

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

**STATE OF NEW YORK
EMPIRE STATE DEVELOPMENT
CORPORATION**

**ADMINISTRATION OF SELECTED
PROJECTS FUNDED THROUGH THE
REGIONAL ECONOMIC
DEVELOPMENT PARTNERSHIP
PROGRAM**

REPORT 96-S-39



H. Carl McCall
Comptroller



State of New York Office of the State Comptroller

Division of Management Audit and State Financial Services

Report 96-S-39

Mr. Charles Gargano
Chairman & CEO
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Albany, NY 12245

Dear Mr. Gargano:

The following is our audit report on the Empire State Development Corporation's administration of selected projects funded through the Regional Economic Development Partnership Program.

We did this audit according to the State Comptroller's authority as set forth in Section 1, Article V, of the State Constitution, and Section 8, Article 2, 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*

August 13, 1998

Executive Summary

State Of New York

Empire State Development Corporation

Administration Of Selected Projects Funded Through The Regional Economic Development Partnership Program

Scope of Audit

The Regional Economic Development Partnership Program (REDPP) was created in 1985 to foster long-term economic growth in New York State by strengthening regional economies, enhancing regions' economic development capacities, and creating new job opportunities. Since 1986, the Empire State Development Corporation (ESDC or Corporation) has received \$75.2 million in REDPP appropriations. As a result of new initiatives in the State's 1996-97 budget, the appropriation for REDPP was reduced to \$2.5 million. The new Empire State Economic Development Fund with an appropriation of almost \$39 million became the primary economic development program. Despite the reduced funding for REDPP, the conclusions and recommendations in this report are relevant to the new program as ESDC will still have to monitor project activities to determine whether project goals and objectives are achieved.

There are ten regions in New York State designated for economic development purposes. Each has a Regional Council that prepares strategic plans for their regions, reviews project application for consistency with the plans, and prioritizes REDPP applications. ESDC determines project eligibility, makes project awards, finalizes project contract documents, and monitors compliance with program regulations and contract terms.

We audited ESDC's administration of REDPP projects during the period January 1, 1986 through April 30, 1997. Our audit addressed the following questions regarding the Corporation's administration of the REDPP:

- Has the Corporation defined measurable goals for REDPP-funded projects?
 - When projects do have goals, does ESDC monitor compliance to determine whether they are met?
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Audit Observations and Conclusions

To determine the effectiveness of the REDPP and the achievements of individual projects, ESDC must collect information so it can measure job creation/retention. We found cases in which the Corporation had not received such data and, therefore, could not assess job creation/retention to determine the success of REDPP infrastructure projects. We reviewed nine of the 147 projects that were in force during our audit period. We found that ESDC received employment information from just four of these nine grant recipients. In three of the nine cases, ESDC did not require the agencies to report their employment figures.

Loan and grant recipients have not always reported employment totals or the number of jobs to be created or retained. Although most programs have measurable goals, the Corporation cannot determine the success either of individual programs or, more importantly, of the REDPP itself, without employment or job totals. ESDC should require grant recipients to report job creation/retention data so it can assess REDPP effectiveness. (See pp. 4-6)

We also reviewed the Corporation's administration of six training grants. We noted cases in which grant recipients provided less than the planned training hours or wages, yet received nearly the full grant amount. ESDC had not effectively monitored compliance with the terms of the training grant. The Corporation should obtain refunds when grantees do not provide the training for which they were paid. (See pp. 7-10)

Comments of Corporation Officials

Corporation officials are in general agreement with our findings and have agreed to implement most of our recommendations. We have addressed their comments in the report.

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Introduction

Background

The Regional Economic Development Partnership Program (REDPP) was created in 1986 to foster long-term economic growth throughout the State by strengthening regional economies, enhancing regions' economic development capacities, and creating new job opportunities. New York State has designated ten regions for economic development purposes. REDPP activities for each region, except New York City, are guided by a Regional Council (Council) made up of volunteers appointed by the Governor and the heads of certain local government units from within the region. In New York City, ESDC acts in place of a Council. Each Council prepares a strategic plan for its region, reviews project applications from within the region for consistency with the plan, and prioritizes the REDPP applications from within the region. The Empire State Development Corporation (ESDC or Corporation) determines project eligibility, makes project awards, finalizes project contract documents, and monitors compliance with program regulations and contract terms.

Since 1986, ESDC has recorded receiving \$75.2 million in REDPP appropriations. On September 30, 1996, ESDC had recorded \$6.5 million in cash and \$10.8 million in program loans receivable that, once collected, will be available to fund other new REDPP loan/grant awards. REDPP loans and/or grant awards recorded as being made since the program's inception are listed in the following table by funding category:

Funding Category	Total Awarded	Award Percentage
1. Business Development	\$11,038,184	11.68%
2. Business Infrastructure		
3. Infrastructure Investment	37,986,401	40.20%
4. Tourism Destination	4,268,874	4.52%
5. Child Care	2,671,911	2.83%
6. Recapitalized Regional Revolving Loan Trust Fund	2,500,000	2.64%
7. Economic Development Assistance Grants	16,849,007	17.83%
8. Skills Training	19,185,629	20.30%
Total	* \$94,500,006	100.00%

**As loans are repaid, the funds become available again. Thus the total amount of loans is larger than REDPP's total appropriations to date of \$75.2 million.*

ESDC's rules governing many economic development activities were changed after new initiatives were enacted in the State's 1996-97 budget. The new Empire State Economic Development Fund (ESEDf), with appropriations of \$38.75 million became a primary economic development program. Meanwhile, REDPP's appropriation was reduced to \$2.5 million for 1996-97. In spite of the reduced funding for REDPP, our findings and this report can be applied to the new program because ESDC will still have to monitor project activities to ensure that project objectives are achieved and that the Corporation gets what it pays for.

Audit Scope, Objectives and Methodology

We audited ESDC's administration of the REDPP for the period January 1, 1986 through April 30, 1997. Our objectives were to determine whether the REDPP-funded projects had measurable goals and whether such goals had been achieved. To accomplish these objectives, we interviewed ESDC officials and staff, examined files and records pertaining to selected REDPP projects, and visited some sites to assure ourselves that REDPP-funded construction had taken place.

We did our audit according to generally accepted government auditing standards. Such standards require that we plan and do our audits to adequately assess those operations which are included in our audit scope. Further, these standards require that we understand the Corporation's internal control system and compliance with those laws, rules and regulations, that are relevant to the 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 use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on operations 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, we devote little audit effort 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.

Comments of Corporation Officials

A draft copy of this report was provided to Corporation officials for their review and comment. Their comments have been considered in preparing this final report and are attached in their entirety as Appendix B.

Within 90 days after the 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 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.

Infrastructure Projects

The primary benefit to New York State of REDPP assistance is that businesses are supposed to use their grants to finance infrastructure projects that support activities leading to significant job creation/ retention. To determine the success of this program, we reviewed a judgmental sample of nine of 147 REDPP infrastructure projects in effect during our audit period. The nine represented \$4.2 million of the \$10.4 million in total disbursements. (In response to our draft report, an ESDC official asserted that the Hunts Point Cooperative Marketing Project was essentially to prepare a site for future development, and, as such, did not belong in this chart. The grant application, however, cites the potential of creating 450 jobs within two or three years of the project. Therefore, we believe the project should remain in the chart.)

Project Financial Information

Project Name	Loan Amount	Grant Amount	Disbursements
Town of Greenport Water Improvements Project	\$0.00	\$150,000	\$150,000
Motorola, Inc./Erie County IDA	450,000	300,000	750,000
Village of East Aurora/Fisher Price	312,581	208,387	520,968
Greene County/Stiefel Labs	441,000	294,000	735,000
Village of Camden/Omega Wire	260,000	140,000	400,000
City of Tonawanda Center for Industry Water Improvement	147,487	98,324	245,811
Snyder General Corp/Auburn IDA	300,000	200,000	500,000
Hunts Point Co-op. Marketing Infrastructure	0	400,000	400,000
Seneca Foods Infrastructure	250,000	250,000	500,000
Totals	\$2,161,068	\$2,040,711	\$4,201,779

To determine the effectiveness of REDPP and the achievements of individual projects, ESDC must collect pertinent data so it can measure job creation/retention. Although the Corporation does routinely assure that construction of applicable infrastructure projects actually takes place, we found that ESDC does not periodically assess the job creation/retention effort in connection with REDPP infrastructure projects. ESDC received employment information for only four of the nine projects we reviewed. The Corporation did not require three of the nine award recipients reviewed to report their employment data. As a result, it was unable to measure their achievement in this area. More importantly, by not requiring all award recipients to report employment data, ESDC could not fully assess the effectiveness of REDPP.

The recipients of awards made prior to April 1, 1994 (all of the projects we reviewed except Seneca Food Corporation), were local municipalities or economic development not-for-profit corporations. Applicants' forecasts of job retention or increased employment were used to justify these awards. Although most of these projects' contracts with ESDC incorporated provisions for periodic employment reports, the provisions were not always enforced. The Corporation did not require Omega Wire, Landers Corporation, or Fisher Price Corporation to report their employment figures, even though the contracts for these projects provide for reports on employment.

Moreover, because ESDC did not attempt to verify the accuracy of businesses' reported employment, it could not be assured it had reliable information to evaluate project achievements. For example, Motorola, Inc., reported the employment of 927 individuals as of January 1, 1997, but could identify just 874 employees receiving pay checks on that date. Similarly, AFF McQuay International, formerly Snyder General Corporation, reported the employment of 696 as of January 1, 1997, but could identify only 658 employees.

Some companies did not provide information as required. Local officials involved in the City of Tonawanda Center for Industry Water Improvement Project did not have information concerning employment at the businesses located in the industrial park expected to benefit from this project.

Consequently, ESDC has been unable to measure project achievement as it relates to job creation/retention, and thus cannot assess this aspect of the effectiveness of REDPP. ESDC officials now plan to verify the employment reports of the businesses that have received the largest economic development loans from the State. But since REDPP's

project indebtedness is small in comparison, employment reports for its projects are not likely to be checked.

We also found that business decisions sometimes limited the economic benefits of projects. Jobs were neither created nor retained by the Greenport Water project because the entities that were supposed to create the jobs associated with this project went out of business. In March 1996, five years after an REDPP award to Fisher Price had funded infrastructure improvements in East Aurora that were supposed to prevent the elimination of 133 jobs at its Glead Avenue building, the company closed its operations at that location. In the Village of Camden, Omega Wire had installed equipment that significantly reduced the amount of water it needed from the Village. As a result, the Village rarely operates the water filtration plant infrastructure funded by an REDPP award in 1993.

As part of the de-emphasis of REDPP and the establishment of the Empire State Economic Development Fund, ESDC now makes loans and grants to beneficiary companies rather than local municipalities. In addition, job creation/retention goals are incorporated into agreements that provide for interest rate penalties when goals are not achieved. We did not audit ESEDF, we believe however, that ESDC can improve its monitoring of program effectiveness by implementing our recommendations for future ESEDF projects and all new REDPP projects.

Recommendations

1. Monitor agencies receiving REDPP or ESEDF assistance for infrastructure projects to determine whether they report the required job creation/retention information. Test the accuracy of this information.
2. Use the information in Recommendation No. 1 to assess the job creation/retention achievements associated with REDPP or ESEDF funding, as well as to fully assess the effectiveness of the programs.

Training Projects

REDPP training project funds are used to prevent worker dislocation or to create employment opportunities and may involve other public or private development funds. We reviewed ESDC's administration of a judgmental sample of six of 237 REDPP training grants in which \$681,000 of a total of \$5.3 million was disbursed, and attempted to identify measurable economic development outcomes for each. Four of the six grants included in our sample had been awarded to agencies that trained their own employees. The other two were awarded to agencies that provided training intended to enhance the skills of other businesses' employees. The following table indicates the value of the grants we reviewed and the number of individuals served by the programs that were funded:

Name of Firm	Grant Amount	Payments	Period	Jobs To Be Created	Jobs To Be Retained
Allegheny PIC Training Turbodyne/ Dresser	\$200,000	\$192,057	7/1/88-5/31/90	181	58
Corning, Inc. Global Competition Workshop	199,550	169,787	3/1/90-2/28/91	48	351
Hazeltine Corp. Training Program	119,900	93,257	2/23/90-8/23/91	NA	1,200
MRC Bearings Training	99,900	80,922	10/1/94-N/A	NA	NA
Job Power/ Greater NY American Institute of Banking	150,000	119,721	5/9/90-5/8/92	144	NA
Red Hook CDL Training	25,000	25,000	3/95-3/96	0	0

In boxes marked NA, complete information was not available from ESDC records.

Our audit disclosed some cases in which ESDC had not monitored the progress of a project adequately or had not measured grant achievements after projects were completed. In one case, the Corporation had not determined the impact of a project's modification on job-creation/retention efforts. In addition, ESDC's grant agreements do not provide for recoupment of funds and ESDC has not established a standard for satisfactory completion of training goals for cases in which grant recipients have trained fewer than the number of agreed-upon number of trainees. In such instances, ESDC does not require or obtain refunds.

None of the four agencies whose records we reviewed had completed its original project plan. In addition, each grantee either had notified ESDC that some aspects of the project plan would not be completed or had requested significant changes to the original plans at the time the project should have been completed. The following table illustrates the lack of information available on such contractors:

Name of Firm	Grant Agreement Date	Original Project Period	Revised Project Period/Scope Approval/ Request Date	Revised Project Period
Allegheny	9/11/89	7/1/88-6/30/89	12/8/89- 3/13/90	7/1/89 - 2/28/90 3/1/90 - 5/31/90
Corning Inc.	9/14/90	3/1/90-2/28/91	10/29/92	
Hazeltine Corp.	12/12/90	2/23/90-2/23/91	2/21/91	2/23/90- 9/30/91
MRC Bearings	12/23/94	10/1/94-9/30/95	11/6/95- 3/20/96	10/1/95 -3/31/96 4/1/96 - 6/30/96

Neither Corning, Inc., nor Hazeltine Corp., had reported its project's impact on the firm's workforce in New York State. Although Corning reported employment figures at the end of its project, it did not indicate what proportion of those employees were working in the State. As a result, ESDC did not evaluate the Corning project's impact on employment. MRC Bearings did report that jobs were created, but it used conflicting employment numbers. Its final report to ESDC indicated total employment of 880, but a workforce of 842 was described in its annual report for that year. At the start of the project, MRC Bearings reportedly employed 833; thus the company's workforce may have increased by either 47 jobs or 9 jobs. Because of these conflicting reports, neither we nor ESDC could determine the success of this project. (In response to

our draft report, ESDC cites that employment does not determine the success of this project, since the goal was to train workers. We believe employment totals are relevant since the grant application indicates the creation of 20 jobs.)

Furthermore, ESDC should monitor the progress that recipients make toward achieving their agreed-upon goals. We found that ESDC did not determine the impact of changes in project plans on the project's objectives. For example, Corning reported training 86 percent of the number of employees planned to be trained, but it actually provided 56 percent of the planned training hours and paid 36 percent of the training wages. Yet ESDC paid the company 85 percent of its \$199,550 grant without evaluating the impact on the project of cutting the training time in half and paying lower wages to trainees. (In such cases, ESDC does not attempt to recoup the excess funding paid to the grantee.) However, in response to one of our preliminary audit findings, ESDC officials stated, "ESDC believes its proper oversight role to be assuring that the projects recommended to it from the regional councils are completed in substantial accord with the project plan presented to the Directors."

The grant agreement for Hazeltine's training projects was not finalized until 9.5 months into a project that was supposed to be completed within one year. The grantee provided training in four of the five courses originally planned and at reduced levels; more than half of the grant was used to fund a course that was added near the end of the training project. ESDC was not involved either in the establishment of the revised project plan or the evaluation of the impact these changes had on the projects objectives.

On the other hand, we found two grants that produced successful results. ESDC approved a grant of \$150,000 to Job Power/Greater New York American Institute of Banking, to train 144 clerical workers for employment at participating banks. The banks were to identify and recommend candidates for training. The grantee reported that the training was conducted between May 9, 1990 and May 8, 1992, with 113 individuals enrolled. Of these, 103 graduated; and 102 were placed in banking jobs. The training was provided during seven rather than four sessions, as planned, because of bank consolidations and reduced employment needs that resulted from downsizing. And, since training was provided to 31 fewer individuals than anticipated, the number trained was actually 78 percent of the total planned. We note that the actual cost to ESDC for this program was \$119,721, 79 percent of the grant.

The Red Hook CDL Training project helped fund a proposal sponsored by a Brooklyn not-for-profit neighborhood organization to train 30 to 40 local residents for commercial driving jobs. ESDC's Directors approved this project after being informed that the Department of Labor projected the need to fill 500 heavy- and 120 light-truck driving positions in New York City between 1992 and 1998, and that seven Brooklyn employers had committed to hiring 53 of the project's graduates. The grantee's staff reported that 33 of the 40 individuals selected for the training had graduated, and that 25 of those graduates had been placed in light truck driving positions. They also told us that through periodic contact with most of the 29 trainees, they have learned that most of the graduates they placed were still employed one year after they were trained in this project.

Recommendations

3. Monitor on-going training project activities to ensure that the project objectives are being achieved.
4. Obtain refunds from grantees that do not provide the training for which they were paid.

Major Contributors to This Report

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Charles A. Gargano
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June 26, 1998

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RE: Draft Audit Report (No. 96-S-39) on ESDC REDPP

Dear Mr. Challice:

In response to the above-referenced draft report, we would like to make the following comments:

Infrastructure Projects (Page 4)

As ESDC staff pointed out during the audit process, the Hunts Point Cooperative Marketing Project was an Infrastructure Investment Project Grant, and as such was not tied to a specific business location or expansion project which would directly create or retain jobs. Therefore this project should not be included in the discussion of business infrastructure projects, as its goal was to prepare an unusable site for future industrial development. Removing this project from the discussion of business infrastructure projects would cause the total grant amount for infrastructure to be \$1,640,711, and total disbursements to be \$3,801,779. All references to nine infrastructure projects (e.g. in introduction) should be changed to eight.

Infrastructure Project "Effectiveness" and "Achievement" (Page 5)

The report states that "...ESDC could not assess the effectiveness of REDPP" and "...ESDC has been unable to measure project achievement and thus cannot assess the effectiveness of REDPP." Comptroller's staff appears to define "effectiveness" and "achievement" solely in terms of job creation, while ESDC staff and REDPP legislation also consider the development of the infrastructure of New York as a goal of REDPP.

Infrastructure Recommendations 1 and 2 (Page 6)

The report makes recommendations regarding ESDC's administration of the Empire State Economic Development Fund (ESEDF). As the scope of this audit was REDPP, all references to ESEDF should be removed. (See also the paragraph preceding the recommendations.)

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William P. Challice
June 25, 1998
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Enforcement of Interest Rate Penalties (Page 6)

The report contains the following statement: "Although Corporation officials claim to have enforced interest rate penalties in the past, they could not provide documentation to that effect." As program staff explained during the audit, the interest rate penalty policy was not applied to REDPP infrastructure projects when the funding was provided to municipalities or local development corporations, as required by legislation, instead of directly to a company, as allowed in revised legislation. Corporation officials in ESDC's Portfolio Management, the unit responsible for monitoring and enforcing loan compliance terms, do not recall Comptroller's audit staff asking about enforcement, although they did answer questions regarding compliance. In fact, ESDC regularly enforces the interest rate adjustment policy as necessary.

Training Projects (Page 8)

The report states that because of conflicting employment numbers (growth by 47 jobs or 9 jobs) for MRC Bearings, the recipient of a training grant, neither the Comptroller's staff nor ESDC could determine the success of the project. In fact, the employment report has no bearing on the success of a project whose goals were to train a certain number of workers.

Thank you for the opportunity to comment on this draft report.

Sincerely,

