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STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

December 6, 2002

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

Re: Report 2001-F-60

Dear Mr. Gargano:

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 have reviewed actions taken by officials of the Empire State Development (ESD) as of September 17, 2002 to implement recommendations contained in our report *Performance of Job Development Programs* (Report 98-S-7), issued on January 7, 2000.

In that audit we examined the Department's administration of job development programs to determine whether ESD established sufficient criteria and program indicators for measuring the cost/benefits of its job creation/retention programs; maintained adequate information systems for the collection of relevant data; used the data collected to develop economic plans and strategies and to assess the cost-effectiveness of its job creation/retention programs.

Background

In 1995, the Commissioner of Economic Development (Commissioner) reorganized and streamlined the State economic development agencies. Programs were consolidated and are now administered by the Empire State Development Corporation (ESDC). For marketing purposes, the Department of Economic Development and ESDC operate under an umbrella organization named Empire State Development (ESD). ESD administers a series of economic development programs designed to assist business and industries. ESD relies primarily on two programs for job creation and retention: the Empire State Economic Development Fund (EDF) and JOBS Now. In fiscal year 1997-98, the State Legislature appropriated \$45 million for EDF, \$25 million for JOBS Now, and \$4.9 million for Jobs Now 100. 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 companies upgrade or expand their operations. JOBS Now allows 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.

Summary Conclusions

Our prior audit concluded there was a need for ESD 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, and to significantly improve the reliability of data maintained on automated systems that management uses to track projects' employment levels. In our follow-up review, we found that ESD still maintains the position as presented in the 90-day response that the performance measures it uses were sufficient in the past, and still are.

However, a review of ESD's 1999 *Annual Report of Job Creation and Retention* (Report) shows that it still reports total employment figures and leaves it to the reader to determine how many jobs were actually created. We believe that the Report's clarity would improve with the addition of a column for jobs actually created (difference between original employment levels and reported actual employment levels). We found that ESD switched its monitoring technique from project-based reporting to reporting by the assisted company. To avoid duplicate counting of jobs created, it also now posts corrections for the companies with multiple projects. ESD officials disagree with our recommendation to ensure that the reported jobs created show continuity from year to year and they maintain that a snapshot of the situation at a given time is sufficient.

Although ESD has not provided documentation to support actions taken to implement recommendations regarding the reliability of the data within the systems used by ESD to monitor projects' employment level is sufficient, we found that ESD has completed the task of adding prior projects to the Project Tracking System and staff can enter all current projects to the system as the project progresses. ESD requires that each department designate a person responsible for periodic verification of accuracy of the data in these systems. In addition, ESD's Internal Auditor has introduced the verification of the reported employment levels on a sample basis.

Summary of Status of Prior Audit Recommendations

Of the eight recommendations in the prior audit report, four were implemented and four were partially implemented.

Recommendation 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.

Status – Partially Implemented

Agency Action – ESD officials indicated that the Annual Report of Jobs Created and Retained (Report) contains information for every project completed in the report year, and whether pre-established employment requirements were met. The purpose of the Report is to present data on actual employment at specific companies and in the aggregate from ESD assistance. ESD contractual requirements for assisted companies require them to meet overall employment targets including jobs created and retained. Therefore, they disagree with our

recommendation on the grounds that the Report already covers all the changes requested by the auditors.

Auditor's Comment – Despite ESD's response that the annual report satisfies the recommended changes, our review of the 1999 Report showed that the number of jobs that were actually created/retained reported, as 10,054, was not clearly incorporated in the Schedule A and had to be computed by the Auditor. Perhaps, the addition of one more column for jobs that were actually created would alleviate the problem. The only improvements noted were the elimination of duplicate counting of jobs funded from more than one source, and the introduction of verification of employment levels reported by the companies. This verification of employment was recommended by the ESD Internal Auditor to be performed on a sample basis and is discussed further in Recommendation 8. After our September 17, 2002 meeting with ESD officials to discuss our preliminary observations on the status of each recommendation in the prior report, they provided us with a copy of the Annual Report for 2000, 2001, and 2002. Our review of these Reports showed that some changes were made, starting with the 2002 Report, to improve the clarity of the information contained in the Report; however, ESD still takes credit for the total actual employment levels instead of the actual jobs retained or created with ESD assistance.

Recommendation 2

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

Status – Partially Implemented

Agency Action – ESD officials restated that the auditors misunderstood the objective of the Annual Report's (Report), which is to present information about contract compliance by company and not by project. However, ESD officials agreed that corrections for the companies with multiple projects are needed; we found such corrections made in 1999 Report's Schedule A. ESD also accepted our audit recommendation to report jobs created on the company level rather than on the project level.

Recommendation 3

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

Status – Implemented

Agency Action – ESD released a new version of Project Tracking System (PTS) that requires project staff to directly enter data and is user-friendly. Project staff is expected to enter project milestones such as a contract execution date. We obtained a printout of the PTS Milestone Reports for three projects and found that the contract execution date (Grant Disbursement Agreement fully executed) was on each report. ESD management will monitor compliance with this requirement.

Recommendation 4

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

Status – Partially Implemented

Agency Action – ESD officials told us that the integration of the project databases in 2000 was finalized. Although we made repeated requests for documentation to support these statements, we did not receive any for the integrations of the databases. Therefore, we could not complete our review of the system, to obtain reasonable assurance that the system is operating as planned.

Recommendation 5

Ensure that data maintained on automated system 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.

Status – Implemented

Agency Action – The PTS, using Visual Basic and SQL Server, has been distributed to staff for data entry and to aid in project management. It includes all Urban Development Corporation and Job Development Agency projects approved since January 1, 1995 and Department of Economic Development projects started during fiscal years 1990-2000. ESD officials have corrected and backfilled the existing records, and added data from historical databases. ESD staff enters all current projects into the PTS system. Each department has staff responsible for loan and grant administration periodically verify the accuracy of the project data on the system. The ESD Internal Auditor recommended that the verification of employment levels reported by the companies with job creation or retention goals on a sample basis as discussed in Recommendation 8.

Recommendation 6

Strengthen the content of the Annual Report of Job Creation and Retention (Report). The Report should include differences between the reported number 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.

Status – Implemented

Agency Action – Starting with the 1999 Annual Report of Jobs Created and Retained (Report), ESD officials are including differences between the reported number of jobs created and the base job requirements, as well as specific time frames indicating when the project should meet its job goals. The Report also indicates annual changes in employment levels for projects that are listed for more than one year.

Recommendation 7

Develop a historic database 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.

Status – Implemented

Agency Action – ESD officials maintain that they had a historic database at the time of the original audit although this database was not complete and not very reliable. ESD establishes a date for each project indicating when each assisted company is expected to meet its employment target. The employment data are available through contract compliance system that was integrated with the new PTS in 2000. Our review of the reports prepared by the ESD Internal Auditor for years 1999 through 2002 showed that he verifies employment figures on a sample basis through annual employment verifications audits to ensure reliability of the job data. ESD provided us written assurance to this effect as well as a copy of the Internal audit reports for years 1999 through 2002.

Recommendation 8

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

Status – Partially Implemented

Agency Action – The ESD Internal Auditor recommended the establishment of an on-going verification system (system) that includes requesting companies to reconcile reported employment to the information provided to the Department of Tax and Finance through its ES-45 (employment security) form and annually auditing the accuracy of a sample through such reported information. ESD's Internal Auditor is responsible for these audits.

Auditor's Comment – After September 17, 2002, ESD provided us with copies of audits done by its Internal auditor, but no supporting documentation was provided to support that ESD implemented this recommendation.

Major contributors to this report were Dominick Vanacore, Santo Rendon, William Lichtenberg and Alina Mattie.

We would appreciate your response to this report within 30 days indicating any additional actions planned or taken to address any unresolved matters discussed in this report. We also thank the management and staff of Empire State Development for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Carmen Maldonado
Audit Director

cc: Deirdre Taylor, DOB
Anita Laremont, ESD