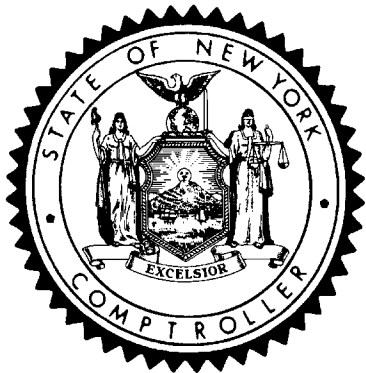


***State of New York  
Office of the State Comptroller  
Division of Management Audit  
and State Financial Services***

**EMPIRE STATE DEVELOPMENT**

**PERFORMANCE OF JOB  
DEVELOPMENT PROGRAMS**

**REPORT 98-S-7**



***H. Carl McCall***

*Comptroller*



# State of New York Office of the State Comptroller

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## Division of Management Audit and State Financial Services

### Report 98-S-7

Mr. Charles A. Gargano  
Chairman/Chief Executive Officer  
Empire State Development  
30 South Pearl Street  
Albany, NY 12245

Dear Mr. Gargano:

The following is a report on our audit of Empire State Development's performance related to New York State's job development programs.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law. We list major contributors to this report in Appendix A.

*Office of the State Comptroller  
Division of Management Audit  
and State Financial Services*

January 7, 2000

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# Executive Summary

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## Empire State Development Performance of Job Development Programs

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### Scope of Audit

The Department of Economic Development (DED) is responsible for the coordination of New York State's economic development programs, which are implemented by the Urban Development Corporation (UDC), the Job Development Authority (JDA), and the Science and Technology Foundation (STF). The overall entity is known as Empire State Development (ESD). ESD uses the resources of New York State to enhance economic growth through several grant and loan programs. Currently, ESD relies primarily on two programs for job creation and retention: the Empire State Economic Development Fund (EDF) and JOBS Now. For the 1997-98 fiscal year, the State Legislature appropriated \$45 million for EDF and \$25 million for JOBS Now. Appropriations for all ESD entities that year totaled about \$216 million.

We audited ESD's administration of the State's job development programs for the period of April 1, 1993 through July 31, 1998. Our audit addressed the following questions:

- Has ESD established sufficient criteria and program indicators for measuring the costs/benefits of its job creation/retention programs?
- Does ESD maintain adequate information systems for the collection of relevant data, and does it use the data collected to develop economic plans and strategies and to assess the cost effectiveness of its job creation/retention programs?

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### Audit Observations and Conclusions

We conclude that ESD needs to develop more meaningful performance measures to assess the effectiveness of its job-development programs and to ensure that the State's investments in such programs are paying off. In addition, we conclude that ESD needs to significantly improve the reliability of data maintained on automated systems that management uses to track projects' employment levels. ESD should also verify employment levels reported by grant/loan recipients on a periodic basis.

In February 1998, ESD prepared a report that highlighted the benefits it expected would be derived from the top 100 projects its Board of Directors had approved between 1995 and 1997. Although this report presents information that provides some perspective on ESD's activities, it does not provide indicators of actual program accomplishments, such as the number of projects that have actually been "closed" (i.e., the total amount of approved funding has been disbursed to the project) or how many jobs were created or retained. ESD had not yet closed most of the

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100 projects and was tracking the number of jobs for just 39 of them. Thus, ESD was basing program performance for its top 100 projects on projects that generally were far from completed. We recommend that ESD periodically compare program performance objectives established during project review and approval to actual project outcomes. (See pp. 7-12)

We also reviewed ESD's 1997 *Annual Report of Job Creation and Retention* (Report), which presented each project's most recently reported total employment figures. It did not disclose the actual numbers of jobs created, retained, or lost. Seeing total employment figures in isolation provides no evidence for judging success. ESD does not include in this annual report any comparison to benchmarks they established to ensure that the projects individually, and its programs as a whole, meet reasonable performance criteria. Presenting the actual number of jobs as of the closed date of the loan and also comparing them with the corresponding employment figures for each year thereafter would provide a more accurate picture of the ongoing impact of funding. (See pp. 16-18)

We conclude that the reliability of the data within the systems used by ESD to monitor projects' employment levels is not sufficient. Although we identified 193 projects with job targets that were closed since 1993, ESD's job tracking system had employment data for only 143 projects at the time of our review. Therefore, there was a disparity of 50 projects between ESD's project tracking and job tracking systems. In addition, ESD has not sought verification or confirmation of the job data that is reported. (See pp. 15-16, 19-22)

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## **Comments of ESD Officials**

ESD officials do not agree that they need to develop more meaningful measures and processes to assess the performance of their programs. Officials believe that they can not set overall program goals, because there are many factors outside their control that impact the programs' performance. Officials noted that New York's economic performance is primarily the result of national and regional economic forces and macro-level government functions, such as tax and regulatory policies, and the availability of transportation infrastructure. Therefore, ESD officials claim that the parameters considered for projects' approval represent a reasonable performance criteria. We agree that such forces, outside of ESD's control, affect the success of ESD's programs. Nonetheless, we maintain that management needs to formally assess program effectiveness to determine if changes need to be made to factors within ESD's control.

ESD officials did, however, respond favorably to most of our remaining recommendations. For example, they indicated that staff are correcting and completing project database records, and improvements will be made to data presentations in the *Annual Report of Job Creation and Retention*. Officials are also investigating the feasibility of confirming employment data reported by assisted companies to payroll registers on a test basis.

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<b>Appendix A</b>	Major Contributors to This Report
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# Introduction

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## Background

According to Chapter 839 of the Laws of 1987 (the Omnibus Economic Development Act), the Department of Economic Development (DED) is responsible for the overall coordination of New York State's economic development programs, which are implemented by the Urban Development Corporation (UDC), the Job Development Authority (JDA), and the Science and Technology Foundation (STF).

DED was created to attract business to New York State and to help the State retain the business it already has, provide assistance in skills training and productivity improvement, promote tourism and international trade, and encourage the development of businesses owned by minorities and women. UDC provides public funds for major State initiatives, industrial development and urban assistance, regional economic development, and new community development. JDA provides loans and loan guarantees for manufacturing operations, start-up businesses, and industrial parks. STF programs support the transfer and application of scientific and technical research results to industrial and commercial purposes.

In 1995, the Commissioner of Economic Development (Commissioner) reorganized and streamlined the State's economic development agencies. DED assumed responsibility for the administration of STF programs, while the programs of UDC and the JDA were consolidated and are now administered by the Empire State Development Corporation (ESDC). DED and ESDC remain distinct entities; but both are headed by the Commissioner, and they share senior managers who oversee administration, policy formulation and research, as well as regional office operations. For marketing purposes, both entities operate under an umbrella organization named Empire State Development (ESD). However, the Legislature has not approved a formal merger of the four agencies. The Commissioner chairs the boards of directors of UDC, JDA, and STF and serves as President and CEO of UDC and the Chairman and CEO of ESDC.

ESD administers a series of economic development programs designed to assist businesses and industries. Although JDA is financed primarily through bond financing, the Legislature appropriated nearly \$1.1 billion to fund the three other ESD entities for the five-year period that ended on March 31, 1998. The appropriations were allocated in the following manner:

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<b>Fiscal Year Ended</b>	<b>DED</b>	<b>UDC</b>	<b>STF</b>	<b>Total</b>
3/31/98	\$40,659,400	\$152,573,600	\$22,790,000	\$216,023,000
3/31/97	\$41,805,000	\$108,882,100	\$22,581,000	\$173,268,100
3/31/96	\$45,914,600	\$106,242,276	\$23,800,000	\$175,956,876
3/31/95	\$58,852,000	\$275,967,976	\$34,645,000	\$369,464,976
3/31/94	\$40,683,000	\$83,711,676	\$21,873,000	\$146,267,676

ESD uses the State's resources to enhance economic growth through a variety of grant and loan programs. Its strategies are focused on creating jobs, enhancing competitiveness, and attracting businesses to the State. ESD determines project eligibility, makes project awards, finalizes project contract documents, and monitors compliance with program regulations and contract terms.

ESD maintains several data bases of information. However, it has no integrated system for combining the data of its four agencies. Consequently, to assess the results of its activities, we had to gather and summarize pertinent background data separately for each entity.

Currently, ESD relies primarily on two programs for job creation and retention: the Empire State Economic Development Fund (EDF) and JOBS Now. For the 1997-98 fiscal year, the State Legislature appropriated \$45 million for EDF and \$25 million for JOBS Now. The goal of each program is to help create and retain private sector jobs in the State, either by attracting businesses to the State or by helping existing companies to upgrade or expand their operations. JOBS Now requires each project to create at least 300 new, permanent, full-time jobs, but recent amendments to the law allow 25 percent of its funds to be awarded to projects that create as few as 100 jobs. There is no minimum job requirement for EDF projects. Most of ESD's remaining appropriations are for initiatives by members of the Legislature.

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## **Audit Scope, Objectives, and Methodology**

We audited ESD's administration of the State's job development programs for the period of April 1, 1993 through July 31, 1998. One of our objectives was to determine whether ESD had established sufficient criteria and program indicators for measuring the costs and benefits of its job creation/retention programs. The other was to determine whether ESD maintains adequate information systems for the collection of relevant data, and whether it uses the data it collects to develop economic plans and strategies and to make cost-effectiveness assessments. To accomplish these

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objectives, we reviewed relevant laws, rules, regulations, policies, procedures, and other documents. We interviewed ESD officials and staff, and examined files, records, and data bases of project information. We also examined a February 1997 report issued by an independent consultant regarding ESD's economic development activities; the section of this report that deals with performance measures notes some of the consultant's findings.

We conducted our audit according to generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations which are included in our audit scope. Further, these standards require that we understand ESD's internal control structure and management's compliance with those laws, rules and regulations that are relevant to those operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We used a risk-based approach to select activities for audit. This approach focuses our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

For example, we surveyed the process ESD follows to select projects. We found that ESD has criteria for assessing project eligibility and uses formal cost-benefit analysis (modeling) in the evaluation/approval process for each project presented to its board of directors. For that reason, we will not address this issue further in this report.

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## **Response of ESD Officials**

Draft copies of this report were provided to ESD officials for their review and comment. Their comments have been considered in preparing this report and are included in Appendix B. We are generally disappointed with ESD's response, which includes misleading and inaccurate statements that misrepresent our observations and recommendations. For example, in their response, officials state that we did not request explanations for projects that were not on their job tracking system. This is not true. In

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fact, in September 1998, we provided ESD officials with written preliminary findings (including a request for their written comments) which specifically addressed deficiencies in their job tracking system as well as other matters included in this report. We also met with ESD officials on many occasions both during and after our audit fieldwork to try to resolve questions regarding the meaning and reliability of data provided to us by ESD staff. Thus, ESD officials had ample opportunity to provide us with any information or explanations they desired, in both oral and written format, to the matters presented in this report. In preparing this report, we have revised our findings as appropriate pursuant to the information provided to us by ESD.

Officials also responded that ESD does not set overall goals for the numbers of jobs created and retained as a result of agency activities, because ESD's performance on these matters is largely outside of its control. Officials noted that New York's economic performance is primarily the result of national and regional economic forces and macro-level government functions, such as tax and regulatory policies, and the availability of transportation infrastructure. We agree that such forces, outside of ESD's control, affect the success of ESD's programs. Nonetheless, we maintain that management needs to formally assess program effectiveness to determine if changes need to be made to factors within ESD's control.

Although ESD officials generally took exception to our findings and conclusions, they responded favorably to most of our recommendations. For example, to help management monitor the progress of specific projects, key milestones (such as contract execution dates) will be posted to ESD's automated project tracking system. In addition, officials have made the project tracking system more widely available to staff for data entry, thus improving data completeness. ESD staff are also correcting and backfilling information on that system. These actions should improve data reliability and utility, and consequently, ESD's ability to monitor its projects.

ESD officials also indicated that they will improve the content of their *Annual Report of Job Creation and Retention* by including tables that will show the differences between actual and target employment levels, as well as the dates the targets are to be achieved. Officials added that they are investigating the feasibility of confirming employment data reported by assisted companies, by examining payroll registers for selected projects. In addition to improving program management, we believe that officials' actions will also help ESD to provide the Legislature, as well as the taxpayers, with better information regarding the effectiveness of the State's job creation and retention programs.

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Within 90 days after final release of this report, as required by Section 170 of the Executive Law, the Chairman of the Empire State Development Corporation shall report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

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# Performance Measures

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Performance-indicator reporting, also known as Service Efforts and Accomplishments (SEA) reporting, is one method that can be used to present the results of government programs in a measurable and meaningful manner. The objective of SEA reporting is to provide more complete information about the performance of a governmental entity to management, elected officials, and the public than is provided in traditional financial reports. To implement SEA reporting effectively, government entities should establish and communicate clear, relevant goals and objectives; set measurable targets for accomplishment; and develop and report indicators that measure the agencies' progress in achieving those goals and objectives. Many factors can influence the goals and objectives from year to year, but the agency should adopt measurable goals based on historic data, economic conditions, and forecasts; and should set appropriate time frames for achieving them.

A U. S. General Accounting Office (GAO) report issued in January 1998, entitled *Managing For Results - Agencies' Annual Performance Plans Can Help Address Strategic Planning Challenges*, highlights the importance of performance planning and measurement. It points out that agencies should have annual performance goals they can use for tracking progress toward their strategic goals, and notes that measurable annual performance goals “. . . can be used both to (1) hold agencies accountable and their program offices accountable for achieving those goals and (2) assess the reasonableness and appropriateness of that strategic goal for the agency as a whole. In addition, annual performance planning can be used to better define strategies for achieving strategic and annual performance goals.” According to GAO, performance measures are essential for proper planning, accountability, budgeting, and evaluation.

ESD's strategic plan, which was issued in 1996, addresses the various factors that contributed to New York's comparatively poor economic performance in the late 1980s and early 1990s. Focusing on 13 industry clusters and setting forth several fundamental strategies for improving New York's economic environment, the plan offers a new approach for promoting growth and job opportunity. According to ESD, its mission is to serve its customers — the businesses and communities of New York State; to improve New York State's competitive position; and to create and retain high-quality jobs in a challenging and rapidly-changing economy. According to its mission statement, ESD will:

- advocate a healthy business environment in New York State;

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- provide customer-driven, cost-effective products and services; and
  - identify and support new and creative solutions to economic development problems.

ESD's strategic plan includes management's insights into the State's economy and the general direction of its own job-development programs, but it does not specify annual benchmarks or other measurable performance indicators that can be used to evaluate an individual program's success, such as the number of projects that have actually "closed" (i.e., the total amount of approved funding has been disbursed to the projects) or the actual number of jobs created and retained. Furthermore, the plan does not include annual goals for overall program accomplishments.

A Memorandum of Understanding (MOU) signed in August 1997 by the Chairman of the UDC, the Senate Majority Leader, and the Speaker of the Assembly states, in part, "The Legislature has agreed to appropriate moneys to the Empire State Economic Development Fund for the purpose of carrying out the various economic development projects of the state." The MOU obligates ESD to provide quarterly reports in each fiscal year to the Senate Majority Leader and the Speaker of the Assembly on the status of each economic development program funded by Legislative appropriations. According to the MOU, the quarterly report shall include:

- a cumulative summary of commitments and disbursements by appropriation;
- the geographic distribution of approved projects;
- a projection of the number of jobs that approved projects are expected to create or retain in New York State within a particular time frame; and
- descriptions of the impact of approved projects, where quantified and available, on distressed urban and rural communities, small- and medium-sized businesses, and strategic industries.

The quarterly reports focus on some of ESD's accomplishments during the year in question. For example, they list the number of projects approved for funding (approved) and the associated total value of ESD support (it often takes two or more years for approved projects to receive funding). ESD considers a project to be "closed" when the total amount of approved funding has been disbursed to the project and contractual obligations become enforceable. At that point, the executed documents legally bind both parties to the provisions of their agreement. The quarterly report

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includes a projection of the number of jobs ESD expects to create or retain during the one- to five-year period; however, it does not indicate the impact of the investment, such as the actual number of jobs created or retained.

In February 1998, ESD issued a report highlighting anticipated benefits, based on the use of a benefit/cost model, to be derived from the top 100 projects approved by ESD between 1995 and 1997. Although the information presented in the report provides some perspective on ESD's activities, it does not provide the reader with performance measures or indicators of actual program accomplishments, such as the number of projects that have actually "closed" or the number of jobs that were actually created or retained. At the time of our review, ESD was tracking employment levels for only 39 of the top 100 projects, because most of the projects were not near completion.

When we analyzed information from ESD's project data base, we determined that 1,097 of the 2,293 projects (47.8 percent) approved since 1993 had been closed. The remaining approved projects are in various pre-closure stages. The following table summarizes the status of projects approved since 1993:

Calendar Year	Approved Projects [1]	Executed Contracts [2]	Terminated or Withdrawn Projects [3]	Closed Projects [4]	Percentage Closed [5]
1998 [6]	360	1	0	8	2.2%
1997	577	105	2	120	20.8%
1996	409	156	11	254	62.1%
1995	275	79	22	190	69.1%
1994	483	255	29	361	74.9%
1993	<u>189</u>	<u>89</u>	<u>13</u>	<u>164</u>	86.8%
Totals	<u>2,293</u>	<u>685</u>	<u>77</u>	<u>1,097</u>	47.8%

- [1] Approved by the Board of Directors.
- [2] The parties have signed a contract for the project.
- [3] A decision has been made not to do the project.
- [4] The project has gone through the review and approval process and has already received funds.
- [5] Percentage of Closed/Approved.
- [6] As of July 31, 1998.

A number of factors may be involved in negotiating and finalizing a contract. We attempted to analyze the number of executed contracts in relation to whether projects had been approved and closed. However,

ESD's data base frequently did not indicate contract-execution dates for its projects. As indicated in the above table, we found executed contract dates for just 685 of the 2,293 (about 30 percent) projects approved since 1993.

To derive a performance indicator for ESD's programs, we analyzed the number of closed projects because we could not readily determine the number of projects with executed contracts. As previously noted, many approved projects have yet to be closed. When we analyzed the 2,293 projects approved from January 1993 through July 1998, we found that the dates when most of the projects were approved and closed were two or more years apart, as indicated in the following table:

**Projects Closed During the Period January 1, 1993 through July 31, 1998**

Calendar Year	Approved Projects	Closed Projects							
		1993	1994	1995	1996	1997	1998*	Total	Percentage
1998*	360						8	8	2.2%
1997	577					26	94	120	20.8%
1996	409				43	85	126	254	62.1%
1995	275			15	83	47	45	190	69.1%
1994	483		24	53	102	32	150	361	74.9%
1993	189	3	24	33	20	17	67	164	86.8%
Totals	<u>2,293</u>	<u>3</u>	<u>48</u>	<u>101</u>	<u>248</u>	<u>207</u>	<u>490</u>	<u>1,097</u>	47.8%

\* As of July 31, 1998

During the period of 1994 through 1996, ESD approved 1,167 projects for funding. Of these, 805 had been closed as of July 31, 1998. At the time of our review, ESD had not yet closed 300 of the projects approved during those three years; another 62 had been terminated or withdrawn. Based on our review, we concluded that the number of closed projects is a better performance indicator for examining program accomplishments. Although most projects eventually are closed, the number approved during a given period is not a good indicator of program accomplishment because recipients will not reap the full benefits from their grants or loans until several years after they are approved.

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Subsequent to our fieldwork, ESD officials told us that the reliability of the “closed date” field in the project data base is questionable. Officials indicated that they believe that more projects had been closed than the data base indicated. If, however, the closed date field is unreliable, this increases the risk that ESD officials cannot accurately determine the status of many of their projects. This would limit the use of the data base for management reports and analysis. Moreover, ESD officials could not readily identify those projects which have the most immediate need for corrective action to be taken.

ESD is required by the Omnibus Economic Development Act of 1987 and Chapter 732 of the Laws of 1990 to have some of its programs assessed independently every two years. The most recent such report by an independent consultant was prepared in February 1997, and it acknowledged management’s efforts to assess the performance of certain economic development programs administered by ESD. This report also identified weaknesses in information management, monitoring, and performance measures; and noted that ESD had made no comparisons of performance indicators with measurable program standards or objectives. In addition, our prior studies of ESD’s affiliated agencies (Report 95-D-22: *Measuring Accomplishments of State Job Creation and Retention Programs*, issued November 30, 1995 and Report 96-D-19: *Consolidation of the State’s Economic Development Entities and Programs*, issued December 24, 1997) noted similar findings regarding the lack of performance measures and benchmarks for assessing accomplishments.

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## **Recommendations**

1. Develop formal measurable program performance objectives that focus on actual impacts, outcomes or results, such as the numbers of jobs created or retained per program (e.g., JOBS Now or EDF). Establish timetables for completing the objectives.

(ESD officials responded that they do evaluate performance through benefit/cost ratios and the *Annual Report of Job Creation and Retention*.

Auditors' Comments: ESD's benefit/cost ratios are projected or estimated calculations used in the project review and approval process. They are not outcome measures. Further, as detailed subsequently in this report, the *Annual Report of Job Creation and Retention* only indicates employment levels, it does not indicate the number of jobs actually created or retained over a given period or any other comparison of program outcomes with measurable objectives. )

2. Ensure that formal program assessments include the comparison of actual program outcomes with the measurable objectives established.

(Officials responded that ESD reports separately on anticipated project outcomes and actual project performance. They claimed that based on historical data, the employment levels for assisted companies exceed the established job targets; therefore, ESD feels confident that the anticipated benefit/cost ratios presented in their reports present accurately the program performance.)

Auditors' Comments: As detailed subsequently in this report, ESD compares base job requirements against actual employment levels for the projects included in the Annual Report. However, this presentation could be misleading because it includes actual employment-level statistics for projects with no job requirements. For example, statistics for 27 of the 185 projects included in the 1998 annual report were for projects with no base jobs requirements. Thus, for those projects, any level of employment would exceed the target and improve the appearance of aggregate actual employment levels in relation to the aggregate target for a program. Moreover, our analysis of completed loan projects showed that most did not attain their prescribed target levels of employment.)

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### **Recommendations (Cont'd)**

3. Ensure that project data bases include contract execution dates that will help management monitor the level of progress made by any projects or programs.

(ESD officials responded that project staff are now expected to enter key milestones, such as the contract execution date, directly into the system. Compliance with this requirement will be monitored.)

4. Continue efforts to integrate the project management systems of the ESD agencies. Establish formal timetables for the completion of the integration project.

(ESD officials responded that efforts are continuing to integrate the databases of ESD, as appropriate. Further, the Project Tracking System has been made widely available to staff for data entry and to aid in project management.)

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# Tracking and Reporting Jobs

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To implement an effective performance assessment and reporting function, management must have reliable information systems. ESD maintains two automated systems: one contains data related to ESD's various grant and loan programs (the project tracking system), and one that tracks the employment levels for certain projects (the job tracking system).

Based on the results of our audit, we determined that, ESD needs to make significant improvements in its job tracking system to provide a better perspective on ESD's accomplishments.

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## Data Reliability

One way to evaluate the effectiveness of ESD's job creation/retention projects is to monitor the number of jobs that are created or retained as a result of the projects. However, we conclude that the reliability of the data in the systems used by ESD to monitor projects and their employment levels is questionable. This resulted, at least in part, from weaknesses in the procedures ESD uses to identify those projects for which employment levels should be tracked.

We could not verify that ESD is using its automated systems effectively to monitor all projects with projected employment level (job) targets. We found that there is no coordination among ESD's Loans and Grants Unit, Accounting Office, and the Portfolio Management Unit to ensure that projects with job requirements are added to the job tracking system. It is left solely to the Portfolio Management Unit to identify the projects to be tracked. Periodically, Portfolio Management staff check the account receivable files for information about new projects; and the Contract Administrator sometimes forwards new contracts for projects to be monitored. However, there is no periodic verification to ensure that all of the projects that should be added to the tracking system are actually added. For example, there is no link between the project tracking system maintained by the Loans and Grants Unit and Portfolio Management's job tracking system that will ensure the monitoring of all projects with job requirements.

We identified 193 projects with job targets in ESD's project tracking system that were closed between January 1, 1993 and March 31, 1998. However, ESD's job tracking system had employment data for only 143 projects at the time of our review. Therefore, there was a disparity of 50 projects between the project tracking system and the job tracking system. Subsequent to our fieldwork, ESD officials told us that 47 of the 50 projects in question do not have to be on the job tracking system for

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various reasons. For example, ESD officials indicated that there are no job requirements (contractual obligations to attain prescribed employment levels) for 31 of the 47 projects in question. We acknowledge that many of the projects in question did not have contractually prescribed employment levels that ESD had to monitor for compliance purposes. The fact remains, however, that ESD's project tracking system had target employment levels, whether by design or error, for each of the 50 projects in question. Therefore, based on our review, we conclude that the reliability of the data in the systems used by ESD to monitor projects and employment levels is questionable.

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## **Annual Report of Job Creation and Retention**

ESD's *Annual Report of Job Creation and Retention* (Report) states that ESD reports annually to the Board of Directors on the number of jobs that were actually created or retained as a result of ESD's assistance to businesses in the State. However, the Report only summarizes employment levels for active loans and grants by program type, using information compiled from reports submitted to ESD by each loan/grant recipient that must report on the number of jobs created or retained as a result of its project's activities. The Report lists the name of each project, the date the loan closed, the relevant employment data for the previous year and the current year, and the base job requirements for that project.

We reviewed ESD's 1997 Report, which was the most recent one published at the time of our audit fieldwork. We found the following problems with the Report:

- It presents each project's most recently reported total employment figures (these are unaudited figures received from the assisted companies which are not independently verified by ESD), instead of the actual numbers of jobs created, retained, or lost. ESD has the information necessary to determine the numbers of jobs created, retained or lost for some of the projects, but this data is not presented in the Report. Presenting the employment numbers as of the closed date of the loan, and the corresponding employment figures for each year thereafter, would make it possible to determine the number of jobs created, retained, or lost by each project.
  - It lacks continuity from the previous year. Because new projects are added and other projects are completed (and are deleted from the Report) during the course of the year, it cannot be determined easily whether the overall program's cumulative job-creation/retention status has improved or declined from one year to the next. For example, the 1996 Report listed total project employment as of
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January 1, 1996, as 38,127; but the Report issued for the following year cites the total employment for 1996 as 30,270. Because the differences from year to year were not specified by project, the cumulative differences in total employment have little meaning.

To draw a more meaningful comparison, we contrasted employment data from the 1996 Report to similar information for the same projects listed in the 1997 Report. We also analyzed data for those projects with employment levels reported for both January 1, 1997 and January 1, 1998. As the following table indicates, a cumulative job loss of 1,761 was reported for 112 projects in the 1996 Report:

<b>Number of Projects</b>	<b>Total Jobs As of 1/1/96</b>	<b>Total Jobs As of 1/1/97</b>	<b>1996 Increase/ (Decrease)</b>
112	30,661	28,900	(1,761)

In the following year, a cumulative increase of 2,640 jobs was reported for 115 projects, as follows:

<b>Number of Projects</b>	<b>Total Jobs As of 1/1/97</b>	<b>Total Jobs As of 1/1/98</b>	<b>1997 Increase/ (Decrease)</b>
115	37,039	39,679	2,640

We found other problems with the 1997 Report:

- It does not include a difference column that would indicate whether a specific project is either above or below its base job requirements. The aggregate sub-totals cited for each program are misleading, because the base job requirements for many projects are shown as zero or NR (Not Required). The Report also indicates employment levels for many projects as NA (Not Available). These factors all contribute to inconsistencies and inaccuracies in the claimed sub-totals and grand totals of program activity.
- It provides no information on time frames, such as target dates or time remaining before a project must reach its base job requirements.
- It is not circulated among project managers in the Loans and Grants Unit for review and comment about the accuracy of the projects monitored and the data reported.

- It contains errors, including the redundant listing of several projects in two or more places; and the listing of one project several times with different names, in which case the project's data was counted twice. There are also mathematical errors, for example, subtotals are not added correctly. In addition, when we compared certain data with employment information submitted annually by grant/loan recipients, we determined that some projects had reported incorrect data.

To obtain a more accurate report of the number of jobs created or retained with ESD support, we reviewed the Report for 1997, correcting any errors that came to our attention. For example, our review showed that total employment for projects being monitored in 1997 totaled 44,497, while ESD's uncorrected Report had indicated total employment of 42,813. Thus, for 1997, ESD understated the number of actual jobs by 1,684.

## Success of Completed Projects

ESD does not monitor or assess the success of a project once the loan has been paid off, nor does it maintain a data base of completed projects. Once a loan has been repaid, ESD's job tracking system does not report on the related project to indicate whether job requirement levels had actually been met, and, therefore, whether the project had been successful. We reviewed ESD records to determine whether closed loan projects had met their job targets. The following table summarizes the results of our analysis.

Calendar Year	Completed Projects With Paid-Off Loans	Number of Completed Projects With Base Job Requirements	Number of Completed Projects Not Meeting Job Requirements	Cumulative Job Totals	Cumulative Base Totals	Differences
1993	13	2	2	454	691	(237)
1994	14	3	3	124	593	(469)
1995	51	7	6	467	1,231	(764)
1996	53	10	3	3,904	3,713	191
1997	<u>52</u>	<u>25</u>	<u>15</u>	<u>2,240</u>	<u>2,819</u>	<u>(579)</u>
<b>Total</b>	<u>183</u>	<u>47</u>	<u>29</u>	<u>7,189</u>	<u>9,047</u>	<u>(1,858)</u>

*(Note: This analysis used the most current data available from ESD at the time of our audit. A specific project's job total may differ at time of closing from the figures reported at the beginning of the calendar year.)*

We determined that 183 projects were concluded during this five-year period. (We excluded five other finished projects from the table because job totals could not be obtained for them from the available records.)

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However, base job requirements had been set for just 47 projects, or 26 percent, of the 183. Moreover, on a cumulative basis, these 47 projects had 1,858, or 21 percent, fewer jobs than the total base requirements for the projects of 9,047. When we examined the projects' individual figures, we determined that 18 (38 percent) of the 47 projects with base job requirements met or exceeded their job requirements, while 29 projects (62 percent) did not meet their prescribed job requirements.

A data base that includes indicators of the actual success of a project can be a valuable tool for performance assessment. For example, data could be used to determine whether job goals were met. Once a project is identified as being deficient, proper action should be taken. While increased employment at any level is a desirable outcome, ESD needs to maintain and analyze accurate data and performance standards to make meaningful management decisions and adjustments. The availability of such data would also be helpful if ESD needed to seek further assistance for a particular project. In addition, it would facilitate program-wide assessments, as well as the development of annual performance plans, and other performance measures and success indicators.

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## **Verification of Employment Data**

If a formal assessment of program performance is to be meaningful, it must be based on accurate information. Thus, it is essential that assessments of job-creation/retention programs be based on accurate employment data. However, we found that ESD does not periodically verify the employment information submitted by grant/loan applicants and recipients, nor does it verify existing employment levels when establishing contract terms.

ESD officials advised us that they do not routinely verify employment data reported by grant and loan recipients, by comparing it with data maintained by the New York State Department of Labor (DOL). They explained that they had tried to use DOL data for such verification, but had found that, because DOL's data are based on a company's total workforce, it was often difficult to correlate the DOL figures to specific ESD projects. Many such projects entail a specific location, site, business segment, plant, or building — a small part of the company's overall entity as reported to DOL.

During our fieldwork, we formally requested ESD officials to obtain employment data from DOL for 50 projects that we selected judgmentally. We also formally requested the data from DOL. However, neither ESD nor DOL officials have provided us with the information we requested. Moreover, we acknowledge the inherent limitation of the DOL employment data for verification purposes,

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particularly since the DOL employment statistics would tend to exceed the employment levels of ESD projects. However, if the DOL employment amount was less than the employment level reported by a recipient of ESD funding, given the limitation previously noted, this would be a potential indicator, or "red flag," that the recipient has overstated its actual employment. This could help ESD staff identify recipients that they should follow up with to verify employment information.

According to ESD officials, the Loans and Grants Unit had identified no major discrepancies during previous site visits. However, we were also told by Portfolio Management personnel that when a site visit had been conducted for a particular project because of concerns over the viability of the company, just four employees were observed at work, instead of the 96 that had been reported. In our prior report on ESD's Regional Economic Development Partnership Program (Report 96-S-39, issued August 13, 1998), we identified several projects that had reported such inaccurate figures.

To ensure that information reported by loan/grant recipients is accurate and reliable, we believe that site visits should be conducted on either a routine or periodic basis. Despite its previous problems in obtaining corroborating information from DOL, ESD should continue to try to verify the figures for some projects. Such data could provide ESD with warnings of potential problems (or examples of best practices) that might warrant further research or follow up. Any project so identified could be appropriately scheduled for a site visit.

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## **Recommendations**

5. Ensure that data maintained on automated systems that is used to monitor project progress (including actual employment levels versus target job requirements) is reliable. Have staff responsible for administering loan and grant programs periodically verify the propriety of such data, as necessary.

(ESD officials responded that staff from MIS, Loans and Grants, and Portfolio Management are correcting and backfilling the existing records, and adding data from historical databases to the project tracking system.)

6. Strengthen the content of the *Annual Report of Job Creation and Retention*. The Report should include differences between the reported numbers of jobs created or retained and the base job requirements, as well as specific time frames indicating when the project should meet its job goals. It should also indicate annual changes in employment levels for projects that are listed for more than one year.

(ESD officials responded that, for projects initiated since 1995, ESD will provide tables for projects having a retention component and for projects where job creation is an objective. The tables will show the difference between actual and target employment levels. For job creation projects, the table will also include the date the target is to be achieved.)

7. Develop a historic data base of information, and use it to determine whether finished projects have met their job requirements and to support the development of performance measures for current and future projects.

(ESD officials responded that this recommendation implies that ESD does not measure whether projects meet employment objectives. Officials added that ESD may impose penalties on companies that do not meet job targets by specified dates. Officials also stated that ESD does not delete completed projects from its data base.)

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### **Recommendations (Cont'd)**

Auditors' Comments: We acknowledge that ESD monitors the employment levels of active projects and may take action against those companies that do not attain target job levels. However, our recommendation relates to closed projects, including those in which a recipient has already paid-off a loan from ESD. As officials indicate on page 3 of their response [Appendix B-5], "many projects take two years or more to actually close, and have job creation requirements associated with them that extend three to five years from closing date." We believe that a historical data base would assist ESD to determine whether those projects met their job-requirement levels. As we indicated in this report, ESD does not report these projects in its job tracking system.)

8. Conduct periodic verifications of employment data reported by grant and loan recipients, obtaining confirmations from the Department of Labor and/or conducting site visits.

(ESD officials responded that they are undertaking a verification audit to investigate the feasibility of confirming employment data provided by assisted companies by examining payroll registers for a subset of projects.)

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# Major Contributors to This Report

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# Empire State Development

**Charles A. Gargano**  
Commissioner

April 20, 1999

Mr. Frank J. Houston  
Audit Director  
Office of the State Comptroller  
A. E. Smith State Office Building  
Albany, New York 12236

Dear Mr. Houston:

Enclosed is our response to your draft audit report (98-S-7) concerning Empire State Development's performance relating to New York's job development programs. Our detailed comments follow.

The audit contains numerous factual errors and misinterpretations of data that together raise substantial questions as to whether the audit presents a fair and accurate picture of ESD's activities. These include:

- "We recommend that ESD develop measurable program performance objectives for each project and periodically compare outcomes with established objectives."  
--Fact: ESD establishes performance objectives for each project and compares outcomes with established objectives.
- "[ESD should] develop formal, measurable performance measures that focus on actual outcomes or results, such as number of jobs created..."  
--Fact: ESD's *Annual Report of Job Creation and Retention* measures the actual employment performance of firms receiving assistance through each ESD program.
- "Although we identified 193 projects with job targets that were closed between January 1, 1993 and March 31, 1998, ESD's job tracking system had employment data for only 143 projects at the time of our review. Therefore, there was a disparity of 50 projects that apparently should have been on ESD's job tracking system."  
--Fact: Had the Comptroller's audit team requested a detailed discussion of each of the 50 projects from ESD, it would have found that for 47 of the 50 projects, actual performance was being measured, or that the projects were outside the timeframe of the audit, or that the projects were not job creation projects and measurement of job creation on ESD's job tracking system was neither feasible, nor relevant.

**New York State Department of Economic Development**  
One Commerce Plaza Albany New York 12245  
Tel 518 474 4100 Fax 518 473 9374

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**Note  
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**Note  
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**Note  
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\*See State Comptroller's Notes, Appendix C

- “[ESD should] conduct verifications of employment data reported by grant and loan recipients, obtaining confirmations from the Department of Labor....  
--Fact: ESD made the Comptroller’s office aware that reviews of the DOL data by ESD, as well as by other research organizations have demonstrated its extreme unreliability for the purpose proposed.
- The report asserts that ESD does not have any “process for determining whether employment is actually improving or declining in specific targeted industries.”  
--Fact: ESD tracks both New York and U. S. employment in the State’s major industry clusters, and has prepared several reports that have been distributed internally and externally.

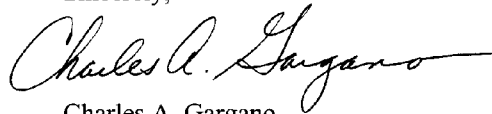
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These errors and misinterpretations are presented in the draft, despite ESD’s cooperation with the audit team in presenting and explaining information concerning our procedures and reporting. We believe that the audit should be reassigned to another team, and its findings reviewed for accuracy before publication.

Thank you in advance for your consideration.

Sincerely,



Charles A. Gargano

Enc.

\*See State Comptroller’s Notes, Appendix C

**EMPIRE STATE DEVELOPMENT RESPONSE TO DRAFT AUDIT REPORT  
PERFORMANCE OF JOB RELATED PROGRAMS (98-S-7)**

**AUDIT OBSERVATION:**

*“We concluded that ESD needs to develop more meaningful performance measures to assess the adequacy of its job-development programs. We determined that ESD’s strategic plan, management reports, and publications do not adequately address the performance of job retention/creation programs because they do not relate actual job creation and retention to measurable goals. ESD’s performance reports have not focused sufficiently on actual outcomes.”* (Executive Summary, Audit Observations and Conclusions).

*“We recommend that ESD develop measurable program performance objectives for each project and periodically compare outcomes with established objectives.”* (Executive Summary, Audit Observations and Conclusions).

*1. Develop formal, measurable program performance measures that focus on actual outcomes or results, such as numbers of jobs created or retained per program, industry cluster, or geographic location. Establish timetables for completing the objectives (p. 10).*

**ESD COMMENT**

- The Comptroller’s assertions that ESD does not have meaningful performance measures, establish performance goals or measure outcomes are incorrect for the following reasons:
  - ESD uses a series of benefit/cost measures to analyze current program and project performance.
  - ESD uses the following benchmarks for negotiating assistance levels to companies and for project approval. These parameters were adopted via memo September 29, 1998, revising guidelines in existence prior to that time.
    - New York State Fiscal Cost per Job (\$3,720)
    - New York State Fiscal benefit/cost ratio (7.3:1)
    - New York State Fiscal Internal Rate of Return (156%)
    - New York State Economic benefit/cost ratio. (53:1)
  - These benchmarks were established to ensure that ESD’s projects individually, and its programs as a whole, meet reasonable performance criteria.
  - Projects that do not meet these criteria are subject to additional review by management before consideration for approval.
  - ESD analyzes the anticipated performance of current projects and programs using summary data generated from these measures and others. We present data on our performance on these measures in our *Major Projects Report* (formerly *ESD’s Top 100 Projects*).

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\*See State Comptroller’s Notes, Appendix C

- ESD requires firms to report annually on actual employment at assisted projects. This information is used to generate an annual report on actual program and project performance.
  - For each project where assistance is provided in order to create or retain jobs, ESD establishes goals and timetables for the number of jobs that companies receiving assistance must meet after project completion and once resulting operational changes have taken effect.<sup>1</sup> These goals and timetables become a part of ESD's contracts with assisted companies. Companies that fail to meet employment goals are subject to enforcement actions.
  - Where assistance is provided in order to create or retain jobs, ESD includes in its contracts with assisted firms a requirement that they annually report to ESD on employment. Thus, the agency conducts an annual survey of those firms that have committed to employment goals.
  - ESD annually reports on the performance of programs and projects that are currently underway and those that are completed in its *Annual Report of Jobs Created and Retained*.
- ESD does not set overall program goals for the numbers of jobs created and retained as a result of agency activities, because the agency's performance on these measures is largely outside its control. These external factors are:
  - Funding levels received by the agency for economic development programs.
  - The level of economic activity in the State. As *the Empire State Development Strategic plan* (pp. 5-10) explains, New York's economic performance is primarily the result of national and regional level economic forces, and macro-level policies applied at the State level, such as tax and regulatory policy and the creation and maintenance of appropriate infrastructure facilities. We do not believe that in a private sector economy, intervention by ESD or other government agencies offering assistance programs is the primary determinant of economic growth. For these reasons, ESD takes a demand driven approach, and has developed a flexible funding stream that allows us to respond to changes in private sector needs.
- While raw job creation and retention numbers are not a significant element of ESD's decision making process, the agency reports on anticipated regional job creation and the distribution of projects by industry clusters in its annual *Major Projects Report*.

**AUDIT OBSERVATION:**

**2. Ensure that formal program assessments include the comparison of actual program outcomes with the measurable objectives established.** (p. 10)

*Although this report [Empire State Development's Top 100 Projects] presents information that provides some perspective on ESD's activities, it does not provide indicators of actual program accomplishments, such as the number of projects that*

<sup>1</sup> ESD does not impose this requirement where the only form of assistance provided is training, because workers receiving training get the benefit of the assistance, regardless of company performance.

*have actually been “closed”...or how many jobs were actually being created or retained....Thus, ESD was basing program performance on projects that generally were far from completed. We recommend that ESD develop measurable program performance objectives and periodically compare outcomes with established objectives. (Executive Summary, Audit Observations and Conclusions, also on p. 7).*

**ESD COMMENT:**

- ESD reports separately on anticipated project outcomes and actual project performance. It does so because measures of anticipated outcomes provide reasonably current measures of project performance. Measures of actual project performance provide a “reality check” on the measures of expected performance, but lag substantially behind. For example, many projects take two years or more to actually close, and have job creation requirements associated with them that extend three to five years from the closing date. Thus, measures of project and program performance may lag five to seven years behind approval decisions made in a given year.
- ESD has determined that the reliability of anticipated project data is quite high when measured against historic data on actual employment. The 1998 *Annual Report* shows that assisted firms exceeded their target employment (Actual employment – 50,372, target employment - 48,449), even though most projects in the database have not yet reached their target dates. Data from the 1997 *Annual Report* presents a similar picture. Actual employment at companies with employment targets was 36,885, while target employment in that year was 35,835.
- Benefit/cost benchmarks and summary data presented in ESD’s reports assume the achievement of target levels of employment by assisted companies. Since employment levels at assisted firms exceed established job targets, we know that anticipated benefit/cost ratios presented in ESD’s reports accurately portray program performance.

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Note
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**AUDIT OBSERVATION:**

*...we concluded that ESD needs to significantly improve the reliability of data maintained on automated systems that management uses to track projects’ employment levels....(p. 11)*

*We could not verify that ESD is using its automated systems effectively to monitor all projects with projected employment level (job) targets . Although we identified 193 projects with job targets that were closed between January 1, 1993 and March 31, 1998, ESD’s job tracking system had employment data for only 143 projects at the time of our review. Therefore, there was a disparity of 50 projects that apparently should have been on ESD’s job tracking system. Moreover, ESD has not sought verification of confirmation of the job data that is reported. Thus, we conclude that the reliability of the data within the systems used by ESD to monitor projects’ employment levels is not sufficient. (Executive Summary, Audit Observations and Conclusions).*

*See State Comptroller’s Notes, Appendix C
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**ESD COMMENT:**

- The Comptroller's assertion that the reliability of data within the systems used by ESD to monitor project employment systems is not sufficient is not based on fact, as is evident from the discussion below. In fact, ESD's response demonstrates that in all but three cases ESD's Portfolio Management employment compliance monitoring system had accurate data.
- The Comptroller's audit team never requested a detailed explanation from ESD of the 50 projects in question. Consequently, it reached an erroneous conclusion concerning the reliability of ESD data, and the appropriateness and feasibility of tracking job creation in these cases.
- The Comptroller's contention that ESD could have used expected employment levels for formal program assessment for the 50 projects is in error because:
  - 4 were already paid off, and consequently not reported.
  - 2 were not reported because the company went out of business.
  - 3 were not reported because the ESD loan guarantee to the company had been completed prior to the report.
  - 1 was a JDA project that is outside the scope of the Audit.
  - 2 had not yet closed.
  - 4 were included in the most recent Portfolio Report, contrary to the Comptroller's assertion that ESD had not monitored them.
  - 31 had no employment requirement.
    - In 26 projects, this was because the primary purpose of the project was unrelated to direct job creation. Any expected job creation or retention was incidental.
    - Where job creation or retention is not the primary purpose of a project, ESD does not include employment targets and reporting requirements in its contracts with assisted entities. Consequently, it is neither relevant nor feasible for ESD to track employment relating to these projects. For example:
      - 9 projects assisted local economic development organizations
      - 6 projects were grants or loans to government entities;
      - 5 projects were for childcare facilities;
      - 4 projects were grants for planning studies;
      - 2 projects were for worker training.

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**Note**  
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\*See State Comptroller's Notes, Appendix C

--3 projects should have been monitored but were not. They have since been added to our employment monitoring database.  
(see attachment).

- ESD recognizes the need to improve communication between ESDC offices to ensure that projects with job requirements are added to the job-tracking system. We are currently restructuring work flows and personnel responsibilities between ESDC units to ensure that information concerning monitoring responsibilities is properly conveyed. In addition, we are adding fields to the Project Tracking System that will integrate data from the Portfolio Management tracking system for monitoring projects having job requirements.

**AUDIT OBSERVATION:**

*In addition, we concluded that ESD needs to ensure that all projects with prescribed target levels of employment are tracked effectively and that employment levels reported by grant/loan recipients are verified on a periodic basis.* (Executive Summary, Audit Observations and Conclusions).

8. *“Conduct periodic verifications of employment data reported by grant and loan recipients, obtaining confirmations from the Department of Labor and/or conducting site visits.”* P. 16

*“During our fieldwork we asked ESD to obtain employment data from the Department of Labor for 50 projects that we selected judgmentally. However neither ESD nor DOL officials have provided us with the information we had requested.”* (Executive Summary, Audit Observations and Conclusions).

**ESD COMMENT:**

- The Comptroller’s proposal to use DOL data would not provide reliable information by which company employment could be verified. ESD pointed out to the auditors that the DOL information requested is not a valid or reliable measure of project performance, because the data (called the ES202 series) is based on overall company employment within the state, rather than at a specific location. In fact, the Center for Governmental Research (CGR), of Rochester, New York, which performed a statutorily mandated independent evaluation of industrial development agency performance for ESD reached the same conclusion. CGR attempted to use DOL data for its analysis of industrial development agencies. CGR abandoned the attempt, for the following reasons:
  - “Firms are not legally obligated to provide site information for multi-site firms, only for statewide employment.<sup>2</sup> It is for this reason that, in 1996, the NYC Economic Development Corporation discontinued its practice of requiring firms

<sup>2</sup> Employment totals for individual counties and metropolitan areas reported by the NYS Department of Labor to the public from the raw values in the ES202 database. Before publicly releasing employment totals, DOL adjusts individual records using other sources of information and estimation procedures to account for the actual location of employment (and other weaknesses of the ES202 series. The official record of employment is called the “current employment” or “CES” series, as distinguished from the ES202 series, generally referred to as “employment covered by unemployment compensation” or the “covered employment” series.

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\*See State Comptroller’s Notes, Appendix C

to send copies of the employment information furnished to DOL (submitted on a form designated IA-5). Of firms aided by IDAs, the proportion of multi-site firms is quite high, particularly so in New York City. DOL is aware of the problem and developed the Multiple Worksite Report to account for it. This is a parallel system of reporting for multi-site firms. While compliance with unemployment insurance reporting is mandatory (with penalties for non-compliance), the system of reporting employment by site is purely voluntary. In some cases, the assignment of employment to sites appeared to be somewhat arbitrary. DOL has no way of verifying data provided by individual firms and cannot require that reporting firms assign sufficient resources to the reporting process to ensure accuracy, although DOL does verify that employment created on the Multiple Worksite Report match the total reported on the form IA-5, Employer Report on Contributions.

- “It is not uncommon for firms (even if they have only a single business site) to have billing addresses that differ from the site address and to have more than a single name. Firms need only file a business name with their county (called a “doing business as” or “DBA” filing) to do business under a name that is different from the name of the parent partnership or corporation. Thus, “Bosham, Williams and Courtney, LLP” might file with the Department of Labor under the address of one of the partners, yet do business at a different address under the name “Precision Milling and Manufacturing.” This accounts for a large share of the projects in which DOL and CGR were unable to find the name reported by the IDA in the ES202 database.
- “Even when the name of the firms received from the IDA appeared to match the firm in the ES202 database, the address was often different. The address in the DOL data file is the address of record for unemployment insurance reporting. As firms often use agents (payroll processing and accounting firms, for example) to manage the record-keeping process with the state, it was common to find an out-of-state address in this field. Even when the address was in New York, it may have been in a different community or a completely different region of the state. Thus many of the records that appear to match IDA projects sites may not still be a match....
- “Employment through contract worker agencies, even if long lasting, is recorded in DOL records according to the name and address of the agency, not the work site. As this method of employment is becoming more and more common, there may be some instances among IDA projects in which employment reported by reference to DOL records is less than actual site employment.<sup>3</sup>”
- Despite the fact that the DOL data is of no value for the purpose intended by the Comptroller’s office, ESD requested DOL to provide it. Responding to this request required a significant amount of work by DOL, and was received subsequent to the completion of the Audit. Included with DOL’s data was a confidentiality agreement that we were required to execute. The agreement prohibited us from sharing the data with any other agency. Consequently, we

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<sup>3</sup> *Evaluation of New York State Industrial Development Agencies*, Center for Governmental Research, Inc., Rochester, NY, 14608, and Mount Auburn Associates, Somerville, MA 02144, April 1998, pp. 27-28.

informed the Comptroller's Office that it should seek the data from the Department of Labor.

- ESD is undertaking a verification audit to investigate the feasibility of confirming employment data provided by assisted companies by examining payroll registers for a subset of projects.
- Consequently, ESD believes that its survey is the most reliable currently available source of employment data at assisted firms. However, we will evaluate the feasibility of developing a reliable source of outside information through the verification audit.

**AUDIT OBSERVATION:**

*Although ESD has developed extensive profiles on the various industry clusters within the State, these profiles do not relate the actual employment levels of the clusters to measurable employment targets for the clusters. We believe that comparisons of actual employment levels among the clusters to specific job targets could be used to evaluate the effectiveness of ESD's programs.* (p. 6)

*Furthermore, it did not report on its job creation/retention efforts by industry; although ESD has stated specific strategies for industry clusters, it has no process for determining whether employment is actually improving or declining in specific targeted industries.* (p. 7)

**ESD COMMENT:**

- The auditors' suggestion that ESD establish job targets for industry sectors is unrealistic and contrary to the goals stated in ESD's *Strategic Plan*, along with fundamental principles of a free market economy.
- ESD has used its cluster analyses to identify industry groupings that offer significant marketing opportunities to its job creation programs. However, we have always taken the position that it is futile for government to attempt to allocate capital to specific industry sectors to drive economic growth to certain industries. Our *Strategic Plan* points out that "...the most effective means of fostering economic prosperity for New York's residents is by allowing the market to operate as freely as possible." For ESD, that means responding to the private sector rather than attempting to direct it.
- ESD's *Strategic Plan* also points out that "the growth or decay of industry clusters depends upon a number of factors that may be most broadly conceived of as including consumer demand for products or services, competitive advantages or disadvantages of localities, states, regions or nations as locations, and management decisions by key players." (p. 43). These competitive factors are, as the *Strategic Plan* points out, largely at the macro level, such as taxation and regulatory policies.
- ESD does track whether employment is actually improving or declining in specific industry clusters. It has produced a number of studies, including *New York State Industry Cluster Profiles*, *Industry Clusters in New York's Economic Development Regions*, and *New York's Industry Clusters: Regional Employment Patterns*. These studies include a significant amount of information about cluster performance in New York State, including employment change. In addition, at the beginning of each year, ESD's Policy and Research Division reviews available projections of industry cluster

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performance and summarizes them (*Industry Forecasts – 1999*). Since the Audit was completed, ESD has issued The *Empire State Development Major Projects Report*, which contains data on projects by industry cluster, as well as overall benefit/cost data on ESD projects.

**AUDIT OBSERVATION:**

*However, ESD’s data base frequently did not indicate contract-execution dates for its projects.* (p. 7)

3. *Ensure that project data bases include contract execution dates that will help management monitor the level of progress made by any projects or programs.* (p. 10)

**ESD COMMENT:**

- Until recently, all data entry into the ESD Project Tracking System (PTS) was centralized. In the past month, a new version of PTS has been widely distributed, which requires project staff to enter data directly into it, and is a more user-friendly and useful management tool. Project staff are now expected to enter key milestones, such as contract execution date, directly into the system. Compliance with this requirement will be monitored.

**AUDIT OBSERVATION:**

*ESD is required by the Omnibus Economic Development Act of 1987 and Chapter 732 of the Laws of 1990 to have some of its programs assessed independently every two years. The most recent report by an independent consultant was prepared in February, 1997. It identified weaknesses in information management, monitoring and performance measures; and noted that ESD made no comparisons of performance indicators with measurable program standards or objectives.*

**ESD COMMENT:**

- The Comptroller’s Audit unfairly characterizes the tone and content of the independent consultant’s report. The relevant sections of the report cited by the Comptroller are the following:

“New York State ...remains one of the few states that has taken performance measures seriously and that has sought to look critically at how it uses its economic development resources. This focus on measuring performance and evaluating state programs should be continued and strengthened. As this evaluation was undertaken, a number of recommendations emerged about how to improve this process in the future.

- “Continue efforts to create one unified ESDC database with basic information and develop management procedures to ensure that it is maintained....
- “Clarify the outcomes anticipated in each program and design performance measures relevant to that outcome...Depending on the “tool” used and the “outcome” anticipated, the performance measures should differ as follows...

- “ESDC’s programs that use incentives...should measure whether the proposed impacts actually occurred; the public investment benefits relative to the cost of the incentives; and whether or not the investment would have occurred without the incentive.
- “ESD’s programs involving business retention and expansion should include measures related to the number of jobs created during a given time period, a clear definition of what is meant by job retention, and the wage levels for jobs being created.

**ESD COMMENT:**

- The single database recommended by the consultant (the ESDC Project Tracking System) has been installed, data has been entered, and existing records are being backfilled and corrected. Additional project databases are being added as appropriate. With regard to the measurement of outcomes from incentive programs and business retention and expansion efforts, ESD measures and reports on each of the factors identified above through its benefit/cost measurement system, its *Major Projects Report* and the *Annual Report of Job Creation and Retention*, as is indicated above.

**AUDIT OBSERVATION:**

4. *Continue efforts to integrate the project management systems of the ESD agencies. Establish formal timetables for completion of the integration project. (p. 10)*
5. *Ensure that data maintained on automated systems that is used to monitor project progress (including actual employment levels versus target job requirements) is reliable. Have staff responsible for administering loan and grant programs periodically verify the propriety of such data as necessary.*

**ESD COMMENT:**

- Efforts are continuing to integrate project databases of ESD as appropriate. The Project Tracking System, using Visual Basic and SQL Server, has been distributed widely to staff for data entry and to aid in project management. It currently includes all UDC and JDA projects approved since January 1, 1995. Efforts are underway to add DED projects during the 99-00 fiscal year. MIS, Loans and Grants and Portfolio Management are correcting and backfilling the existing records, and adding data from historical databases. Science and Technology activity is not project-based, and hence is not appropriate to include in the PTS.

**AUDIT OBSERVATION:**

6. *Strengthen the content of the Annual Report of Jobs Created and Retained. The Report should include differences between the reported numbers of jobs created or retained and the base job requirements, as well as specific time frames indicating when the project should meet its job goals. It should also indicate annual changes in employment levels for projects that are listed for more than one year. (p. 16) – See also answers to following observations.*

*We reviewed ESD's 1997 [Annual] Report [of Jobs Created and Retained], which was the most recent one published at the time of our audit fieldwork. We found the following problems with the Report:*

- *It presents each project's most recently reported total employment figures, instead of the actual number of jobs created, retained, or lost.... (P. 12)*

**ESD COMMENT:**

- ESD believes that continued presentation of total employment allows for easiest comparison of overall project and program performance since our most significant objective is that overall employment at assisted companies meet contractual commitments.
- For projects initiated since 1995, ESD will provide two additional tables: one for projects having a retention component and another for projects where job creation is an objective. For retention projects, we will present columns showing actual employment, each company's employment retention target, and a column showing the difference between the two. For projects with a job creation objective, we will present columns showing actual job creation, the job creation target and a column showing the difference between the two. The table will also indicate the date of the employment target. Prior to 1995, baseline employment data was not kept by the Corporation. Consequently it will not be possible to provide these tables for pre-1995 projects.

**AUDIT OBSERVATION:**

*It lacks continuity from the previous year. Because new projects are added and other projects are completed (and are deleted from the Report) during the course of the year, it cannot be determined easily whether the overall program's cumulative job-creation/retention status has improved or declined from one year to the next. For example, the 1996 Report listed total project employment as of January 1, 1996 as 38,127; but the Report issued for the following year cites the total employment for 1996 as 30,270. Because the differences from year to year were not specified by project, the cumulative differences in total employment have little meaning. (P. 12)*

**ESD COMMENT**

- The report is intended to present a snapshot of employment at assisted companies and information concerning their status in meeting employment targets in a given year. It is not intended to provide cumulative data of the sort requested by the Comptroller.

**AUDIT OBSERVATION:**

*To draw a more meaningful comparison, we contrasted employment data from the 1996 Report to similar information from the same projects listed in the 1997 Report. We also analyzed data for those projects with employment levels reported for both January 1, 1997 and January 1, 1998.... A cumulative job loss of 1,761 was reported for 112 projects in the 1996 report.... In the following year, a cumulative increase of 2,640 jobs was reported for 115 projects, as follows: (P. 13)*

**ESD COMMENT:**

- Measuring the net job gain or loss from projects in a given year, as the Comptroller proposes, is not a more meaningful comparison than the one presented in the report. Because the mix of job retention versus job creation projects varies from year to year, the increase or decrease in the number of jobs at assisted companies from year to year is at best a crude indicator of program performance. In contrast, the data presented in the report concerning performance of firms relative to their job targets is a more refined performance measure.

**AUDIT OBSERVATION:**

*“It does not include a difference column that would indicate whether a specific project is either above or below its base job requirements. (P. 13)*

**ESD COMMENT:**

- ESD will include this column in future *Annual* reports.

**AUDIT OBSERVATION:**

*“The aggregate subtotals cited for each program are misleading, because the job requirements for many projects are shown as zero or NR (Not Required) (P. 13)*

**ESD COMMENT:**

- Contrary to the Comptroller’s assertion, the aggregate subtotals presented are not misleading. They were provided to present summary information concerning actual employment at companies assisted from particular programs.
- ESD will, in future reports, add a subtotal that excludes projects for which job requirements are zero, not required or not available.

**AUDIT OBSERVATION:**

*“It provides no information on time frames, such as target dates or time remaining before a project must reach its base job requirement. (P. 13)*

**ESD COMMENT:**

- ESD will include this information in future reports.

**AUDIT OBSERVATION:**

*It is not circulated among project managers in the Loans and Grant unit for review and comment about the accuracy of the projects monitored and data reported. (P. 13)*

**ESD COMMENT:**

- ESD is restructuring work flows and responsibilities to improve communication between units and to ensure that information concerning project closings is communicated between Loans and Grants and Portfolio Management. The actual job creation database will be incorporated in the agency-wide project tracking system. Project managers will have full access to this data.

**AUDIT OBSERVATION:**

*It contains errors, including the redundant listing of several projects in two or more places and the listing of one project several times with different names, in which case the project's data was counted twice. There are also mathematical errors, for example, subtotals are not added correctly. In addition, when we compared certain data with employment data submitted annually by grant/loan recipients, we determined that some projects had reported incorrect data... (P. 13)*

*To obtain a more accurate report of the number of jobs created or retained with ESD support, we reviewed the Report for 1997, correcting any errors that came to our attention. For example, our review showed that total employment for projects being monitored in 1997 totaled 44,497, while ESD's uncorrected report had indicated total employment of 42,813. Thus, for 1997, ESD understated the number of actual jobs by 1,684. (P. 14)*

**ESD COMMENT:**

- Portfolio Management has adopted the numbering system used in ESD's project tracking system. That system includes a unique identification number for each specific project site, and will eliminate any duplication.
- We acknowledge that the 1997 *Report* contained a mathematical error. We recomputed the column in question, and actual total employment at assisted companies is 47,292 – 4,479 more employees than were initially reported.. We have put project employment tracking data in new databases that should minimize the likelihood of this occurring again.

**AUDIT OBSERVATION:**

*ESD does not monitor or assess the success of a project once the loan has been paid off, nor does it maintain a data base of completed projects. Once a loan has been repaid, the corresponding project is deleted from ESD's tracking system without the preparation of a report that would indicate whether job requirement levels had actually been met, and, therefore, whether the project had been successful...(P. 14)*

*7. Develop a historic data base of information, and use it to determine whether finished projects have met their job requirements and to support the development of performance measures for current and future projects. (P. 16)*

**ESD COMMENT:**

- This assertion implies that ESD does not measure whether projects meet employment objectives. The assertion is incorrect. ESD establishes a date for each project by when each assisted company is expected to meet its employment target. The employment target is based on the employment objective that ESD used in formulating its assistance offer. This target is placed in company assistance contracts, along with penalties ESD may impose if targets are not met. ESD measures whether each assisted company meets its target and imposes penalties where appropriate.

- ESD does not delete completed projects from its data base.
- For all projects with employment requirements, ESD reports annually on whether targets are met. In the *Annual Report*, firms that do not meet employment requirements by the target date are identified as not in compliance.
- ESD will provide a separate table in future Annual Reports for firms that have reached the target date for their employment commitment. The table will show actual employment, target employment and the difference between the two.

**AUDIT OBSERVATION:**

*We determined that 183 projects were concluded during this [1993-1997] period...However, base job requirements had been set for just 47 projects, or 26% of the 183. Moreover, on a cumulative basis, these 47 projects had 1,878 or 21 percent fewer jobs than the total base requirements for the projects of 9,047. When we examined the projects individual figures, we determined that 18 (38%) of the 47 projects with base job requirements met or exceeded their job requirements, while 29 projects (62%) did not meet their prescribed job requirements. (P. 14)*

**ESD COMMENT:**

- The Comptroller's presentation of this data illustrates why the kind of analysis proposed in the Audit is of no real value for analyzing the effectiveness of current management or programs. All but one of the projects included in this analysis were initiated in the 1987-1994 period. None of the programs through which those projects were funded are currently in use. In addition, virtually all of the projects were selected during the previous administration by a completely different management team.
- ESD establishes base job requirements for all companies that are provided assistance for the purpose of job creation or retention (other than those that are provided assistance solely in the form of a training grant). The fact that only 42 of projects had base job requirements during the period reflects the fact that most projects undertaken by ESD during the pre-1995 period were for non-job creation or retention purposes.
- In contrast, 1998 employment at projects having employment targets exceeded requirements. Actual employment was 50,372, while target employment was 48,449. In 1997, actual employment was 36,885, compared with target employment of 35,835 (Source: *Annual Report of Job Creation and Retention*).

**AUDIT OBSERVATION:**

*A data base that includes indicators of the actual success of a project can be a valuable tool for performance assessment. For example, data could be maintained and used to determine whether job goals were met...(P. 15)*

**ESD COMMENT:**

- ESD's Portfolio Management unit maintains such a database. The *Annual Report of Job Creation and Retention* presents exactly the information that this observation proposes.
- ESD will improve the presentation of data in the *Report* to make clearer how well companies performed in meeting employment objectives.

## ATTACHMENT

### 50 PROJECTS

NUMBER	PROJECTS	COMMENTS
1 D084	HOWLAND BROS/ PRECISION WOODCRAFT	Did not close until 7/1/98
2 D017	AUDIOVAX INC	Did not close yet
3 B497	ALADDIN DEVELOPMENT	Guarantee completed
4 B497	NAGORI CORPORATION	Guarantee completed
5 C370	BLOCK INDUSTRIES	Guarantee completed
6 E515	J. KINGS FOOD SERVICE	JDA PROJECT
7 D115	NAVAL STATION NY REDEVELOPMENT	N/R (Government Project)
8 C345	ARROW ELECTRONIC	N/R (No Requirement in contract)
9 C231	BEDFORD STUY/PATHMARK	N/R (Assisted Community Econ. Dev. Org.)
10 C620	BROOME COUNTY/ AMETEK	N/R (Tracked under another project number)
11 B977	DUTCHESS BASEBALL STADIUM	N/R (Government Project)
12 C400	ROCHESTER STADIUM	N/R (Government Project)
13 C583	ARTISTIC GREETING	N/R (Tracked under another project number)
14 C280	BAUSCH & LOMB	N/R (Tracked under another project number)
15 E065	COOPER HAND TOOL	N/R (study grant)
16 C645	COORDINATED CHILD DEVELOPMENT	N/R (Child care facility)
17 C712	CORYDON AUTO	N/R (study grant)
18 C531	GENERAL MOTORS IN TARRYTOWN	N/R (study grant)
19 C075	GMDC WOOD PRODUCTS	N/R (Training Grant)
20 C346	I LOVE NY SPRING FESTIVAL	N/R (Assisted Local Econ. Dev. Org.)
21 C646	J.M. Murray(Business Incubator)	N/R (Assisted Local Econ. Dev. Org.)
22 C659	KINDER GARDEN CHILD CARE CENTER	N/R (Child care facility)
23 C150	MORIAH INCUBATOR	N/R (Assisted Local Econ. Dev. Org.)
24 E122	NIAGARA FALLS AIRBASE	N/R (Government Project)
25 C662	OSSING CHILDREN'S CENTER	N/R (Child Care Facility)
26 B851	PLIMPTON AVE RETAIL STUDY	N/R (study grant)
27 C371	RICH STADIUM L/G	N/R (Government Project)
28 C425	ROCHESTER HIGH TECH INCUBATOR	N/R (Assisted Local Econ. Dev. Org.)
29 D260	SCHATZ MFG	N/R (Training Grant)
30 C236	SOUTH BRONX OEDC OTREACH	N/R (Assisted Local Econ. Dev. Org.)
31 C296	TICONDEROGA COMMERCE	N/R (Assisted Local Econ. Dev. Org.)
32 B993	UTICA HEADSTART/CORNERSTONE DAYCARE	N/R (Child care)
33 C664	WOMEN HOUSING ED CHILD CARE	N/R (Child care)
34 C424	GREENPOINT MFG & DESIGN CTR	N/R (Assisted Local Econ. Dev. Org.)
35 C417	U.S POSTAL SERVICE (COHOES)	N/R (Government Project)
36 C856	HIGH TECHNOLOGY OF ROCHESTER	N/R (Assisted Local Econ. Dev. Org.)
37 C632	DAMOMICS COMPUTER/GLORIA FRIEDMAN	N/R (No job requirement because too few jobs)
38 C308	SPALDING SPORTS WORLDWIDE ISG/L	On 1998 Portfolio Report
39 C924	GM SUPER STEEL	On 1998 Portfolio Report
40 C603	HMG DIGITAL G/L	On 1998 Portfolio Report
41 C341	INGRAM MICRO ISG	On 1998 Portfolio Report

42 C041	GIANNI ENTERPRISES LTD	Paid -off 5/18/96
43 B936	MANHARDT ALEXADER	Paid -off 6/1/96
44 C634	HARTGEN ARCHEOLOGICAL	Paid-off 3/12/97
45 C611	DEAN & BARBOUR	Paid-off 5/2/97
46 D234	ACE HAREWARE	<i>Presently on Portfolio but not on 1998</i>
47 D128	MAINES PAPER & FOOD SERVICE	<i>Presently on Portfolio but not on 1998</i>
48 D766	SEALRIGHT CAMPUS	<i>Presently on Portfolio but not on 1998</i>
49 C209	H.E. ERECTORS	Taken of the Porfolio because the company went out of business
50 C288	JACKIE BOMBARD	Taken of the Porfolio because the company went out of business

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# State Comptroller's Notes

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1. In their response, ESD officials assert that they establish performance objectives for each project and compare outcomes with the established objectives. However, this statement is misleading. On page 1 of ESD's response [Appendix B-3] officials listed a number of benefit/cost ratios, benchmarks, etc. for each project as proof that ESD establishes performance objectives for each project and compares outcomes with established objectives. We acknowledge this on page 3 of our report, "We found that ESD has criteria for assessing project eligibility. . . ." But, ESD officials failed to mention that this analysis is only done to determine project "eligibility" for funding. No completed project is subject to such an analysis to compare its original objectives to its final outcome. Moreover, ESD only keeps track of employment levels which, according to ESD, "is largely outside its control." Also, our review found that ESD was not tracking employment levels for projects with loans that had been paid off and the current system used to collect the data for the projects was unreliable.
2. In their response, ESD officials state that their *Annual Report of Job Creation and Retention* (Report) measures the actual employment performance of firms receiving assistance through each ESD program. This statement is misleading. As described on pages 14 to 16 of our report, ESD listed the base job requirements (or targets) for many projects in the Report as "zero" or "not required." Thus, for those projects, any level of employment would exceed the preestablished targets, and therefore, improve the appearance of aggregate actual employment levels in relation to the aggregate employment targets for a program.
3. In their response, ESD officials state that they would have provided us with a detailed discussion of the 50 projects in question, if we asked for it. This statement is contrary to the facts. In September 1998, we provided ESD officials with written preliminary findings (including a request for their written comments) that specifically addressed disparities in ESD's automated project and job tracking systems. In addition, we met with ESD officials on several occasions both during and after the audit fieldwork in attempts to resolve questions regarding the reliability of the electronic data provided to us by ESD. ESD staff had considerable difficulties providing accurate data. Regardless of ESD's response to the draft report regarding the 50 projects, the fact remains that disparities exist in the data, leading us to question its reliability, as we conclude in the report on pages 13 to 14.
4. In their response, ESD officials state that they made the auditors aware of the unreliability of Department of Labor (DOL) data. This is correct, and we acknowledge the limitations of DOL data on page 18 of our report. The inherent problem with DOL data is that it would tend to report employment levels that are greater than those associated with specific ESD projects. Thus, by itself, DOL data cannot be used to verify that a recipient of ESD funding achieved the employment goals. However, our point is that if a DOL-reported employment level was less than that reported by a recipient of ESD funding, it would be a potential indicator or "red flag" that the recipient overstated its actual employment. We continue to question ESD's unwillingness to use the only means currently available to independently test the validity of the employment data reported from their projects.
5. In preparing the final audit report, we deleted certain comments that were included in the draft report that we submitted to ESD officials for their review and formal comment. Consequently, some comments included in ESD's response to the draft report relate to matters that are not presented in the final report.