

# STATE OF CONNECTICUT



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### **Auditors of Public Accounts Testimony on the Department of Economic and Community Development's Annual Reports**

**May 5, 2023**

The Auditors of Public Accounts is pleased to update you on our reviews of economic development programs and assistance since the June 9, 2022 joint hearing. While the purpose of today's hearing is specific to the Department of Economic and Community Development's [2022 Annual Report](#), our testimony also includes information about our October 22, 2020 [evaluation](#) of the 2018 and 2019 annual reports. That report included five recommendations.

Our evaluation of the 2020, 2021, and 2022 annual reports resulted in three repeat recommendations. We identified a few significant errors such as the overstatement of direct net state revenue for the Small Business Express program. However, we identified fewer errors related to unsupported data and economic impact analyses. Overall, DECD has shown continued improvement in the preparation of its annual reports.

Section 32-1m of the General Statutes requires the Commissioner of Economic and Community Development to submit a report by each February 1st that includes information regarding the activities of the Department of Economic and Community Development (DECD) and business assistance or incentive programs administered by Connecticut Innovations, Incorporated, during the preceding fiscal year.

Section 2-90c of the General Statutes requires the Auditors of Public Accounts, as part of each DECD audit, to evaluate the DECD annual reports submitted since the last audit and the department's analyses of its economic development portfolio included in the annual report required under subdivision (2) of subsection (a) of Section 32-1m of the General Statutes. Our current DECD annual report evaluations include:

- 1) A determination of whether evidence is available to support the accuracy of the data presented in the DECD annual report
- 2) An evaluation of whether such annual reports satisfy the reporting requirements under subsection (a) of Section 32-1m of the General Statutes.

## **Preliminary Evaluation of the 2022 DECD Annual Report**

We are completing our full review of the 2022 DECD Annual report and expect to issue a separate report in the coming months. Our preliminary evaluation focused on determining the accuracy of the DECD data presented in the 2020, 2021, and 2022 annual reports. We examined whether the annual reports included all required information regarding the DECD economic development portfolio to satisfy the reporting requirements under subsection (a) of Section 32-1m of the General Statutes. We also evaluated the accuracy of portfolio data, including economic impact analyses, for 2022 which reflects activity from 2020, 2021, and preceding years. We evaluated the remaining requirements in a separate performance audit, which our office released on April 6, 2022.

Our evaluation of the 2020, 2021, and 2022 annual reports disclosed the following:

- DECD did not include analyses of the Connecticut Innovations (CI) administered programs' estimated effects on the state's economy or whether the programs met their statutory and programmatic goals. In addition, DECD did not recommend whether these programs should be continued, modified, or repealed.
- DECD overstated the Urban and Industrial Site Reinvestment tax credits awarded by \$10,000,000 (3%) in the 2020, 2021, and 2022 reports.
- DECD understated the fiscal year 2021 Brownfield investment by \$1,500,000 (21%) and funds leveraged by \$33,095,379 (18,285%). DECD understated the leverage ratio for fiscal year 2021 by 3.76 (18,800%).
- DECD overstated direct net state revenue to date for the Small Business Express program by \$22,830,027 (18%) in the 2022 report.
- Our evaluation of the tax credits and project costs DECD included in its REMI model determined that the department overstated various inputs by \$644,897 for the Film Infrastructure tax credit. We did not determine how these differences would affect the amount of reported estimated net state revenue in the 2022 report. This error occurred because DECD included one company's ineligible acquisition costs.

We are joined by our auditors who conducted the DECD work and would be happy to answer questions.