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***Testimony to the Appropriations, Finance Revenue and Bonding,
and Commerce Committees on the DECD Annual Report***

February 28, 2020

The Auditors of Public Accounts is pleased to testify about our oversight role related to economic development programs and assistance. We are here today to update you on how our office has approached our responsibility to evaluate the Department of Economic and Community Development's annual reports and our other work at DECD.

Public Act 17-219 gave our office the specific charge to analyze the Department of Economic and Community Development (DECD) annual reports.

To achieve an independent review, the act required the Auditors of Public Accounts to:

- Determine whether the data in the DECD annual report is accurate.
- Determine whether the report included all of the elements required by the new law.
- Conduct an evaluation of management practices and operations regarding the ease or difficulty for taxpayers to comply with the requirements of the incentive programs. Are these programs easily available to businesses? Are they burdensome for businesses to comply with?
- Suggest recommendations for improving the administrative efficiency of the incentive programs. Does DECD run these programs effectively?
- What improvements would we recommend?

Lastly, the act required our office to conduct a performance audit of DECD economic assistance programs.

Interim Report on the 2017 DECD Annual Report (April 2018)

On April 24, 2018, our office released an *Interim Report on the 2017 DECD Annual Report*.

In analyzing and planning our new role related to this audit work, we divided our work into three areas: 1) what we address immediately, 2) what we can do for next session, and 3) what we can do in the future. We believed that each of these areas would inform the next. With the passage of time, those beliefs turned out to be accurate.

Our interim report focused on two specific questions:

1. **Is the data accurate?** A determination of whether evidence is available to support the accuracy of the data presented in the annual report.

ANSWER – No. DECD made errors and omissions.

2. **Does the report satisfy the requirements of the law?** An evaluation of whether such annual reports satisfy the reporting requirements under subsection (a) of Section 32-1m of the General Statutes.

ANSWER – No. DECD did not include all of the elements required by the law. Some of these omissions were not the fault of DECD, but rather caused by non-DECD agencies not capturing required data.

It is important to point out what our interim report did not do. The report:

- Did not determine whether DECD effectively managed these programs.
- Did not determine whether these programs work.
- Did not determine whether certain programs are more effective than others.
- Did not assess the cost/benefit of specific programs.
- Did not evaluate the cost/benefit of investing in other areas (education, job training).

In an attempt to correct the issues raised in our interim report, DECD issued a revised annual report on June 1, 2018. Our auditors analyzed the revised report to determine whether the DECD corrections satisfied our concerns.

Review of the DECD Revised Annual Report (September 2018)

On September 21, 2018, our office issued an *Evaluation of the Revised Department of Economic and Community Development 2017 Annual Report*.

We determined that DECD had addressed many of our concerns. However, we again noted that DECD did not report some of the required information, because the department and other agencies

that administer the programs do not collect that data. Additionally, our new review revealed that DECD miscalculated and omitted certain information in its revised report.

Part 2 of Auditors' Evaluation of the Revised Department of Economic and Community Development 2017 Annual Report (May 2019)

On May 21, 2019, our office issued *Part 2 of Auditors' Evaluation of the Revised Department of Economic and Community Development 2017 Annual Report*. The report focused on two questions:

1. **Are these programs easily available to businesses?** Are they burdensome for businesses to comply with? (Involves surveys) – An evaluation of management practices and operations regarding the ease or difficulty for taxpayers to comply with the requirements of the incentive programs. To determine this, we asked business consumers about the publicizing of incentives, the application process, award notification, and reporting requirements.
2. **Does DECD run these programs effectively? What improvements would we recommend?** Recommendations for improving the administrative efficiency or effectiveness of the incentive programs. To determine this, we reviewed program marketing; the application process (including financial reviews); decisions to approve applications by committee; development of financial assistance agreements; and loan modifications, delinquencies, defaults, and recoveries.

The report contained 32 findings and recommendations. The key recommendations included:

1. DECD should review the current reporting requirements for the Small Business Express (EXP) and the Manufacturing Assistance Act (MAA) programs to improve administrative efficiency and effectiveness and promote greater ease for recipients to meet program reporting requirements.
2. The DECD Letter of Intent Committee should document the rationale for its decisions to improve administrative efficiency and effectiveness. The committee should prepare and keep minutes of its meetings in case questions arise in the future.
3. To improve administrative efficiency or effectiveness for Urban and Industrial Site Reinvestment Tax Credit Program (URA), DECD should:
 - Include information on companies that leave the URA program prematurely and statistics on revocations or other imposed penalties in the DECD annual report
 - Pursue an amendment to the General Statutes regarding the issuance of URA tax credits to clarify what constitutes the first year of the ten-year cycle and when a business is eligible to receive its first Urban and Industrial Site Reinvestment Tax Credit, and develop a system to promote more timely submission of required information by businesses

4. To improve administrative efficiency or effectiveness for The Small Business Express Program, DECD should:
 - Better assess loan risk through additional financial checks
 - Consider increasing the interest rate of a loan if businesses do not submit budget or job audit documentation

Evaluation of the 2018 and 2019 Annual Reports and Future Audits

As you can see, our office has spent a significant amount of time at DECD. Because of that, and due to the start of the new administration, we decided to take a step back. We wanted to allow the new administration to chart its course on how it would address these economic development programs. We also wanted to analyze any changes the department made in its 2019 annual report. Therefore, we will be releasing an evaluation of both the 2018 and 2019 DECD annual reports. We hope to release that report by the end of this legislative session.

On March 4, 2020, we are releasing our Department of Economic and Community Development audit report for the fiscal years 2015 and 2016. In addition, our auditors expect to complete their fieldwork for the next DECD audit for fiscal years 2017, 2018, and 2019 in the spring.

Lastly, we will conduct a performance audit of specific economic development/assistance programs after DECD and the General Assembly decide whether to make changes to those programs. We did not want to be in a position in which we conducted a multi-thousand hour performance audit of a major program that the administration or legislature drastically changed or eliminated.

We are happy to answer questions and have brought several of our auditors here to address specific inquiries.