the bonds; better reporting of projected and actual jobs created from projects; conduct formal cost-benefit analyses of proposed projects; involve other local government entities affected by IRB's in the authorization process; and incorporate restrictions or performance standards for projects.		

Agency	Auditing Agency	Date (Type)
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Industrial Training Board	Legislative Finance Committee	11/96 (P)
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Development Training Program

Findings: overall impact of program cannot be measured because of the difficulty of obtaining data and of isolating factors of economic growth; excessive awarding of training hours in conflict with program guidelines; underdeveloped performance measures to monitor and evaluate program effectiveness; lack of program criteria for ranking and funding projects; lack of targeting of hard-to-employ groups; insufficient performance standards for training services; insufficient provisions to protect state's interest against firms that violate laws; rules, regulations and policies; inadequate review of compliance with training contracts; inadequate evaluation of training effectiveness; inadequate internal controls over administrative functions which should be segregated (monitoring, reviewing, etc.); non-coordination with other economic development programs; and no well-defined strategic plan, which would include clearly defined targeted and measurable goals and objectives and adequate performance measures.

New York

Empire State Development Corporation	State Comptroller, Division of Management Audit and State Financial Services	1/00 (P)
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Empire State Development: Performance of Job Development Programs, Report 98-S-7

Findings: many unmonitored companies fail to meet job creation projections and record-keeping is faulty and out-of-date. Recommendations: develop defined performance measures for companies and an effective job tracking system which will ensure project progress and accountability.

Empire State Development Corporation	State Comptroller, Division of Management Audit and State Financial Services	8/98 (P)
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State of New York Empire State Development Corporation: Administration of Selected Projects Funded through the Regional Economic Development Partnership Program, Report 96-S-39

Findings: insufficient data collection on job creation/retention resulting from project grants; numerous instances where training grant recipients did not provide the required wages or number of training hours, yet still collected grant money. Recommendations: more accurate monitoring of grant recipients; better assessment of program achievements; require grant refunds when recipients do not completely meet program requirements.

Department of Economic Development	State Comptroller, Division of Management Audit and State Financial Services	2/98 (P)
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Department of Economic Development, Economic Development Zone Program, Follow-Up Review,

Findings: three previous recommendations fully implemented and eight partially implemented; department has decertified businesses not in compliance with program requirements but did not appropriately notify the Department of Taxation and Finance to halt business credits; and department officials have not sought legislative authorization for certain confidential information from the Department of Taxation and Finance that is necessary to conduct a cost-benefit analysis and to evaluate the effectiveness of the various zones.

Job Development Authority	State Comptroller, Division of Management Audit and State Financial Services	12/97 (P)
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Consolidation of the State's Economic Development Entities and Programs, Report 96-D-19

Assesses efforts to merge the operations of four state economic development agencies into one umbrella organization, the Empire State Development Corporation. Findings: inadequate data and performance measures to assess the effect of the restructuring; no analysis to substantiate claims that statewide employment and other economic indicators are the result of ESDC activity; and possible conflicts of interest among board members.

Agency	Auditing Agency	Date (Type)
Empire State Development Corporation	Mt. Auburn Associates	2/97 (P)
Evaluation of New York State's Technical Assistance and Financing Programs		
Findings: client surveys provide strong evidence that program funds have leveraged increased investment, improvements in firm competitiveness, and substantial job retention and growth; but many programs are not guided by clear outcomes or objectives. Recommendations: develop an effective agency-wide database; develop more comprehensive approach to collecting and maintaining information on outcomes and economic impact of activities; formalize project evaluation procedures; and use government ES-202 data in program evaluations.		
Department of Economic Development	State Comptroller, Division of Management Audit and State Financial Services	5/96 (P)
Department of Economic Development, Economic Development Zone Program, Report 95-S-78		
Findings: department has not taken necessary action to ensure that the program is meeting its objectives; failure to create a system to collect the necessary data for cost-benefit analysis; very weak job creation and retention monitoring. Recommendations: perform a cost-benefit analysis of the program; collect data on participating businesses; and decertify businesses that do not comply with performance agreements.		
Job Development Authority	State Comptroller, Division of Management Audit and State Financial Services	12/95 (P)
Job Development Authority: Management of Loan Portfolio, Report 95-S-13		
Findings: poor oversight by the authority's board has lead to a deficit of over \$57.8 million, mainly from major losses on loans, guarantees, and foreclosed property; little to no verification of information submitted by applicants; noncompliance with standard loan review practices; and loans indicate of negligence, fraud, abuse, or other irregularities that warrant further investigation.		

North Carolina

Workforce Development Programs	State Auditor	10/96 (R)
Review of Workforce Development Programs in North Carolina, October 1996		
Reviews all workforce development programs in the state: 49 programs operated by 8 agencies. Finding: improper accounting procedures for Job Training Partnership Act and Employment and Training Grant program expenditures. Recommendation: consolidate federal and state funded workforce development programs and activities under the Employment Security Commission.		

Ohio

Economic Development Programs	The Urban Center, Cleveland State University	5/99 (P)
An Assessment of the Costs, Benefits, and Overall Impacts of the State of Ohio's Economic		
Analyzes Ohio's economic competitiveness, future policy and program options and develops procedures for ongoing evaluation. Includes impact analysis for most programs, including reported investments and jobs created. Recommendations: move to performance-based incentives for businesses and institute a performance measurement system.		

Agency	Auditing Agency	Date (Type)
Oklahoma		
Department of Commerce	Department of Commerce	2/99 (P)
Quality Jobs Program Status Report: Analysis of the Quality Jobs Program, Saving Quality Jobs Program, and Former Military Facilities Development Act		
Reviews program participation, performance of firms receiving benefits relative to economic growth, performance by geographic distribution and relative to expectations. Discusses other economic development and quality-job-oriented programs and the future of the Quality Jobs Program. Recommendations: higher thresholds for new payroll and job creation goals for participants, but avoid locally or regionally determined thresholds and income limits; greater discretion when approving projects so that incentives are true enticements and do not simply reward natural business growth.		
Oregon		
Department of Revenue	Secretary of State, Audits Division	3/98 (P)
1998 Property Tax Exemptions		
Findings: 40 percent of program participants do not meet all of the statutory requirements due to improper precertification, ineligible property, insufficient first source hiring documentation, and delinquent submission of annual reports; insufficient policies and procedures regarding property tax exemptions; many instances of exemptions granted without adequate documentation; many instances of program use not in accordance with original intent of stimulating employment and industrial growth; numerous program participants who relocated, closed operations, or only promised one new job; and other questionable proceedings on the part of zone managers who have not followed program rules and regulations. Recommendation: better coordination with other agencies and programs to ensure compliance with all local, state, and federal laws.		
Economic Development Commission and Economic Development Department	Legislative Committee on Trade and Economic Development	6/88 (P)
Staff Report to the Joint Legislative Committee on Trade and Economic Development, Program Evaluation, Oregon Business Development Fund		
Findings: most OBDF loans have gone to businesses in rural and economically-distressed areas, but few loans have gone to minority and women-owned businesses; two-thirds of OBDF borrowers have not reached their employment goals, with another one-third of the borrowers stating no employment increase, employment loss, or out-of-business; and 30-40 percent of new jobs at OBDF firms would have been created even without state assistance. Recommendations: strengthen OBDF's financial control and reporting procedures.		
Pennsylvania		
Department of Community and Economic Development	Auditor General	8/00 (P)
A Performance Audit of Commonwealth Spending for the Kvaerner Philadelphia Naval Shipyard		
Findings: the agreement imposed ambiguous obligations on Kvaerner; monitoring of construction was inadequate; protections for the government's investment were inadequate; Kvaerner misused funds; Kvaerner failed to maximize benefits to Pennsylvania businesses and workers; government's investment outweighs the company's; and the Commonwealth may not have conducted adequate due diligence.		

Agency	Auditing Agency	Date (Type)
Department of Community and Economic Development	Legislative Budget and Finance Committee	7/98 (P)
Department of Community and Economic Development, Community Development Programs, A Performance Audit Report in Response to Act 1996-58, July 1998		
Details statutory authority, funds available and expended, eligibility, and management review and examples of projects funded for each of the department's 17 community development programs. Findings: wide variation in grant-awarding procedures and insufficient monitoring and enforcement.		
Department of Community and Economic Development	Auditor General	5/97 (P)
Performance Audit of the Community Revitalization Program Administered by the Department of Community and Economic Development, July 1, 1996 through May 9, 1997		
Findings: awards not granted competitively; selection not based on formal, written criteria, but instead on referrals from the governor's office, or legislative offices; many funded projects do not have detailed project budget information in their files; disproportionate amount of money was granted to one county; and application process heavily favored earlier applications.		
Department of Commerce	Legislative Budget and Finance Committee	12/95 (P)
Performance Review, Department of Commerce, Economic Development Programs, A Report in Response to House Resolution 25		
Measures program performance against "performance tracking" measures. Findings: legislature has not been receiving the required activity reports; programs do not all have quantitative statutory performance requirements; programs have significantly varying employment impacts; inaccurate and incomplete performance tracking system; clients of most programs had negative real wage growth during the three years following assistance; only two programs (of 26) have default rates within the norm for commercial lending institutions; and client surveys show that companies' overall satisfaction with program services is high. Recommendations: establish common data collection methodologies; pursue performance-based budgeting; create an economic development strategic plan; and implement a range of quantifiable performance measures across all programs.		

Rhode Island

Department of Economic Development and Related Agencies	Auditor General	8/88 (P)
Department of Economic Development and Related Agencies		
Findings: Industrial Facilities Corporation has many deficiencies in the administration of its financing programs, including lack of eligibility standards, inadequate record-keeping system, and insufficient project monitoring; and weak operations and administrative control. Recommendations: centralize fiscal and budgetary control of its economic development activities.		

South Carolina

Jobs-Economic Development Authority	Legislative Audit Council	7/95 (P)
A Management and Performance Review of the South Carolina Jobs-Economic Development Authority, LAC/JEDA-93-2		
Findings: significantly overstated job creation/retention figures in annual report to the general assembly and the governor; lack of specific program goals; insufficient tracking of job quality information and other data which would ensure that its efforts are reflective of statewide economic development priorities; insufficient documentation in loan and bond files that are necessary for credit-worthiness evaluation; and numerous problematic financial transactions between JEDA and its corporate affiliate.		

Agency	Auditing Agency	Date (Type)
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Coordinating Council for Economic Development	Legislative Audit Council	6/90 (F)
<p>Sunset Review: South Carolina Coordinating Council for Economic Development Findings: many in-kind contributions (staff and supplies) are not included in its financial statements, which gives a misleading account of the council's operating costs; funding methods for the Economic Development Account should also be clarified; some qualifications for grant awarding are not clearly defined; many significant policies and procedures are not in writing; and council used its resources to subsidize the formation and operation of a private corporation, which was later dissolved due to possible violation of the state's constitution. Recommendation: continue operations and remove from the sunset cycle.</p>		

South Dakota

Governor's Office of Economic Development	Department of Legislative Audit	9/99 (F)
<p>South Dakota Board of Economic Development Finance Authority, Audit Report, Fiscal Year Ended Findings: an instance of unacceptable accounting principles pertaining to Other Assets; and authority's financial statements do not disclose an allowance for loan loss in relation to loans receivable reported for the pooled bond program, which is required by law.</p>		

Tennessee

Department of Economic and Community Development	Comptroller of the Treasury / Division of State Audit	6/99 (P)
<p>Department of Economic and Community Development and Related Entities Program evaluation to determine if economic development-related entities should be continue, terminated, or restructured. Findings: one county received two grants greater than the statutory limit; and training money was given to a private, non-profit corporation for non-training purposes. Recommendation: terminate entities which are ineffective.</p>		
Department of Economic and Community Development	Comptroller of the Treasury / Division of State Audit	7/92 (P)
<p>Department of Economic and Community Development Finding: department did not actively serve existing industries in 31 percent of the state's counties. Recommendations: improve marketing of existing industry services; compile and analyze data to determine effectiveness of Existing Industry Services; and evaluate the effectiveness of its training programs.</p>		

Texas

Department of Economic Development	Sunset Advisory Commission	4/00 (P)
<p>Texas Department of Economic Development Findings: continued inability of the department to succeed as an effectively run state agency; continued concerns over the administration of the Smart Jobs program; weak administrative and strategic planning; failure to implement an information-collection system necessary for the board to oversee agency operations; and agency lacks a strategic plan. Recommendations: transfer Smart Jobs Program to the Texas Workforce Commission in order to better coordinate state training efforts and put department on probation by requiring another sunset review in two years.</p>		

Agency	Auditing Agency	Date (Type)
Department of Economic Development An Audit Report on The Department of Economic Development Finding: inadequate fiscal and administrative oversight of the program, specifically a deficient tracking system that is unable to account for the number of workers actually trained. Recommendation: revamp data collection system, which is necessary to verify the compliance of employers with program qualifications, to measure and report the success of the program, and to ensure the delivery of training services upon receipt of the grants.	State Auditor	1/00 (P)
Department of Commerce An Audit Report on the Texas Enterprise Zone Program Findings: program has had a minimal impact on unemployment and other socioeconomic conditions, with only two of the ten counties with the highest levels of unemployment receiving job certification, and only four of the ten counties with the lowest level of per capita property wealth receiving certified capital; and program has had a minimal impact on business relocation decisions.	State Auditor	10/94 (P)
Department of Commerce A Review of Management Controls at the Texas Department of Commerce Finding: no information to evaluate performance of foreign offices. Recommendations: closer monitoring of professional service and travel spending and formal inclusion of waiver policies to reduce the risk of loan default.	State Auditor	10/94 (P)
Department of Commerce Texas Department of Commerce Finding: rulemaking authority is not clearly given to the policy board, and should be statutorily assigned. Recommendations: require the department's direct technical assistance and training functions to be fully supported by user fees and not from general revenue; change the rural loan guarantee program so that more loans can be guaranteed within existing resources; continue authorization for the state enterprise zone program, but set a cap to the amount of incentives authorized; and continue department for an eight-year period (to be reviewed again in 2001).	Sunset Advisory Commission	4/92 (P)

Utah

Technology Finance Corporation A Performance Audit of the Utah Technology Finance Corporation Findings: UTFC's effectiveness is declining and operations have been compromised by poor internal controls and other allegations of improper use of financial resources; operating costs and cost per loan have increased despite a 144 percent increase in staffing; numerous increases in unauthorized staff compensation; difficulty in meeting both legislative goals of self-sufficiency and investment in high risk, start-up companies; and possible abuse of financial resources by the former executive director.	Legislative Auditor General	6/98 (P)
Technology Finance Corporation A Performance Audit of the Utah Technology Finance Corporation Findings: corporation contributes to the establishment of new businesses, jobs, and taxes; tension exists between two legislative goals: invest in high-risk businesses and achieve financial self-sufficiency; concerns over low funding levels; and restructured payback system has effectively eliminated many problems associated with the previous royalty program.	Legislative Auditor General	10/93 (P)
Redevelopment Agencies A Performance Audit of Utah Redevelopment Agencies, Report Number 91-12 Findings: agencies have strayed from the mission that the legislature intended; redevelopment agencies' use of TIF has taken money away from school districts and other taxing entities; and agencies have poor relations with local property owners.	Legislative Auditor General	12/91 (P)

Agency	Auditing Agency	Date (Type)
Vermont		
Vermont Economic Progress Council	State Auditor	6/00 (P)
State Auditor's Review of the Vermont Economic Progress Council's Implementation of Act 71 or		
Findings: questionable use of the cost-benefit model and the frequent practice of granting maximum credits; questionable use of the "but for" provision for approving credits; there is little to no verification of data; tax credits were committed before the program existed; tax credits were given to companies that threatened job loss instead of to job creation projects; no formal policies and procedures regarding applicant evaluation and disposition; and inconsistent program administration.		
Vermont Economic Progress Council	Joint Fiscal Committee	9/99 (P)
Periodic Legislative Oversight Report: VEPC EATI Program		
Findings: uneven funding distribution among the counties; inverse relationship of funding to county unemployment rates; lack of basic follow-up monitoring; and lack of public disclosure. Recommendations: annual program spending cap; better regional economic analyses to more aggressively favor distressed areas; formal follow-up procedure to assess program effectiveness; and maximum public disclosure of non-confidential data.		
Virginia		
Department of Economic Development	Joint Legislative Audit and Review Commission	2/91 (P)
Review of Economic Development in Virginia, House Document No. 39		
Reviews economic development policies and the department's organization, management, operations and performance. Finding: state industrial training program lacks clear eligibility criteria for determining which industries receive training. Recommendations: revise eligibility criteria and ensure that program participants create at least 15 new jobs, invest at least \$500,000, and pay starting wages of at least \$6.50.		
Washington		
Economic Development Finance Authority	Legislative Budget Committee (now the Joint Legislative Audit and Review Committee)	11/92 (P)
Washington Economic Development Finance Authority, Report 92-8		
Findings: numerous deficient practices. Recommendation: termination of the authority.		
Community Economic Revitalization Review Board (CERB)	Legislative Budget Committee (now the Joint Legislative Audit and Review Committee)	9/92 (P)
Community Economic Revitalization Review Board: Sunset Review, Report 92-6		
Findings: program has only been moderately successful at creating and retaining jobs (only 57 percent of total projected jobs were actually created); actual demand for funding has been lower than anticipated; undefined outcome measures; inconsistent data collection on jobs, which has led to an inaccurate use of data and difficulty in assessing the impact of board projects; unexplainable interest rate fluctuation; inconsistent granting procedures; and unapplied statutory criteria. Recommendation: continuation.		
West Virginia		
Incentive Programs	West Virginia Development Office	12/96 (R)
Performance Evaluation of Incentive Programs		
Findings: WVDO and Tax Department already closely monitor subsidized companies' compliance with program's investment, job creation, training, or placement requirements, as well as overall effect on economic stability and business and industrial growth in the state. Recommendations: spot-checking of companies to verify wages and hours of training program participants; and formal procedures to examine job creation to evaluate effectiveness.		

Agency	Auditing Agency	Date (Type)
Wisconsin		
Economic Development Programs	Legislative Council	2/00 (R)
<p data-bbox="196 384 618 411">Report No. 18 to the 1999 Legislature</p> <p data-bbox="196 422 1321 478">Summarizes previous evaluations of economic development programs and describes all state economic development programs.</p>		
Department of Commerce	Legislative Fiscal Bureau	1/99 (R)
<p data-bbox="196 558 1305 585">Informational Paper #83, State Economic Development Programs Administered by the Department</p> <p data-bbox="196 596 1333 623">Details the 57 economic development programs that are administered by the Department of Commerce.</p>		
Economic Development Programs	Legislative Council	10/98 (R)
<p data-bbox="196 703 821 730">1998 Introduction to Wisconsin Economic Development</p> <p data-bbox="196 741 1406 798">Provides overview and scope of economic development policy and programs, summarizes current research and previous study findings, and discusses business climate and quality of life issues.</p>		
Department of Development	Legislative Audit Bureau	2/93 (P)
<p data-bbox="196 875 703 903">An Evaluation of Development Zone Program</p> <p data-bbox="196 913 1459 997">Findings: many companies not paying wage levels as detailed in their business plans submitted for certification; and weak coordination with other economic development programs. Recommendation: measure progress according to each zone's goals.</p>		
Municipalities	Legislative Audit Bureau	6/91 (P)
<p data-bbox="196 1075 841 1102">An Evaluation of Tax Incremental Financing, Report 91-15</p> <p data-bbox="196 1113 1386 1169">Findings: abuses of TIF among Wisconsin municipalities, such as using TIF to finance projects that could have occurred without it; and instances of TIF being used to finance competition among municipalities.</p> <p data-bbox="196 1180 824 1207">Recommendations: stronger oversight over TIF programs.</p>		
Housing and Economic Development Authority	Legislative Audit Bureau	4/90 (P)
<p data-bbox="196 1285 1000 1312">Wisconsin Housing and Economic Development Authority, Report 90-10</p> <p data-bbox="196 1323 1455 1465">Findings: little verification or follow-up conducted to ensure that job creation goals are reached or can be attributed to the Business Development Bond loan (overall job creation did exceed expected numbers); fifteen surveyed companies would have proceeded with their projects in Wisconsin without the loans; and only a small number of loan recipients met the "preference" criteria as indicated in the statute (new, women or minority-owned, or small businesses).</p>		
Wyoming		
Various Agencies	Legislative Service Office Program Evaluation Section	10/92 (P)
<p data-bbox="196 1612 698 1640">Program Evaluation: Economic Development</p> <p data-bbox="196 1650 1378 1707">Finding: state lacks a comprehensive economic development strategy. Recommendations: make smaller, low risk loans; enhance data collection; form economic development districts; and obtain more federal funds.</p>		