PERFORMANCE AUDIT

Department of Community and Economic Development
Job Creation Programs
Evaluation of business assistance awarded 2007-2010

December 2014
December 9, 2014

The Honorable Tom Corbett  
Governor  
Commonwealth of Pennsylvania  
Harrisburg, PA 17120

Dear Governor Corbett:

Enclosed is our performance audit of the Department of Community and Economic Development (DCED) and its administration of five job creation programs. The audit covered the following programs: Opportunity Grant Program, Customized Job Training, Industrial Development Program, Small Business First, and Pennsylvania Industrial Development Authority. We focused on 600 businesses that received $212.9 million in grants and loans from 2007 through 2010 and were monitored for contract compliance by DCED from July 1, 2010, through June 30, 2013, with updates through June 30, 2014.

Our audit focused on the extent to which these businesses that received assistance based on a pledge to create and/or retain jobs actually created and retained those jobs. Further, the audit determined what actions DCED took when businesses did not fulfill their contractual commitments to create and retain jobs. We also reviewed how DCED reported the results of its job creation programs to determine if that reporting was complete, accurate, and reliable.

We conducted this audit under the authority of Sections 402 and 403 of The Fiscal Code and in accordance with generally accepted government auditing standards as issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained meets those standards.

We believe that job creation programs are a critical tool in fostering a competitive business environment and, therefore, we do not question the value of these programs in assisting businesses in creating new jobs and retaining existing jobs in the commonwealth.
Our audit contains five findings on DCED’s administration and oversight of these job creation programs. Our audit found that DCED did not set any overall performance goals for each of its job creation programs that we reviewed, and as a result, DCED did not measure the programs’ success and effectiveness. We also found that DCED did not determine if some businesses actually created and retained jobs in compliance with their loan agreements. Specifically, when a business repaid its loan in full prior to DCED’s final job monitoring date, DCED did not verify if the business actually created and/or retained the promised jobs. As a result of these findings, we concluded that DCED did not provide true accountability and transparency to the General Assembly and the public.

In addition, we found that DCED did not comply with its statutorily mandated reporting requirements. Our review of DCED’s Annual Financing Strategy Report revealed key items required by law were missing. Further, DCED reported projected job creation and retention numbers as “actual” numbers, which was misleading. In addition, DCED overstated those projections by including numbers for projects that do not even have a job requirement. As a result, we concluded that DCED was not transparent about the businesses who received taxpayer-funded assistance and if that assistance actually resulted in job creation and retention.

We also found that DCED has made improvements since 2007 in its monitoring of businesses, as well as in its assessment and collection of penalties on businesses that failed to create/retain promised jobs. However, we found that additional improvements are needed. We made 13 recommendations in this report to improve DCED’s oversight of businesses awarded assistance, as well as its transparency and accountability to taxpayers over the use of these monies. We recognize that DCED has consolidated and merged some of the programs that we reviewed; however, we believe that our recommendations are still valid and relevant to the existing programs because they address DCED’s accountability, transparency, and oversight—concepts that are important to past and present job creation programs.

Finally, we would like to thank DCED officials for the cooperation extended to us throughout the audit.

Sincerely,

Eugene A. DePasquale
Auditor General

cc: Honorable C. Alan Walker, Secretary, Department of Community and Economic Development
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Pennsylvania’s job creation programs are a critical and valuable tool that has become even more significant in recent years in fostering a competitive business environment that attracts, retains, and supports businesses in the creation and retention of jobs in Pennsylvania. As such, it is critical for the Department of Community and Economic Development (DCED) to administer these programs in a way that encourages full accountability and transparency for each and every taxpayer dollar that is awarded to businesses. To that end, we evaluated the extent to which DCED determined if 600 businesses that received $212.9 million in assistance during the years 2007 through 2010 actually created or retained the jobs they promised in exchange for grants and/or loans. We also reviewed how DCED reported the results of its job creation programs to determine if that reporting was complete, accurate, and reliable.

Accountability Needed. DCED administers several job creation programs and, through those programs, awards millions of taxpayer dollars each year to businesses in exchange for those businesses creating and retaining jobs in Pennsylvania. A well-designed job creation program, with clear and measurable goals, greatly increases the likelihood that the intended outcomes can be achieved. Establishing program goals and performance measures can also identify strategies that are effective, or even ineffective, and, consequently, provide decision-makers with information needed to make future funding decisions.

Our audit found that DCED failed to establish clear and measurable program performance goals for the five job creation programs we reviewed. Examples of program performance goals can include increasing business employment by a certain number of jobs, increasing personnel wages by a certain amount, increasing new business investments in a targeted area, investing in strategic segments of the economy that will create better paying jobs, and reducing unemployment in a given area by a certain percentage.

DCED required businesses that were awarded grants and loans to report their final job creation and retention numbers to DCED. DCED then compared those numbers to the number of jobs pledged by the business in each contract to determine if the businesses fulfilled their commitments. While DCED believes this process satisfies our recommendation to measure overall program performance, we disagree because that approach is limited to only measuring the contract compliance of individual businesses. Without analyzing the overall program results and comparing those results to established goals, DCED is falling short in being accountable about the overall success of each job creation program. Determining a business’ compliance with its individual contract is not the same as evaluating the performance of an entire job creation program or determining if that program met its goals.

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1 These businesses were awarded grants and loans from 2007 through 2010. Because they were typically given three years to create/retain their pledged jobs, DCED monitored these businesses for final job numbers beginning July 1, 2010. We reviewed DCED’s monitoring data through June 30, 2014.

2 We reviewed two loan programs (Small Business First and Pennsylvania Industrial Development Authority) and three grant programs (Opportunity Grant Program, Customized Job Training, and Infrastructure Development Program). In 2011, these three grant programs were merged into one program, Pennsylvania First.
We calculated the number of businesses that met or exceeded their job projections and found that only 56 percent of the 600 businesses we reviewed actually created and retained the total number of jobs pledged. However, because DCED did not establish any program performance goals, there was no criteria to measure those results against, therefore, it is difficult to conclude if these programs achieved intended results. In this way, DCED’s accountability to the public about the effectiveness and real benefits of job creation programs was inadequate.

Transparency Needed. DCED was not transparent in reporting who received grants and loans or the extent to which these businesses actually created and retained their promised jobs. This information, as well as several other items (detailed in Appendix B), is legally mandated to be presented to the General Assembly in DCED’s Annual Financing Strategy Report, yet DCED failed to include this information in the reports we reviewed. Further, some of the information that DCED did include in its Annual Financing Strategy Report was inaccurate and misleading. Most notably, DCED presented job numbers that were projections but were labeled as “actual” job numbers. Not only were the job numbers mislabeled, they were also overstated which resulted in DCED presenting a more optimistic job creation outlook.

While DCED prepared other reports for the General Assembly, these reports also failed to include details on grant and loan recipients and information mandated by law. In addition, the information presented in the reports was not always consistent. By not complying with the law, DCED failed to provide the General Assembly with the information needed to make informed decisions about funding economic development programs in the commonwealth. Further, DCED was not fully transparent to the users of the annual reports about its use of taxpayer dollars—not only because these reports lacked vital information but also because the information the reports did include was misleading and unreliable.

Recommendations. We note in this report that since 2007 DCED has made improvements in its monitoring of businesses, as well as in its assessment and collection of penalties on businesses that failed to create/retain promised jobs. However, we found that additional improvements are needed. In this report, we present five findings and 13 recommendations. While some of the programs we reviewed have been combined into new programs, our recommendations are still valid and relevant to the existing programs because they address DCED’s accountability, transparency, and oversight—concepts that are important to any, and all, job creation programs.

The economic growth of the Commonwealth is dependent upon the attraction, creation and retention of jobs in the state—jobs with family sustaining wages—and this goal must continue to be a top priority to enable a prosperous commonwealth economy. Implementation of our recommendations, especially those related to developing program performance goals, will show a strong commitment on DCED’s part to administer its job creation programs in a manner that provides full accountability and transparency on the use of taxpayer dollars and the value of these types of economic incentives.
Introduction and Background

The Department of the Auditor General conducted this audit at the direction of Auditor General DePasquale who made a commitment to Pennsylvanians to perform an audit that evaluated the effectiveness of job creation programs administered by the Pennsylvania Department of Community and Economic Development (DCED) to ensure those programs are an effective use of public dollars.

DCED responsibility and mission

DCED has primary responsibility for administering Pennsylvania’s economic development programs. According to its website, DCED’s mission is “to foster opportunities for businesses to grow and for communities to succeed and thrive in a global economy.” DCED provides business assistance through a multitude of programs in order to keep companies (also referred to as businesses in this report) operating in the state, as well as to attract new companies to the commonwealth.

Some programs have a broad objective to spur economic development, while others are narrowly focused on the creation and retention of jobs. This audit focused on those DCED programs that included a requirement for businesses to create and/or retain jobs in Pennsylvania.

Job creation programs

DCED provides assistance to businesses for job creation and/or job retention purposes by providing loans, grants, and/or tax incentives. Businesses are able to apply for assistance from multiple programs and can do so by first completing the Electronic Single Application (ESA) posted on DCED’s website. Alternatively, businesses can work directly with the Governor’s Action Team (GAT)³ or with the county area loan organizations to request business assistance.

³ The GAT serves as a single point of contact for companies looking to establish new or expanded operations in Pennsylvania.
**Department of Community and Economic Development**

After a due diligence process that includes a review of the financial feasibility of the proposed project, DCED officials determine whether the applicant is qualified for the business assistance and whether the applicant will use the funding for eligible purposes. DCED can approve assistance from just one program or it can offer a package of assistance from multiple programs.

**Grant Programs**
Grants are monies awarded to a company with no requirement to repay the money. DCED’s job creation grant programs include the following:

- Infrastructure Development Program (also a loan program)
- Customized Job Training
- Opportunity Grant Program
- Pennsylvania First

**Loan Programs**
Loans are monies awarded to a company with the requirement to repay the full amount, with interest, within a specified timeframe. DCED’s job creation loan programs include the following:

- Pennsylvania Industrial Development Authority
- Infrastructure Development Program (also a grant program)
- Small Business First
- Machinery and Equipment Loan Fund
- Pennsylvania First (also a grant program)

**Tax Credit Programs**
Tax credits may be included in an award package offered to an eligible business. However, the actual tax credit issuance does not occur until after the business creates the jobs and provides proof of those jobs to the Pennsylvania Department of Revenue. DCED’s job creation tax credit programs include the following:

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4 In fiscal year 2011-12, DCED’s budget was reduced, and there was an increased focus on consolidating the large number of programs administered by DCED. As part of that consolidation effort, the Opportunity Grant Program, Customized Job Training, and the Infrastructure Development Program were combined into one program, Pennsylvania First.
Job creation programs reviewed in this audit

This audit focused on five job creation programs, each of which is detailed below.\(^5\) Each of these programs includes a requirement that jobs must be created and/or retained as a condition of receiving assistance. Further, these programs contain a penalty provision if the projected number of jobs are not created and/or retained. These five programs are as follows:

**Pennsylvania Industrial Development Authority (PIDA)**
The PIDA loan program offers funds to non-profit industrial development corporations, which either use the money for the development of business facilities and industrial parks or redistribute the loans to eligible job-creating businesses in Pennsylvania. According to the program guidelines, businesses are required to create or retain one full-time job for every $35,000 loaned.

**Small Business First (SBF)**\(^6\)
The SBF loan program provides small businesses with funds to help defray the costs of capital assets so that the business may retain and create jobs. According to the program guidelines, businesses are required to create or retain one full-time job for every $25,000 loaned.

**Infrastructure Development Program (IDP)**
IDP offers both grants and loans. This program provides funds to eligible applicants involved in capital investment programs. According to the program guidelines, a business is required to create one full-time job for every $25,000 of assistance.

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\(^5\) The other DCED programs were not included in this report for the following reasons: (1) the Pennsylvania First program is new and, therefore, few projects had reached the final monitoring point during the audit period; (2) an audit was recently conducted of the program (Machinery and Equipment Loan Fund and Job Creation Tax Credit Program); or (3) an audit must be completed by an independent financial auditor prior to the award of the tax credit (Film Tax Credit Program).

\(^6\) See 12 Pa.C.S. 2301 et seq. as amended by Act 161 of 2014, enacted October 22, 2014. Act 161 merged the Small Business First program (SBF) and certain other business assistance programs into the Pennsylvania Industrial Development Authority (PIDA).
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awarded or ten new full-time jobs (whichever is greater). For example, if a business were awarded $75,000 in assistance, that business would be required to create ten full-time jobs. Conversely, if a business were awarded $500,000 in assistance, that business would be required to create 20 full-time jobs.

**Customized Job Training (CJT)**
CJT is a grant program in which funds are granted to employers to partially cover the cost of providing their employees with specific, higher-level job training not covered by WEDNetPA. CJT is designed to facilitate the creation of higher-paying jobs, to provide for upgrading or retaining existing jobs, and to promote partnerships between companies and labor organizations so that recipients of job training find employment. While the program guidelines require the business to create jobs when receiving assistance, the guidelines do not state the minimum number of jobs that should be created relative to a specific award amount.

**Opportunity Grant Program (OGP)**
OGP is a grant program aimed at expanding existing industry within the state and attracting new industries to the state in order to facilitate the creation of additional jobs and spur economic development. According to program guidelines, businesses are required to create or retain a minimum of 100 full-time jobs or increase its employment by at least 20 percent, with the maximum grant award of $5,000 for every job created or retained.

In 2011, DCED combined the Opportunity Grant Program, the Infrastructure Development Program, and Customized Job Training into one program, Pennsylvania First. Because the Pennsylvania First program was so recently developed, DCED had minimal job performance data on this program. Therefore, we did not include this program as part of our detailed review in this audit.

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7 WEDNetPA is an alliance of educational providers across Pennsylvania that acts as a delivery mechanism for workforce training grants. Businesses in Pennsylvania, or those relocating to Pennsylvania, can access funds for various trainings.
The following table presents the amount of assistance awarded to the 600 businesses\(^8\) that were monitored from July 1, 2010, through June 30, 2013, for the five programs we reviewed in this audit. The total amount of assistance DCED awarded to these businesses was $212.9 million. These grants or loans were awarded to businesses from 2007 through 2010.

<table>
<thead>
<tr>
<th>Program</th>
<th>Number of businesses</th>
<th>Total amount awarded</th>
<th>Average award</th>
<th>Highest award</th>
<th>Lowest award</th>
</tr>
</thead>
<tbody>
<tr>
<td>OGP</td>
<td>165</td>
<td>$45.0 million</td>
<td>$272,807</td>
<td>$3,000,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>IDP</td>
<td>35</td>
<td>$28.2 million</td>
<td>$804,413</td>
<td>$1,875,000</td>
<td>$46,000</td>
</tr>
<tr>
<td>CJT</td>
<td>39</td>
<td>$5.1 million</td>
<td>$131,052</td>
<td>$619,800</td>
<td>$2,038</td>
</tr>
<tr>
<td>SBF</td>
<td>261</td>
<td>$40.4 million</td>
<td>$154,710</td>
<td>$200,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>PIDA</td>
<td>100</td>
<td>$94.2 million</td>
<td>$941,827</td>
<td>$2,250,000</td>
<td>$108,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>600</strong></td>
<td><strong>$212.9 million</strong></td>
<td><strong>--</strong></td>
<td><strong>--</strong></td>
<td><strong>--</strong></td>
</tr>
</tbody>
</table>

*Source: Developed by the Department of the Auditor General from DCED’s program monitoring reports.*

\(^8\) Technically, DCED provided 600 grants or loans through the five programs listed above. In some cases, a business may have received assistance from more than one program for the same project, which means that fewer than 600 businesses were actually awarded assistance. However, for ease of reporting, we state “600 businesses” since 600 different contracts were entered into for business assistance.
Finding One

DCED did not set any performance goals or measure the success of its job creation programs.

DCED did not establish performance measures for its job creation programs. Without such performance measurements, DCED could not determine if these programs were an effective use of public monies and if intended outcomes were achieved. Because DCED lacked performance measures, we analyzed the extent to which businesses that were awarded taxpayer-funded business assistance actually created and/or retained all the jobs they committed to in exchange for the assistance.

In our review of 600 businesses that were awarded $213 million in five different job creation programs, we found that only 336 of those businesses, or 56 percent, met or exceeded their job projections (determined to be “in compliance” by DCED) as of June 30, 2014.9 The following table presents the number of businesses in each program that DCED determined to be in compliance with their job projections.

<table>
<thead>
<tr>
<th>Program</th>
<th>FY 2010-11</th>
<th>FY 2011-12</th>
<th>FY2012-13</th>
<th>Three-year total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(37 out of 75)</td>
<td>(22 out of 39)</td>
<td>(25 out of 51)</td>
<td>(84 out of 165)</td>
</tr>
<tr>
<td>OGP</td>
<td>49%</td>
<td>56%</td>
<td>49%</td>
<td>51%</td>
</tr>
<tr>
<td>IDP</td>
<td>75% (15 out of 20)</td>
<td>100% (11 out of 11)</td>
<td>100% (4 out of 4)</td>
<td>86% (30 out of 35)</td>
</tr>
<tr>
<td>CJT</td>
<td>25% (2 out of 8)</td>
<td>53% (10 out of 19)</td>
<td>67% (8 out of 12)</td>
<td>51% (20 out of 39)</td>
</tr>
<tr>
<td>SBF</td>
<td>56% (41 out of 73)</td>
<td>59% (61 out of 104)</td>
<td>64% (54 out of 84)</td>
<td>60% (156 out of 261)</td>
</tr>
<tr>
<td>PIDA</td>
<td>39% (16 out of 41)</td>
<td>49% (16 out of 33)</td>
<td>54% (14 out of 26)</td>
<td>46% (46 out of 100)</td>
</tr>
<tr>
<td>Three-year total for all five programs combined</td>
<td></td>
<td></td>
<td></td>
<td>56% (336 out of 600)</td>
</tr>
</tbody>
</table>

Source: Developed by the Department of the Auditor General from information obtained from DCED.

9 187 of the 600 businesses either failed to meet their job projections or were granted more time to create those jobs, and DCED did not monitor the other 77 businesses for job performance so we could not determine if the jobs were actually created and/or retained.
When a business was awarded financial assistance with the condition of creating and/or retaining a certain number of jobs, the business was typically given three years to do so. Accordingly, our audit work focused on businesses awarded grants and loans from 2007 through 2010 and for which DCED began monitoring for final job creation and/or retention purposes beginning July 1, 2010. We obtained and reviewed DCED’s job performance monitoring data through June 30, 2014.

We found that for those businesses we reviewed, some created more jobs than they projected while others failed to meet their job creation projections. In addition, some businesses failed to retain all of their existing jobs resulting in a loss of jobs. As the table below shows, businesses reported that they created and/or retained thousands of jobs in the commonwealth. Even so, in the aggregate, businesses failed to fully reach their job projections in four of the five programs we reviewed.

<table>
<thead>
<tr>
<th>Program</th>
<th>Projected jobs</th>
<th>Actual jobs</th>
<th>Total jobs above/(below) projections</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>retained created</td>
<td>retained created</td>
<td></td>
</tr>
<tr>
<td>OGP</td>
<td>71,618          20,627</td>
<td>69,064        17,692</td>
<td>(5,489)</td>
</tr>
<tr>
<td>IDP</td>
<td>16,331          4,087</td>
<td>16,308        6,505</td>
<td>2,395</td>
</tr>
<tr>
<td>CJT</td>
<td>11,788          1,099</td>
<td>11,056        1,339</td>
<td>(492)</td>
</tr>
<tr>
<td>SBF a/</td>
<td>3,690           1,252</td>
<td>3,137         1,316</td>
<td>(489)</td>
</tr>
<tr>
<td>PIDA b/</td>
<td>4,951           2,306</td>
<td>4,614         2,298</td>
<td>(345)</td>
</tr>
<tr>
<td>Total</td>
<td>108,378         29,371</td>
<td>104,179       29,150</td>
<td>(4,420)</td>
</tr>
</tbody>
</table>

a/ Does not include 30 of the 261 businesses because DCED did not monitor them for final job performance. These businesses projected to retain 712 jobs and create 150 jobs. See Finding Three for additional information.
b/ Does not include 16 of the 100 businesses because DCED did not monitor them for final job performance. These businesses projected to retain 530 jobs and create 298 jobs. See Finding Three for additional information.

Source: Developed by the Department of the Auditor General from information obtained from DCED.

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10 See Finding Five for additional information on how businesses report their actual job numbers to DCED.
As previously stated, we found that only 56 percent of the businesses awarded assistance actually created and/or retained all of the jobs promised in exchange for the financial assistance provided by the commonwealth. When we asked DCED officials if this “compliance” rate is an indicator of whether the job creation programs are working, DCED officials responded that they do not consider overall compliance rates as a measure of a program’s success.

We then asked those officials how DCED measures the success of its job creation programs, and we found that DCED did not establish any performance goals for these programs, and it did not analyze statistics of actual job performance. When we discussed the results of our analysis of compliance rates with DCED officials, they explained that actual job results achieved are not the only measure of program success. Instead, DCED believes providing a business with access to capital is the critical component of the job creation programs. Further, they stated that the overall economic impact that a business had on the surrounding community should be considered when evaluating these programs. And with IDP and OGP, DCED considered the amount of private investment in the project as an indicator of success.\textsuperscript{11}

Even though DCED officials stated that overall economic impact is a component of program success, DCED has not developed any measurable means to determine this impact, stating that it is difficult to quantify economic impact. We find DCED’s reasoning to be insufficient—opting to forgo the development of criteria for measuring program outcomes due to difficulty is a disservice to the taxpayers.

However, DCED officials stated that there is one quantifiable measure that it can consider when deciding what type and how much assistance to award a business—a personal income tax.

\textsuperscript{11} OGP required a private investment that was at least four times the program grant award amount, whereas IDP had a private matching fund requirement that was at least two times the program grant award amount. We found that 8 of the 165 OGP projects and 5 of the 35 IDP projects we reviewed failed to meet these requirements.
calculation. DCED’s Governor’s Action Team (GAT) attempts to determine how many years it would take a business to recapture the assistance amount in personal income tax revenues generated from the newly-created and/or retained jobs. Yet, even in those cases in which GAT actually conducted a personal income tax analysis before awarding assistance, GAT officials acknowledged that they did not verify if the calculation was accurate after the job performance monitoring period was over.

DCED officials also stated that actual job creation and/or retention can be contingent on factors that cannot reasonably be predicted during the due diligence phase of the application process. Examples of these factors include the 2008 economic recession, health issues of business owners, or major suppliers’ going bankrupt.\[12\]

DCED’s mission is to provide opportunities for businesses to grow and for communities to succeed and thrive. Yet we found that DCED did not establish program goals or measurable outcomes, and as a result, DCED could not assure the public and the General Assembly that the commonwealth is getting a good return on its investment.

Recommendations

1. DCED should establish performance measures or goals for each of its job creation programs and include such measures in its Annual Financing Strategy Reports. As part of this process, DCED should review the job creation laws, as well as the grant, loan, and tax credit programs of other similarly populated states to determine whether those states have developed performance measures or goals for job creation that may be useful to Pennsylvania.

\[12\] One project we reviewed did not create any of the jobs pledged due to the economy. This business was given $2.5 million in IDP assistance, but overall, the commonwealth provided $27 million in grants and loans and issued $67 million in tax-free bonds for the development of Pennsylvania’s first ethanol plant. However, by the time the plant began converting corn into ethanol in December 2009, the market for the additive had withered. As a result, the company shut down and declared bankruptcy. In another project we reviewed, a business was provided assistance for the construction of a senior living facility, but the project was upended when the 2008 recession impacted commercial real estate projects. In Finding Two, we discuss how DCED penalized these businesses for failing to create promised jobs and note that DCED has not collected any penalties from them because they filed for bankruptcy.
Department of Community and Economic Development

2. DCED should develop procedures to evaluate the results of each job creation program using these measures to determine if each program is achieving intended outcomes.

Department of the Auditor General’s Evaluation of DCED’s Response:

Following is the Department of the Auditor General’s evaluation of significant points from DCED’s response to Finding One. DCED’s response to the report appears beginning on page 50.

In its response, DCED states that its job creation programs have clearly defined job creation/retention goals and that it measures the success of its job creation programs.

Throughout its response, it is clear that DCED believes that the activities of its Performance Monitoring Division equate to DCED having overall program performance goals and measuring the attainment of those goals. We disagree. The Performance Monitoring Division obtains a self-certification from each business awarded a grant or loan in exchange for creating/retaining jobs which documents the number of jobs the business reports that it actually created/retained. While this activity looks at how well individual businesses performed, this activity does not rise to the level of measuring the overall performance of an entire program. Overall program performance can only be measured when overall results, which DCED does not calculate, are compared to program performance goals, which DCED has not established.

Setting performance goals, and then measuring whether those goals have been attained, for each job creation program is important because the goals establish expected outcomes that DCED wants to achieve to facilitate economic development. Performance measures should be used to determine the progress DCED is making to attain its goals. Further, performance goals and measures provide information for decision makers at all levels, as well as provide accountability to the taxpayers. While external factors, such as the overall economic climate, can impact progress in attaining performance goals, such factors should not keep DCED from setting program goals, even if they are broad.
Examples of performance goals for DCED’s job creation programs could include:

- $X$ number of businesses will be assisted in a certain region of the state or in a targeted industry sector
- $X$ number of all jobs created will pay a wage at 250 percent, or higher, over the minimum wage rate
- $X$ number of persons will receive additional training in order to remain employed

DCED stated in its response to this report, “if there are other performance goals related to job creation that the department does not currently employ, DCED would be pleased to understand what the Auditor General’s Office has in mind and would consider implementation of such goals to the extent feasible and measurable.” The list above provides DCED with some examples and we would expect DCED to implement such goals for its job creation programs as soon as possible.

With regard to measuring performance related to those goals, while DCED had procedures in place to determine if individual businesses created and retained all jobs pledged in their business contracts, these procedures are only a contract compliance activity. DCED did not calculate the total number of businesses in each program that met their job projections. In fact, when we calculated these compliance rates for each of the five programs under review, DCED officials were surprised to see the results, which are shown on page 6 as a percentage of compliance rates. Further, DCED officials had no idea if these compliance rates were good or bad because DCED did not set any global, or overall, performance goals for each program to be measured against. While these compliance rates alone cannot determine a program’s success, such a calculation is a first step in analyzing the effectiveness and evaluating performance of DCED’s job creation programs.

In its response, DCED stated that it also measures the success of its job creation programs by examining private investment leveraged. DCED officials also stated that “it should be noted that if private investment had been measured instead of just job
creation, auditors would have discovered that private investment EXCEEDED commitments.”

We noted on page 8 of our report that, with regard to the IDP and OGP programs, DCED considered the amount of private investment in the projects as an indicator of success. Further, in footnote 11 on page 8, we reported what the investment requirement was for both OGP and IDP, as well as the number of businesses that met their investment requirements. Therefore, we are puzzled by DCED’s implication that we allegedly missed such information. To be clear, only two of the five job creation programs we reviewed required a private investment. Further, the amount of private investment that each business put into its project is not verified by DCED. Instead, DCED once again relied on self-reported information when it stated that “private investment EXCEEDED commitments.”

Nonetheless, given that the General Assembly’s intent in crafting legislation and funding for economic development programs clearly seeks effective job creation and retention in the public domain rather than private sector investments, our audit objectives focused on job creation and retention.

*****

In its response, DCED used the numbers in the table on page 7, to say that 96.8 percent of the 137,749 jobs pledged to be created and/or retained were actually created and/or retained, and faults us for not mentioning this statistic in our report.

DCED makes such a calculation by aggregating the jobs numbers, which statistically allows the businesses exceeding projections to compensate for businesses falling short of projections. Because we do not believe such a calculation is a balanced and fair presentation, we calculated the number of businesses that complied with the terms of their contracts, and as presented on page 6, we found that only 56 percent of the businesses met or exceeded their job projections.

*****
In response to Recommendation #1, DCED stated that it will look to other states to determine what performance measures or goals they have in place.

We are pleased to see that DCED will look to other states for performance measures and goals. Researching “best practices” of similarly populated states is a good first step; however, we continue to recommend that DCED actually establish performance goals for each of its job creation programs and include these items in its Annual Financing Strategy Reports.

If DCED truly looks to other states for performance goals for its job creation programs, we would expect it to establish program goals, and then measure progress toward those goals.

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In response to Recommendation #2, DCED stated that it already evaluates and monitors the results of each job creation program through its Performance Monitoring Division.

We disagree with DCED’s statement. As we stated earlier in this evaluation, DCED monitors individual businesses for compliance with contract terms, which is not the same as evaluating each job creation program to see if it achieved intended results. Therefore, we reiterate our recommendation that DCED establish true program performance goals and then implement procedures to evaluate the monitoring results and determine if each program is achieving its intended results.
Finding Two

DCED penalized businesses that failed to fully meet job projections as required by its contracts.

When DCED provided job creation and/or retention program assistance to businesses, those businesses entered into contracts with DCED requiring that jobs be created and/or retained in exchange for the assistance. If a business did not meet the terms of its contract (i.e., create and/or retain all jobs pledged), then DCED was required to impose a penalty on the business.

If the assistance was in the form of a loan, the penalty for noncompliance was an interest rate increase on the outstanding principle amount of the loan at the time of final monitoring. If the assistance provided was a grant, then DCED would “clawback”\(^\text{13}\) some or all of the money awarded. As such, penalties provided DCED with the opportunity to recoup some or all of funds that were awarded to a business that failed to fulfill its contractual obligations.

During the period of July 1, 2010, through June 30, 2013, DCED imposed an interest rate increase on 46 businesses that received a loan, but failed to create and/or retain all the jobs pledged. Further, DCED assessed $10.9 million in penalties against 72 businesses awarded grant assistance, and as of June 30, 2014, had collected over $4.5 million of those penalties.

As discussed in greater detail in the sections that follow, the reasons that DCED has not collected all of the penalties assessed include the following: DCED entered into payment agreements with some businesses, wrote off some penalties as non-collectable, while other cases are in some stage of a legal process in which DCED is trying to collect payment from businesses that may have filed for bankruptcy. However, the probability of DCED collecting the penalty from these bankrupt businesses is low because DCED is an unsecured creditor and by its own admission, it is unlikely that they will be able to recover a significant portion of their claim. The following table shows the status of DCED’s collection results.

\(^{13}\) The plain meaning definition of the word “clawback” is “[t]he recovery of money that has been disbursed, as by a government, pension, or company.” See http://www.yourdictionary.com/clawback, accessed on October 20, 2014.
Department of Community and Economic Development

as of June 30, 2014, from the 72 businesses penalized a total of $10.9 million.

<table>
<thead>
<tr>
<th>Total Penalties Assessed</th>
<th>Amount collected as of 6/30/14</th>
<th>Payment plan amounts outstanding</th>
<th>Amount written off</th>
<th>With DCED legal</th>
</tr>
</thead>
<tbody>
<tr>
<td>OGP $7,511,485</td>
<td>$4,310,155</td>
<td>$1,504,314</td>
<td>$475,270</td>
<td>$1,221,746</td>
</tr>
<tr>
<td>CJT $382,897</td>
<td>$222,375</td>
<td>$94,975</td>
<td>$65,547</td>
<td>$0</td>
</tr>
<tr>
<td>IDP $3,000,000</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$3,000,000</td>
</tr>
<tr>
<td><strong>Total</strong> $10,894,382</td>
<td><strong>$4,532,530</strong></td>
<td><strong>$1,599,289</strong></td>
<td><strong>$540,817</strong></td>
<td><strong>$4,221,746</strong></td>
</tr>
</tbody>
</table>

DCED imposed penalties on businesses that failed to meet job projections

As discussed in Finding One, only 56 percent of the businesses awarded assistance from 2007 through 2010 created and/or retained all the jobs pledged in exchange for the assistance provided to them. DCED determined a business’ success in meeting its job projections through a monitoring process. DCED’s Performance Monitoring Division (PMD) required each business to report its actual job creation and retention numbers three years after the award was made using a Project Update Report. When PMD received the final Project Update Report from the business, PMD then compared the actual job numbers to the projected job numbers to determine if the business complied with its contract.

If the business did not create and/or retain all jobs pledged, PMD recommended to DCED’s executive staff that one of three actions should be taken. This recommendation was based on PMD’s analysis of the percentage of jobs actually created versus those pledged, as well as the results of any communications PMD had with the business. The three possible actions were as follows:

- **Penalty.** DCED imposed penalties, which, for grant programs, was a repayment of a portion, or the entire amount, of the grant award. PMD determined the reimbursement amount by using a standard formula that

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14 Typically, final monitoring is completed after three years, but in some cases, businesses are given additional time to create and/or retain jobs. The term is spelled out in the contract. See Finding Five for additional information on DCED’s job performance monitoring process.
Department of Community and Economic Development

took into consideration the number of jobs actually created and/or retained versus the numbers pledged, as well as the amount of private investment the business provided.

For loan programs, the penalty was an increase in the loan interest rate. This amount of the rate increase was determined based on taking the current interest rate up to a rate that equals “prime plus two percent.”

- **Extension.** DCED gave the business additional time to meet its commitment of pledged jobs. In order for a business to receive an extension, it had to be very specific with DCED as to how it would use the extra time, how quickly it would create additional jobs, and how many jobs would be created.

- **Waiver.** In the PIDA program, DCED is permitted by regulation to grant the business a waiver of the penalty when certain circumstances contributed to the business’ failure to create and/or retain all of the pledged jobs.

DCED’s executive staff, taking into consideration the business’ circumstances and PMD’s recommendation, made the final determination on what action to take when a business failed to create and/or retain all pledged jobs by the end of the three-year period.

Our audit work focused on 600 businesses that were provided assistance from 2007 through 2010 and that DCED monitored for job performance starting July 1, 2010. Of that group of 600 businesses, 187 failed to create and/or retain all jobs pledged. DCED took the following actions with those businesses:

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15 For example, if the prime interest rate is 3.25%, then prime plus two percent is 5.25%. If a business was given an original interest rate of 4.00%, for example, then the penalty would be to increase the rate by 1.25%.

16 12 Pa. Code §§ 73.162 and 163(2).

17 We found that DCED also waived the penalty for two businesses in the Customized Job Training Program during our audit period.
In addition to these 187 businesses, we found that DCED deemed 20 of the 600 businesses to be “in compliance” with their job projections even though those 20 businesses did not actually meet their job projections. In most instances, the number of jobs created and/or retained was only a few jobs short of projections. In other cases, the business greatly exceeded its private investment, the business created a significant number of part-time jobs, or the business created numerous jobs across the commonwealth. We believe such discretion was reasonable, and we did not disagree with DCED’s determination that those 20 businesses were compliant with their contracts.

### DCED has significantly improved its penalty assessment and collection efforts

In order to determine if DCED followed its established procedures for imposing penalties on noncompliant businesses and then collecting those penalties, we conducted detailed test work on 39 businesses (14 received loans and 25 received grants) that failed to meet their job creation and/or retention projections. The results of our test work showed that, since our OGP audit in 2007, DCED has improved its performance in assessing and collecting penalties.

**Loan Programs.** Each loan agreement stated that in the event the business failed to create and/or retain all pledged jobs, the interest rate would be increased to a rate not to exceed prime plus two percent. As shown on the following table, for the 14 noncompliant businesses that received a loan, DCED increased the loan interest rate on each business in accordance with its policy of raising the rate to an amount equal to prime plus two percent. This practice resulted in interest rate increases for the 14 noncompliant businesses that ranged from .25 percent to 2.25 percent.
### Loan Project

<table>
<thead>
<tr>
<th>Loan Project</th>
<th>Loan Amount</th>
<th>Pledged Jobs to be created/retained</th>
<th>Actual Jobs reported as created/retained</th>
<th>% of actual jobs to pledged</th>
<th>Interest rate increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Business First</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>$125,000</td>
<td>5</td>
<td>3</td>
<td>60.0%</td>
<td>+ .25%</td>
</tr>
<tr>
<td>2</td>
<td>$200,000</td>
<td>63</td>
<td>53</td>
<td>84.1%</td>
<td>+ .25%</td>
</tr>
<tr>
<td>3</td>
<td>$200,000</td>
<td>8</td>
<td>2</td>
<td>25.0%</td>
<td>+ .25%</td>
</tr>
<tr>
<td>4</td>
<td>$190,000</td>
<td>8</td>
<td>3</td>
<td>37.5%</td>
<td>+ .25%</td>
</tr>
<tr>
<td>5</td>
<td>$113,750</td>
<td>15</td>
<td>13</td>
<td>86.7%</td>
<td>+ .25%</td>
</tr>
<tr>
<td>6</td>
<td>$200,000</td>
<td>87</td>
<td>0</td>
<td>0.0%</td>
<td>+ 2.25%</td>
</tr>
<tr>
<td>7</td>
<td>$146,250</td>
<td>31</td>
<td>22</td>
<td>70.9%</td>
<td>+ .25%</td>
</tr>
<tr>
<td>8</td>
<td>$200,000</td>
<td>41</td>
<td>24</td>
<td>58.5%</td>
<td>+ 2.25%</td>
</tr>
<tr>
<td>9</td>
<td>$200,000</td>
<td>8</td>
<td>3</td>
<td>37.5%</td>
<td>+ 1.25%</td>
</tr>
<tr>
<td>10</td>
<td>$200,000</td>
<td>100</td>
<td>0</td>
<td>0.0%</td>
<td>+ 1.25%</td>
</tr>
<tr>
<td>11</td>
<td>$200,000</td>
<td>8</td>
<td>4</td>
<td>50.0%</td>
<td>+ 1.25%</td>
</tr>
<tr>
<td>12</td>
<td>$200,000</td>
<td>9</td>
<td>4</td>
<td>44.4%</td>
<td>+ .25%</td>
</tr>
<tr>
<td>13</td>
<td>$153,400</td>
<td>35</td>
<td>33</td>
<td>94.2%</td>
<td>+ .50%</td>
</tr>
<tr>
<td>Total</td>
<td>$2,328,400</td>
<td>418</td>
<td>164</td>
<td>39.2%</td>
<td>--</td>
</tr>
</tbody>
</table>

### Infrastructure Development Program (loans)

<table>
<thead>
<tr>
<th>Loan Project</th>
<th>Loan Amount</th>
<th>Pledged Jobs to be created/retained</th>
<th>Actual Jobs reported as created/retained</th>
<th>% of actual jobs to pledged</th>
<th>Interest rate increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$1,250,000</td>
<td>110</td>
<td>0</td>
<td>0.0%</td>
<td>a/</td>
</tr>
</tbody>
</table>

*a/ This loan was part of a larger business assistance package given to a company to build an ethanol plant in Pennsylvania. The market for the product soured, and the business failed. The company declared bankruptcy, and the case has been assigned to DCED legal staff to pursue efforts of recouping funds through the bankruptcy process.

**Source:** Developed by the Department of the Auditor General from information obtained from DCED.

### Grant Programs

When a business failed to create and/or retain any of the pledged jobs, DCED required the business to repay the full grant amount. Additionally, when a business created and/or retained only a portion of the pledged jobs, the penalty amount assessed generally correlated with the percent of the pledged jobs that were actually created and/or retained. For example, if a company created and/or retained 25 percent of the pledged jobs, DCED charged a penalty that was 75 percent of the grant award.

As the table that follows shows, 25 businesses were penalized for failing to meet job projections, and 16 of those businesses have paid the full penalty to DCED. In four other cases, the
businesses notified DCED that they were unable to pay the penalty in one lump sum; therefore, DCED entered into a settlement agreement with those businesses allowing for payment of the penalty in installments, with the longest agreements spanning five years.

In the other five cases, DCED has not collected any of the penalty amount, and the cases were referred to DCED’s legal office to pursue legal action where possible. Typically, if the case is referred to DCED’s legal office, it’s because the business has filed for bankruptcy, and DCED’s chances of actually collecting the penalties are not promising. In fact, we noted that in two cases, DCED’s legal staff wrote-off the penalties as uncollectable.
### Opportunity Grant Program

<table>
<thead>
<tr>
<th>Project</th>
<th>Grant Amount</th>
<th>Total Created + Retained Jobs</th>
<th>% of actual jobs to pledged</th>
<th>Penalty Amount</th>
<th>Penalty as a % of Award</th>
<th>Penalty Collected as of 6/30/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$1,200,000</td>
<td>968</td>
<td>0%</td>
<td>$1,200,000</td>
<td>100%</td>
<td>$1,200,000</td>
</tr>
<tr>
<td>2</td>
<td>$1,300,000</td>
<td>2,271</td>
<td>89.1%</td>
<td>$57,231</td>
<td>4.4%</td>
<td>$57,231</td>
</tr>
<tr>
<td>3</td>
<td>$200,000</td>
<td>100</td>
<td>0%</td>
<td>$200,000</td>
<td>100%</td>
<td>$200,000</td>
</tr>
<tr>
<td>4</td>
<td>$500,000</td>
<td>418</td>
<td>32.2%</td>
<td>$384,098</td>
<td>76.8%</td>
<td>$384,098</td>
</tr>
<tr>
<td>5</td>
<td>$425,000</td>
<td>632</td>
<td>87.1%</td>
<td>$183,111</td>
<td>43.0%</td>
<td>$109,867</td>
</tr>
<tr>
<td>6</td>
<td>$550,000</td>
<td>590</td>
<td>81.5%</td>
<td>$81,750</td>
<td>14.8%</td>
<td>$23,100</td>
</tr>
<tr>
<td>7</td>
<td>$500,000</td>
<td>126</td>
<td>75.4%</td>
<td>$25,270</td>
<td>50.5%</td>
<td>$6,000</td>
</tr>
<tr>
<td>8</td>
<td>$350,000</td>
<td>284</td>
<td>92.2%</td>
<td>$23,100</td>
<td>6.6%</td>
<td>$23,100</td>
</tr>
<tr>
<td>9</td>
<td>$68,000</td>
<td>245</td>
<td>98.3%</td>
<td>$6,000</td>
<td>8.8%</td>
<td>$6,000</td>
</tr>
<tr>
<td>10</td>
<td>$350,000</td>
<td>528</td>
<td>78.7%</td>
<td>$140,000</td>
<td>40.0%</td>
<td>$140,000</td>
</tr>
<tr>
<td>11</td>
<td>$120,000</td>
<td>120</td>
<td>33.3%</td>
<td>$60,000</td>
<td>50.0%</td>
<td>$60,000</td>
</tr>
<tr>
<td>12</td>
<td>$100,000</td>
<td>111</td>
<td>22.5%</td>
<td>$90,000</td>
<td>90.0%</td>
<td>$0</td>
</tr>
<tr>
<td>13</td>
<td>$3,000,000</td>
<td>3,313</td>
<td>87.3%</td>
<td>$798,329</td>
<td>26.6%</td>
<td>$239,499</td>
</tr>
<tr>
<td>14</td>
<td>$600,000</td>
<td>1,529</td>
<td>98.4%</td>
<td>$54,760</td>
<td>9.1%</td>
<td>$54,760</td>
</tr>
<tr>
<td>15</td>
<td>$400,000</td>
<td>150</td>
<td>0%</td>
<td>$400,000</td>
<td>100%</td>
<td>$0</td>
</tr>
<tr>
<td>16</td>
<td>$150,000</td>
<td>72</td>
<td>0%</td>
<td>$150,000</td>
<td>100%</td>
<td>$0</td>
</tr>
<tr>
<td>17</td>
<td>$25,000</td>
<td>25</td>
<td>84.0%</td>
<td>$3,000</td>
<td>12.0%</td>
<td>$3,000</td>
</tr>
<tr>
<td>Total</td>
<td>$9,388,000</td>
<td>11,482</td>
<td>75.7%</td>
<td>$3,856,649</td>
<td>41.1%</td>
<td>$2,709,305</td>
</tr>
</tbody>
</table>

### Customized Job Training

<table>
<thead>
<tr>
<th>Project</th>
<th>Grant Amount</th>
<th>Total Created + Retained Jobs</th>
<th>% of actual jobs to pledged</th>
<th>Penalty Amount</th>
<th>Penalty as a % of Award</th>
<th>Penalty Collected as of 6/30/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$619,800</td>
<td>850</td>
<td>84.1%</td>
<td>$62,829</td>
<td>10.1%</td>
<td>$62,829</td>
</tr>
<tr>
<td>2</td>
<td>$297,900</td>
<td>2,431</td>
<td>83.0%</td>
<td>$22,975</td>
<td>7.7%</td>
<td>$22,975</td>
</tr>
<tr>
<td>3</td>
<td>$102,375</td>
<td>115</td>
<td>92.1%</td>
<td>$46,068</td>
<td>44.9%</td>
<td>$4,607</td>
</tr>
<tr>
<td>4</td>
<td>$179,350</td>
<td>223</td>
<td>10.7%</td>
<td>$24,270</td>
<td>13.5%</td>
<td>$24,270</td>
</tr>
<tr>
<td>5</td>
<td>$23,340</td>
<td>123</td>
<td>91.8%</td>
<td>$375</td>
<td>1.6%</td>
<td>$375</td>
</tr>
<tr>
<td>Total</td>
<td>$1,222,765</td>
<td>3,742</td>
<td>79.6%</td>
<td>$156,517</td>
<td>12.8%</td>
<td>$115,056</td>
</tr>
</tbody>
</table>

### Infrastructure Development Program (grants)

<table>
<thead>
<tr>
<th>Project</th>
<th>Grant Amount</th>
<th>Total Created + Retained Jobs</th>
<th>% of actual jobs to pledged</th>
<th>Penalty Amount</th>
<th>Penalty as a % of Award</th>
<th>Penalty Collected as of 6/30/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$1,250,000</td>
<td>250</td>
<td>0%</td>
<td>$1,250,000</td>
<td>100%</td>
<td>$0</td>
</tr>
<tr>
<td>2</td>
<td>$1,250,000</td>
<td>110</td>
<td>0%</td>
<td>$1,250,000</td>
<td>100%</td>
<td>$0</td>
</tr>
<tr>
<td>3</td>
<td>$500,000</td>
<td>48</td>
<td>0%</td>
<td>$500,000</td>
<td>100%</td>
<td>$0</td>
</tr>
<tr>
<td>Total</td>
<td>$3,000,000</td>
<td>408</td>
<td>0%</td>
<td>$3,000,000</td>
<td>100%</td>
<td>$0</td>
</tr>
</tbody>
</table>

---

a/ Being paid under a settlement agreement requiring five annual payments.
b/ This business has been determined to be in “financial hardship,” which means DCED does not anticipate receiving this penalty payment and, therefore, it will be written off as uncollectable.
c/ Settlement agreement reached in July 2014 requiring 36 monthly payments.
d/ Being paid under a settlement agreement requiring 20 quarterly payments.
e/ Business left the site; case sent to DCED legal staff, which has written off the penalty as uncollectable.
f/ This case has been assigned to DCED legal staff; no information was available on collection efforts to date.

Source: Developed by the Department of the Auditor General from information obtained from DCED.
DCED’s assessment and collection of penalties from businesses that failed to create and/or retain jobs when given grants has greatly improved since 2007. In our 2007 audit of the Opportunity Grant Program, we found that DCED waived the penalties for non-compliant companies 122 times, resulting in the forfeiture of over $33 million. Further, when DCED did assess penalties, it was not aggressive in actually collecting the full penalty. Our test work for this audit showed that DCED did not waive any penalties for OGP grant recipients and that DCED made significant improvements in the assessment and collection of penalties.

Recommendation

3. DCED should continue to hold businesses accountable for creating and/or retaining the number of jobs pledged by continuing to impose a penalty when DCED determines that businesses did not fully comply with their contractual obligations.

Department of the Auditor General’s Evaluation of DCED’s Response:

Following is the Department of the Auditor General’s evaluation of significant points from DCED’s response to Finding Two. DCED’s response to the report appears beginning on page 50.

In its response, DCED agreed with this finding and the recommendation.

No evaluation necessary.
Finding Three  DCED did not verify if 46 businesses awarded $16.9 million in PIDA or SBF loans actually created and/or retained jobs.

We found that DCED did not monitor job performance in the Pennsylvania Industrial Development Authority (PIDA)\textsuperscript{18} and Small Business First (SBF)\textsuperscript{19} loan programs when businesses paid the loan off in full prior to the final scheduled job monitoring date. As a result, DCED had no assurance that the businesses actually created and/or retained the jobs pledged, even though creating or retaining jobs was a condition of each loan that was awarded.

During our audit period, 100 businesses that received a PIDA loan from July 1, 2007, through June 30, 2010, were due to be monitored for job performance during our audit period. Of that number, 16 businesses, or 16 percent, paid off the loan prior to the final monitoring date. Also during our audit period, 262 businesses were awarded a SBF loan from July 1, 2007, through June 30, 2010, of which 30 businesses, or 11 percent, were paid off prior to the final monitoring date. The table below shows loan amounts awarded to these businesses in total, as well as the number of jobs these businesses pledged to create and retain.

<table>
<thead>
<tr>
<th>Program</th>
<th>Number of businesses</th>
<th>Total loan amount to these businesses</th>
<th>Job Projections:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Retained</td>
</tr>
<tr>
<td>PIDA</td>
<td>16</td>
<td>$12,305,027</td>
<td>530</td>
</tr>
<tr>
<td>SBF</td>
<td>30</td>
<td>$4,616,927</td>
<td>712</td>
</tr>
<tr>
<td>Total</td>
<td>46</td>
<td>$16,921,954</td>
<td>1,242</td>
</tr>
</tbody>
</table>

Source: Developed by the Department of the Auditor General from information obtained from DCED.

\textsuperscript{19} The chapter relating to the Small Business First Program. See 12 Pa.C.S. § 2301 \textit{et seq.} (Act 12 of 2004).
Both the PIDA and SBF loan programs require that jobs must be created and/or retained as a condition of receiving a loan. These requirements are contained within pertinent statutes or regulations, as well as in DCED’s program guidelines. The guidelines for these programs state the following:

<table>
<thead>
<tr>
<th>PIDA</th>
<th>SBF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provides low-interest loans to local nonprofit industrial development corporations (IDCs) for eligible businesses that commit to creating and/or retaining jobs and to IDCs directly for the development of industrial parks and multi-tenant facilities. For each $35,000 loaned, PIDA requires that at least one full-time job be retained and/or created at the project site within three years after the PIDA loan has closed. (Emphasis added.)</td>
<td>Designed to stimulate the expansion and assist in the retention of small businesses for the purpose of creating new jobs and retaining existing jobs in Pennsylvania. Except for loans to agricultural producers, one full-time job must be demonstrated to be preserved, or created and maintained through the end of the three year monitoring term for each $25,000 loaned from SBF. (Emphasis added.)</td>
</tr>
</tbody>
</table>

In addition, each business entered into a loan agreement, and these loan agreements include a provision that the projected number of jobs to be created and/or retained must be attained within three years from the date the business was provided the loan. In accordance with the statutes and program guidelines, the loan agreements stated that the interest rate can be increased if the business did not create and/or retain the total number of projected jobs.

**DCED did not require loan recipients to report their job performance if it paid off the loan early**

When a business paid off a SBF or PIDA loan prior to the final job monitoring date, DCED did not monitor the business for job performance. As we discuss in Finding Five, DCED did

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20 For the PIDA Program, see 73 P.S. § 392.7; 12 Pa. Code § 73.11 et seq., and in particular 12 Pa. Code § 73.14. For the SBF Program, see in particular, 12 Pa.C.S. §§ 2303 and 2306(c)(1)(iii).
not conduct any interim monitoring in these two loan programs. Further, even though the loan agreements included a provision requiring a specific number of jobs that must be created and/or retained, we found that DCED did not conduct final job performance monitoring when a company paid off its loan before the three-year monitoring period had expired. DCED staff stated that if the loan was paid off early that there was no reason to monitor for job performance since the penalty for not meeting the job numbers—an interest rate increase—could not be applied.

While we agree that an interest rate increase is not applicable when a loan is paid off early, DCED could institute other penalty provisions if jobs are not created and/or retained within three years. For example, as part of the specific terms and conditions contained within the loan agreement, DCED could add a term that states a cash penalty will be assessed if the projected number of jobs are not created and/or retained in the event a loan is paid off early. Such a penalty could be a certain percentage of the original loan amount.

While DCED staff stated that there was no reason to monitor for job performance if the loan was paid off early, we found a compelling reason in the PIDA regulations. Specifically, PIDA regulations state that PIDA may refuse to approve a new loan for a company which fails to meet employment projections, unless warranted. In addition, one of the specific terms and conditions of current PIDA loan agreements that we reviewed states that “if the job projections are not met to the satisfaction of the PIDA Board, any future loan applications by [name of business] or its affiliates may not be approved.”

If DCED fails to determine whether a business actually created and/or retained the promised jobs, then DCED is missing an important fact about this company’s past performance that could be a gauge for lending money to this same business in the future.

The purpose of these programs is clear—loans are awarded to help create and/or retain jobs. Further, the PIDA and SBF program laws, regulations, or guidelines do not create an exception for job performance when loans are paid off in

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21 12 Pa. Code § 73.163.
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advance of the final monitoring date. Therefore, DCED has the responsibility to monitor every company that receives a job creation/retention loan, regardless of early loan pay off, to ensure that the commonwealth is getting a good return on its investment.

When DCED fails to monitor all projects for job creation and/or retention, DCED cannot accurately measure the success of the loan programs. Moreover, DCED cannot assure the governor, General Assembly, and the public that these business loans were a good use of state funds.

Finally, the PIDA regulations said it best—if a project is not creating jobs, PIDA’s funds would be better directed to those businesses which would comply with the objectives of PIDA’s program.

Recommendations

4. DCED should monitor all businesses awarded a PIDA or SBF loan for job performance, including those businesses that pay off the loan prior to the final monitoring date, by ensuring that it obtains the final job creation and/or retention numbers from the businesses.

5. DCED should ensure that PIDA and SBF loan agreements include a penalty provision that addresses the type of penalty DCED can impose in the event the loan is paid off prior to the final monitoring date and the projected number of jobs was not actually created and/or retained. This penalty could require the business to repay DCED for a certain percentage of the original loan amount.

Department of the Auditor General’s Evaluation of DCED’s Response:

Following is the Department of the Auditor General’s evaluation of significant points from DCED’s response to Finding Three. DCED’s response to the report appears beginning on page 50.

22 PIDA regulations state that “[a]ctual employment creation is one measure of the program’s success.” See 12 Pa. Code § 73.161.

23 Ibid.
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In its response, DCED acknowledged that it does not monitor a business for job creation/retention once the loan is paid in full. DCED then states that the reason it does not monitor these businesses is “…the penalty if a business does not meet its job commitments is raising the interest rate on the loan, which would not be available if the loan has been paid off.”

While we also noted that same fact in our report, we then recommended that DCED institute another form of penalty, such as a cash penalty for a certain percentage of the loan.

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In its response, DCED states, “The only other recourse DCED has is if that business applies for another loan, in which case we could deny the assistance if there were not satisfactory explanation for the failure to meet prior job commitments. It is worth noting that when a business that failed to meet its job commitments applies for another loan, the commitment on the second loan must include those jobs that were not created or retained under previous loan agreement in addition to whatever job requirements are laid out in the guidelines.”

As stated in our report, PIDA regulations specifically state, “PIDA may refuse to approve new loans for a company which fails to meet its employment projections.” While we are pleased that DCED indicated that it implements that provision of the regulations, this action does not take into account those businesses who do not apply for a subsequent loan. In other words, DCED is still not monitoring all businesses that paid off their loans early.

It is difficult to understand DCED’s reluctance to monitor all businesses that received a loan, regardless of when the loan was paid in full. Simply stated, the business entered into a contractual agreement with DCED to create and/or retain a specific number of jobs in exchange for a low interest loan. Therefore, it is DCED’s responsibility as the contract monitoring agency and program administrator to ensure that every loan recipient complied with all contract provisions, including the job creation/retention requirements.

In addition, DCED’s failure to monitor these loan recipients adversely impacts its ability to adequately measure the success
of the loan programs. For example, DCED cannot tell us if the 46 loan recipients mentioned in the report (who paid off their loans early) actually created/retained the 1,690 jobs they were contractually required to create/retain; therefore DCED cannot ascertain whether or not the $16.9 million in loans resulted in actual job creation and/or retention.

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In its response to Recommendation #4, DCED states, “The Pennsylvania Industrial Development Authority is an independent authority; therefore, to accomplish this, changes to the contracts would need to be made, to which the PIDA Board would need to agree. Similar changes would need to be made to the SBF contracts as well.”

DCED’s response does not address the recommendation. We do not believe that changes to the contracts are required to allow DCED to monitor loan recipients for contract compliance. As discussed in Finding Five, DCED has made significant improvements in its monitoring activities and implementation of this recommendation is imperative if DCED wants to maintain a good record of monitoring businesses that receive assistance from the commonwealth. We cannot stress enough how important it is for DCED to fully and adequately perform its oversight responsibilities.

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In its response to Recommendation #5, DCED states, “DCED will work with PIDA and Area Loan Offices (ALOs) to determine what penalty, if any, is appropriate in the event a business has not fulfilled its job commitment and when that penalty could be imposed.”

It appears that DCED agrees with our recommendation by pledging to work with PIDA and the ALOs on determining what type of penalty would be appropriate for businesses that failed to fulfill their job commitments when they pay off their loan early. DCED did not specifically address the part of the recommendation that DCED should ensure that PIDA and SBF loan agreements include a penalty provision that addresses the type of penalty DCED can impose even if the loan is paid off early.
Finding Four DCED’s *Annual Financing Strategy Reports* are incomplete, misleading, and unreliable.

DCED is statutorily required to annually develop a report containing DCED’s financing strategy within the commonwealth and submit that report to specified officials in the General Assembly. While we found that DCED developed an *Annual Financing Strategy Report* (which we also refer to as the annual report) each year, we found that these annual reports did not include all the statutorily required information. Further, we found that the reported number of jobs to be created and retained by businesses awarded monies was significantly inflated.

In its mission statement, DCED assures transparency and accountability in the expenditure of public funds. However, DCED fell short of this mission with its *Annual Financing Strategy Reports*. These reports presented unverified job performance data because DCED included thousands of jobs from businesses that DCED did not monitor to ensure the jobs were actually created and/or retained. In addition, DCED presented projected job creation and retention numbers and was not transparent with report users that the numbers were solely projections.

The flaws with the data presented in the annual reports led us to conclude that the reports were incomplete, misleading and unreliable. Because these are statutorily required and intended to be a key source of information for the General Assembly, it is imperative that these reports give a full and accurate presentation of the job creation programs that are funded with taxpayer dollars.

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24 12 Pa.C.S. §§ 303 and 304; the annual report is to be submitted to the Secretary of the Senate, the chairperson of the Appropriations Committee of the Senate, the Chief Clerk of the House of Representatives, and the chairperson of the Appropriations Committee of the House of Representatives.
We reviewed DCED’s *Annual Financing Strategy Report* for three fiscal years and found that these reports did not include at least three of the seven statutorily required components. The three missing items are as follows:  

- A description of the performance measurements and accountability factors to be applied and the performance targets or goals to be met for each economic development program.
- A description of long-range planning for the economic development programs through the next five fiscal years.
- A list of the loans, grants or credits approved for the economic development programs during the fiscal year. The list shall include a brief description of and details regarding each loan, grant or credit approved, including penalties imposed by the department.

Of the seven itemized pieces of information that DCED is required to include in the annual reports, we consider DCED’s failure to provide the “description of the performance measurements and accountability factors to be applied and the performance targets or goals to be met for each economic development program” to be the most significant to exclude. Such information would inform the report users of the goals of the individual programs, as well as how DCED assesses the success or failure of the programs.

More concerning, we found that DCED did not include such information in its annual reports because, as discussed in Finding One, DCED did not set performance goals for each job creation program. Without such measures, it is difficult to determine if the taxpayers are getting a return on their investment. Further, the General Assembly is lacking useful

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25 This finding repeats a finding in our 2007 audit of the Opportunity Grant Program where we reported that DCED did not include all of the mandated information in its annual reports.

26 12 Pa.C.S. § 303; see Appendix B for list of each mandated component that should be reported in the *Annual Financing Strategy Reports*, as well as information showing the extent to which DCED included these items in its three most recent annual reports.
information necessary to make an informed decision about whether annual appropriations to these programs should continue. Finally, without appropriate goals and performance measures, it is difficult to hold DCED accountable for its administration and oversight of these job creation programs.

Annual Financing Strategy Reports overstated the number of jobs created and retained

We found several problems—even fallacies—with the information presented in the three Annual Financing Strategy Reports that we reviewed, with the most notable issue being the overstatement of job numbers. In addition, DCED failed to provide explanations for the information and data presented, and failed to report accurate data.

For example, the 2012-2013 annual report leads the report user to believe that 39,308 jobs were created in 2010-2011. However, 39,308 is the number of jobs projected to be created—not actually created. Since most job creation programs allow three to five years for a business to create the pledged jobs, the businesses that comprised the 2010-2011 figure of 39,308 jobs have at least until 2013-2014 to actually create all the jobs pledged. Accordingly, at the time DCED prepared the 2012-2013 report, only the number of pledged jobs would have been known.

The following illustration and accompanying narrative illuminate DCED’s misleading presentation of its job creation and retention numbers, as well as other shortcomings of the annual reports. For illustrative purposes, we have presented an exact replica of an excerpt from the 2012-2013 Annual Financing Strategy Report.
### Misleading headings

The headings used (actual, available, budget) are used in budget request documents; they are not accurate for the data presented in this chart. The headings should be labeled to provide accurate descriptions of what the numbers are: 2010-2011 are projections based on commitment letters, and 2011-2012 and 2012-2013 are simply estimates. *None* of the numbers are actual jobs created and/or retained.

Additionally, the use of “Performance Measures” is misleading. As discussed in Finding One, DCED did not set performance measures for any of its job creation programs. DCED should not use this header until it develops true performance measures. Without clear descriptive column titles, the information presented can be easily misunderstood by report users.
No individual program information

DCED presented job creation and retention information only in the aggregate; no individual program information was presented. While DCED provided descriptive information on some programs in a later section in the annual reports, that information did not routinely include job creation and retention numbers that corresponded with the numbers presented in the chart.

No correlation of numbers across reports

Report users cannot trace the figures in this annual report to the numbers presented in both preceding and succeeding annual reports. Each year’s Annual Financing Strategy Report presents the first year’s job creation and retention numbers as a snapshot in time and the other two years as estimates (as discussed in item #1 above). Those estimated numbers change each year, and DCED failed to provide a basis for the estimate or the reasons for the changes in the estimated annual numbers.

Numbers are overstated and misleading

DCED included the Local Share Account projects in the three annual reports we reviewed, which resulted in a substantial overstatement of the job numbers. For example, of the 39,308 projected jobs to be created in the 2010-2011 report, 22,319, or 57 percent, of those jobs are associated with the Local Share Account projects. In fact, one Local Share Account project for highway improvement in Luzerne County pledged to create 19,629 jobs and retain an additional 15,823 jobs. The inclusion of the Local Share Account job numbers is troubling because the funds associated with this program come exclusively from gaming revenues. DCED essentially works as a pass-through for these funds; it does not administer this program, nor does it monitor these projects to ensure the projected jobs are created and/or retained. Therefore, it is difficult to understand why DCED includes these job creation and retention numbers in its annual report.

DCED overstated total job creation and retention numbers by 57 percent.

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27 The Local Share Account was created in the Pennsylvania Race Horse Development and Gaming Act, (Gaming Act) 4 Pa.C.S. § 1103 et seq. The Act delineates certain counties that must use DCED as a distribution source of their revenues. See 4 Pa.C.S. § 1403(b) and (c)(2).
However, if DCED is going to continue to include the Local Share Account projects, DCED should be fully transparent in its presentation and clearly disclose that those projects are funded with gaming revenues. DCED should also clearly disclose that it does not monitor these projects to ensure that the proposed jobs are actually created.

### Missing information

As discussed in Finding Five, DCED monitors each business for job performance. Accordingly, DCED is able to generate job monitoring reports which show the number of jobs projected to be created and/or retained and the actual number of jobs created and/or retained as of the monitoring date. Because actual job creation information is available, we believe that DCED should present this information in its annual reports to further enable the General Assembly to make informed decisions regarding future funding of job creation programs.

As discussed earlier in this finding, the annual reports are mandated to include “a list of the loans, grants or tax credits approved for the economic development programs during the fiscal year. The list shall include a brief description of and details regarding each loan, grant or tax credit approved, including penalties imposed by the department.” (Emphasis added.)

Since DCED is required to include the penalties for each loan, grant, or tax credit approved, then DCED should be required to also present the actual job performance numbers. Penalties cannot be assessed until DCED has determined if a business fulfilled its contractual obligation to create and/or retain jobs. Accordingly, it is reasonable to expect DCED to include all relevant information (pledged jobs, actual jobs, and penalties) for each approved award.

Including actual versus projected information is critical to provide transparency and accountability on each program’s effectiveness. DCED is not presenting true program performance until such information is presented. In addition, the presentation of projected versus actual numbers enables decision-makers to find trends; discuss what is working or not,
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and why; and determine where DCED could adopt new procedures or changes in its due diligence process for stronger future performance.

Further, reporting actual versus projected numbers provides meaningful information to all interested stakeholders who want to ensure tax dollars are used in an effective manner. Such information would assist DCED in making decisions on program continuity and would assist the General Assembly when appropriating General Fund monies.

In summary, the Annual Financing Strategy Reports were incomplete, misleading, and unreliable. Therefore, DCED should implement the following recommendations.

Recommendations

6. DCED should ensure its Annual Financing Strategy Report includes all information prescribed by law including performance measures, accountability factors, and a narrative of each economic development program that includes job creation and retention statistics on each loan, grant, or credit awarded.

7. DCED should, at a minimum, change the column headings in the data section of the annual reports to show that the job numbers and funding amounts provided are projected, not actual numbers. Further, DCED should be clear and transparent in all narrative sections of the report by distinguishing when presented job numbers are projected and not actual.

8. DCED should discontinue its practice of including the job creation and/or retention numbers from the projects related to the Gaming Act’s Local Share Account in the overall totals. If DCED disagrees with this recommendation and continues to include the Local Share Account projects in the Annual Financing Strategy Report, then it should clearly present the job numbers separately and disclose the fact that DCED does not monitor these projects to determine if any jobs were actually created.
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9. DCED should, as part of the detail on each loan, grant, or tax credit awarded, include the actual job creation and/or retention numbers compared to the number of jobs pledged to be created and/or retained.

Department of the Auditor General’s Evaluation of DCED’s Response:

Following is the Department of the Auditor General’s evaluation of significant points from DCED’s response to Finding Four. DCED’s response to the report appears beginning on page 50.

In its response, DCED states that the Annual Financing Strategy Report is only one piece of information that DCED prepares. In addition to this report, DCED states that it also provides a “Legislative Budget Presentation” to the General Assembly each year, and it prepares an “Annual Performance Report on the previous fiscal year and submits that report to the Governor’s Budget Office. DCED also states that all of the legally mandated reporting requirements we discuss in Finding Four are covered between these three reports. Further, DCED stated that the Legislative Budget Presentation lists contracts individually, by program, in detail.

We obtained and reviewed copies of the Legislative Budget Presentation and the Annual Performance Report for the last three fiscal years to determine if these documents contained the legally mandated information that DCED does not include in its Annual Financing Strategy Report. Our review focused on the 2012-13 copies of these reports since our work in Finding Four focused on the fiscal year 2012-13 Annual Financing Strategy Report.

We found that these two reports listed more DCED programs than what was presented in the Annual Financing Strategy Report, so in that regard it is fair for DCED to state that these reports are more comprehensive than the Annual Financing Strategy Report. However, these reports are also lacking several of the components explicitly required by law. Therefore, we disagree with DCED that all of the legally mandated reporting requirements are contained within these three documents combined. None of the three reports contain the missing items we listed in the finding. Further, DCED stated that the Legislative Budget Presentation lists contracts
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individually, by program, in detail, and our review of the Legislative Budget Presentation reports we obtained showed that none of these reports contained a list of contracts.

The law is very clear in that it requires DCED to annually develop a report containing DCED’s financing strategy within the commonwealth and to provide seven different components of information in that report. DCED has titled one of it reports the “Annual Financing Strategy Report,” capturing in the report’s name the purpose of the mandated reporting requirements. Yet, that report falls short of including all mandated components. In fact, that report is the least comprehensive of all of DCED’s reports. Even with DCED’s preparation of two other documents, DCED still failed to meet its legal reporting requirements.

Instead, DCED has created a series of reports that are duplicative in some areas, contradictory in other areas, and generally confusing overall. Rather than overwhelm the General Assembly with quantity, DCED should create one quality document entitled the Annual Financing Strategy Report that contains all legally mandated reporting requirements. In this regard, DCED would be providing the General Assembly, as the law intended, with useful and meaningful information necessary to make informed decisions when annually appropriating General Fund monies to DCED.

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In its response, DCED disagreed with our assertion that the reported job numbers are inflated because pledged jobs associated with the Local Share Account are included in the total jobs pledged to be created or retained. DCED stated that, “We work with the applicants, review and recommend applications of Local Share funds using the same economic impact criteria and due diligence with which we handle all applications. There are no job requirements, granted, but that was set forth in the legislation, not by DCED.”

We stand by our position that including the Local Share Account job numbers resulted in job numbers that significantly overstated the impact of DCED’s job creation programs than what DCED can support with actual evidence. As DCED acknowledged in its response, there are no job requirements
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for the Local Share Account program and, therefore, DCED does not monitor those projects to ensure that the jobs were actually created/retained.

As we stated in the finding, 57 percent of the total jobs pledged to be created or retained as reported by DCED in the 2010-11 Annual Financing Strategy Report were related to the Local Share Account program. It is difficult to understand how DCED can justify including job numbers that it does not verify, especially when those numbers make up more than half of the total number of jobs pledged. If DCED is going to take credit for job numbers, it should only do so when it can provide assurances that pledged jobs were actually created and/or retained.

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In its response to Recommendation #6, DCED stated that, “While other reports are more comprehensive, DCED is happy to include all of the components listed in the Audit in its Annual Financing Strategy Report.”

We agree with DCED’s response that the Annual Financing Strategy Report is less comprehensive than the Legislative Budget Presentation and the Annual Performance Report. As stated earlier, after reviewing all three reports, we determined that DCED still has not fully complied with the law. While we are pleased that DCED is “happy to include all the components,” we note that our recommendation to include all legally mandated information in the Annual Financing Strategy Report should be complied with because it is required by law.

In addition, as noted earlier, we would encourage DCED to include relevant information from its Legislative Budget Presentation and its Annual Performance Report to create one comprehensive and meaningful Annual Financing Strategy Report. We believe that this one comprehensive report would provide the General Assembly with valuable economic development information and data for it to make informed decisions regarding required legislative changes and revamped funding to promote successful job creation and retention in the commonwealth.

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In its response to Recommendation #7, DCED stated that it agreed and accepted this recommendation.

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In its response to Recommendation #8, DCED stated, “Since Local Share applications are reviewed and considered for their economic impact and because the program leads to the creation of jobs, DCED is justified to include LSA [Local Share Accounts] projects in overall job projections regardless of the source of funds.”

We disagree with DCED’s response and continue to believe the Local Share Account numbers should not be included in the annual report. However, as we stated in this finding, if DCED chooses not to implement our recommendation to exclude the local share numbers and instead insists in including the projects associated with the Local Share Accounts, it must be consistent, accountable, and transparent in that reporting. At a minimum, it must be clear to the reader where the funds come from and that the jobs pledged are not required to be created, as well as clearly stating that it does not monitor the progress of the projects to ensure that the jobs are actually created and/or retained.

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In its response to Recommendation #9, DCED stated, “In most cases, actual job numbers are not available until three years after a business has received assistance.”

We agree with DCED’s statement. However, this time delay does not preclude DCED from reporting on the results of its monitoring activities on an individual project basis. In the Annual Financing Strategy Report, DCED should include an historical data section that compares the actual job creation/retention numbers to the pledged numbers for those projects which DCED has completed final monitoring activities.
Finding Five

DCED made significant improvements in its monitoring procedures for some of its job creation programs but failed to implement similar procedures in other job creation programs.

In response to our 2007 audit of the Opportunity Grant Program (OGP), DCED implemented many of our recommendations related to monitoring job performance. While these new procedures improved the effectiveness of DCED’s oversight for the OGP program and led to DCED’s improved performance with regard to imposing and collecting penalties, DCED failed to implement similar procedures for the other job creation programs it administers. DCED needs to take further steps to provide the public and the General Assembly with greater assurance that tax dollars are spent wisely and that intended program results are achieved.

DCED improved its monitoring procedures for some programs

As stated earlier in Finding Two, DCED’s Performance Monitoring Division (PMD) is responsible for monitoring grant and loan recipients for program requirements related to job creation, job retention, private investment, and site occupancy for five or more years. To determine the effectiveness of DCED’s monitoring efforts, we reviewed DCED’s policies and procedures, interviewed DCED officials, and reviewed monitoring files for a select group of businesses that DCED monitored during the audit period.

We found that DCED implemented the following procedures for the OGP program in response to the recommendations we made in our 2007 audit:

- Required businesses to report annually on the status of their job performance numbers, using a *Project Update Report*.
- Required not one, but two, high ranking officials to sign the *Project Update Report* certifying the accuracy of the reported job creation and retention numbers, as well as the private investment amount.
Amended the Project Update Report to include a standard notification informing the signatories that misrepresentations of the requested information are punishable under law.

Requested “payroll records” from a sample of businesses to confirm the accuracy of the self-reported job numbers.

Implementation of these procedures significantly improved DCED’s oversight function of businesses that received OGP grants. While we commend DCED for working to improve its monitoring procedures of the OGP program, we found that DCED did not implement similar procedures for the other four job creation programs we evaluated (IDP, CJT, SBF, and PIDA). In addition, we found that there is still room for improvements in DCED’s efforts to verify the self-reported job performance numbers. The needed improvements are detailed in the sections that follow.

DCED did not conduct interim job creation monitoring on all of its job creation programs

We reviewed five programs that required businesses to create and/or retain jobs as a condition of obtaining assistance, and of those five programs, DCED only conducted interim monitoring on one—OGP. In other words, DCED did not require a business to report its job performance each year after receiving the assistance. Instead, DCED only conducted “final” job monitoring at the end of the job creation period, which was typically three years.

When we asked DCED officials why they did not perform interim monitoring for all programs, they stated that such monitoring is not required and/or necessary. For example, with regard to the SBF and PIDA loan programs, DCED officials explained that the loan programs do not warrant interim monitoring due to the fact that the businesses must make monthly loan payments. DCED believes that if a business

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28 As stated in the background section of this report, the OGP, CJT, and IDP programs were consolidated into the Pennsylvania First Program in 2011. DCED officials stated that recipients of Pennsylvania First grant funds are required to annually report their job numbers to DCED.
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When a business becomes delinquent with its loan payments, DCED officials will be alerted to potential problems with the business and can then contact the business to inquire about job performance.

While DCED’s explanation for not conducting interim monitoring on the SBF and PIDA loan programs may seem reasonable, we continue to believe that annual updates from businesses to monitor their job creation and retention progress is a good management practice. For example, a business in trouble may opt to make loan payments to the state before paying debts to other creditors, thus giving no indication to DCED that the business is in trouble. Without any interim monitoring, DCED would not know of any potential problems until the end of three years.

We did find, however, that DCED implemented interim monitoring procedures for the Machinery and Equipment Loan Fund (MELF) program. Therefore, it is difficult to understand why DCED would consider interim monitoring to be important under one loan program, but not important enough to implement under all loan programs, including the SBF and PIDA.

DCED did not take enough steps to confirm self-reported job numbers

In response to recommendations we made in our 2007 OGP audit report, DCED implemented a process for the OGP program where it requested payroll records for a sample of businesses that received OGP funds. Specifically, for every tenth final Project Update Report generated and mailed to an OGP grantee for completion, DCED requested “payroll records” to support the self-reported number of jobs created and/or retained. A statement on the Project Update Report said, “please submit an employee listing such as payroll records to verify the reported number.” However, we noted that DCED did not ask for any payroll records for the other four programs we reviewed.

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29 DCED implemented such monitoring based on recommendations this department made in a 2012 audit of DCED’s administration of the MELF program.

30 DCED official stated that they also obtain payroll information from every tenth Pennsylvania First grant and MELF loan awarded.
Department of Community and Economic Development

When we asked DCED officials what kind of documentation they accept in response to this request, they stated that they accept an employee list with identification of the employee by name and employee or personnel number. They also stated that these records are normally generated from the company’s payroll or human resources (HR) system and can provide additional information about the employee, such as salary, start date, job title, etc.

While some records “can” be detailed payroll data, some records can contain far less information. For example, during our detailed test work, we found that one of the OGP files in our test group was flagged by DCED, and employee records were requested. These employee records provided a name and an “internal employee ID number,” but there was no indication that these were payroll or HR records. Therefore, it was nearly impossible to ascertain the actual source of the records and, consequently, the authenticity of the records is questionable.

While we were encouraged to see that DCED implemented procedures to spot check the self-reported job numbers on the Project Update Report for the OGP program, there is still room for improvement. When DCED requests payroll records, it should, at a minimum, ensure that the documentation submitted by the business contains sufficient information to verify the accuracy and validity of the reported job numbers.

Job performance numbers can be an important tool to measure the success of a job creation program. While we recognize that self-reported data is a practical and efficient way to collect job statistics from businesses that received assistance, DCED should place a greater priority on ensuring the reliability of those self-reported job numbers. In addition, DCED should ensure that it implements procedures to corroborate the self-reported job numbers for the other job creation programs it administers (e.g., IDP, CJT, SBF, and PIDA).

Overall, we found that DCED has taken several actions to improve its oversight and monitoring to ensure businesses are creating and/or retaining all jobs promised in exchange for

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31 While the MELF program was not included in our audit results, we also obtained an employee listing for a business awarded a MELF loan. These records also listed only names and employee numbers, but the payroll company’s name and phone number, along with a run date and the name of the employee who ran the report, were on this list. In this case, the list could be verified.
Department of Community and Economic Development

taxpayer-funded assistance. We commend DCED on these improvements, especially the implementation of interim monitoring. However, as previously stated, DCED should take additional steps to expand and improve upon its job creation monitoring.

The most important step that DCED should take is to ensure that it monitors all of its job creation programs with the same degree of diligence as it does with OGP. For example, the interim monitoring procedures that are required for the OGP recipients should be implemented for the other programs as well. Attracting and keeping jobs in Pennsylvania is a common goal for all of the economic development programs, therefore we believe that annual communications with the businesses to ensure that they are working toward that goal should be a requirement for all programs. DCED should implement the following recommendations for all of its job creation programs, as applicable.

Recommendations

10. DCED should conduct interim job performance monitoring on all businesses awarded assistance and not limit such monitoring to only those businesses awarded assistance through OGP.

11. DCED should implement procedures to obtain payroll records from every tenth project file for all job creation programs and not limit such monitoring to only those businesses awarded assistance through OGP.

12. DCED should ensure that businesses provide actual payroll records, or other similar documents that contain sufficient information to verify the accuracy and validity of the reported job numbers. DCED should not allow lists of names to satisfy this request.

13. DCED should work with other applicable state or federal agencies (e.g., Department of Revenue, Department of Labor and Industry, Social Security Administration, etc.) to obtain employment data that is up-to-date and useful in verifying the employment level of the businesses receiving assistance from DCED.
Department of Community and Economic Development

Department of the Auditor General’s Evaluation of DCED’s Response:

Following is the Department of the Auditor General’s evaluation of significant points from DCED’s response to Finding Five. DCED’s response to the report appears beginning on page 50.

In its response, DCED agreed with this finding, as well as with Recommendations 10, 12, and 13.

In its response to Recommendation #11, DCED states, “DCED’s Performance Monitoring Division does request payroll records for the PIDA program on a 1:10 basis like OGP, PA First, and MELF. The only remaining program that we do not currently request payroll records for is SBF. DCED is open to ascertaining the appropriate means by which to attain such records, and obtaining the necessary additional resources for this level of review.”

DCED’s response is contrary to what was communicated to us during the audit. In a meeting on September 23, 2014, we asked DCED officials which programs are subject to DCED’s payroll records request procedures. Officials responded that DCED currently requests payroll records, on a 1:10 basis, for three programs: OGP, MELF, and PA First; PIDA was not included in this list. Therefore, we reiterate our recommendation that DCED should obtain verifiable payroll records for all programs that have a job creation/retention requirement.
Appendix A

Objectives, Scope, and Methodology

The Department of the Auditor General conducted this special performance audit in order to provide an independent assessment of the Pennsylvania Department of Community and Economic Development’s (DCED) oversight of businesses awarded grants, loans, and/or tax credits when those businesses pledged to create and/or retain jobs in the commonwealth.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives

Our performance audit objectives were as follows:

- Determine the extent to which projects that received assistance based on a pledge to create and/or retain jobs actually created and/or retained those jobs.

- Determine what actions DCED takes when projects do not comply with the business assistance agreement terms.

Scope

Our audit covered the period of July 1, 2010, through June 30, 2013, unless otherwise indicated. To be clear, this audit period relates to the time frame in which DCED would have monitored a business for job creation and/or retention. Because businesses generally have three years to create and/or retain the pledged jobs, the businesses we reviewed during our audit would have been awarded business assistance as early as fiscal year 2007-08.

DCED’s management is responsible for establishing and maintaining effective internal controls to provide reasonable assurance that the department is in compliance with applicable laws, regulations, contracts, grant agreements, and administrative policies and procedures. In conducting our audit, we obtained an understanding of DCED’s internal
controls, including information system controls, as they relate to those requirements and that we considered to be significant within the context of our audit objectives. For those internal controls that we determined to be significant within the context of our audit objectives, we also assessed the effectiveness of the design and implementation of those controls as discussed in the Methodology section that follows. Any deficiencies in internal control that were identified during the conduct of our audit and determined to be significant within the context of our audit objectives are included in the findings of this report.

Methodology

To address our audit objectives, we performed the following procedures:

- Interviewed DCED officials, including staff from the Governor’s Action Team, to obtain an understanding of DCED’s job creation initiatives.

- Interviewed staff from the DCED’s Performance Monitoring Division to determine how DCED monitors businesses that were provided business assistance (grants, loans, and/or tax credits) to create and/or retain jobs in Pennsylvania.

- Obtained documentation from DCED on the step-by-step process used by the Performance Monitoring Division when it monitored each business for job performance, and used this process as criteria when conducting file reviews as discussed below.

- Reviewed program guidelines, obtained from DCED’s website, to determine which programs contained a job creation and/or retention component, as well as to gain an understanding of program requirements.

- Selected 42 business assistance projects that DCED monitored for job creation and/or retention during fiscal years 2010-11 through 2012-13. We reviewed the file documents of each selected project to determine the extent of monitoring DCED conducted on each business, as well as to determine the extent to which each business created and/or retained the jobs pledged
in their commitment letters. This file review allowed us to test the internal controls the Performance Monitoring Division implemented to determine if businesses actually created and/or retained the number of jobs pledged.

- Selected 33 business assistance projects that did not create and/or retain the number of jobs pledged during their monitoring phase of fiscal years 2010-11 through 2012-13 to determine the extent to which those businesses fell short of their pledged job numbers. We also determined the actions DCED took against those businesses that did not comply with the terms and conditions of their contract. This file review allowed us to test DCED’s internal controls related to imposing penalties on noncompliant businesses.

- For those job creation programs that were established through enacted legislation, we reviewed the enabling legislation and determined DCED’s compliance with those provisions that required DCED to take action against businesses that did not create and/or retain pledged jobs.

- Obtained and reviewed the Governor’s Executive Budget sections related to DCED and job creation and business growth initiatives during the audit period.

- Obtained three of DCED’s Annual Financing Strategy Reports (2010-2011, 2011-2012, and 2012-2013) prepared for the Pennsylvania General Assembly to determine how DCED documented the total number of jobs created and/or retained in the commonwealth, as well as to ascertain the extent to which these reports included all legislatively mandated information.

- Obtained and analyzed information from DCED on the amount of penalties assessed, by business, on businesses that failed to meet job creation and/or retention projections under the OGP, IDP, and CJT

32 Not all job creation programs are established through enacted legislation. Instead some programs are established by DCED as a matter of policy.
grant programs during fiscal years 2010-11 through 2012-13, as well as the amount of those penalties that DCED had collected as of June 30, 2014.

- Obtained and analyzed monitoring reports for OGP, CJT, IDP, SBF, and PIDA. These reports listed each business that received assistance under these programs and that DCED monitored during the fiscal years of 2010-11 through 2012-13. To assess the reliability of the data included on DCED’s monitoring reports, we met with DCED officials regarding data quality control procedures, and we corroborated this data, where possible, with the information we obtained for our file reviews. We determined that the data were sufficiently reliable for purposes of this report.

- Using DCED’s monitoring reports, we determined, by program, the number of businesses that met or exceeded the number of jobs pledged to be created and/or retained, as well as the monitoring status of those projects that had not met job projections.
## Appendix B

**DCED compliance with the seven Annual Financing Strategy Report requirements.**

<table>
<thead>
<tr>
<th>Annual report requirement</th>
<th>Is the component included in the:</th>
</tr>
</thead>
<tbody>
<tr>
<td>A financial audit or statement of operations for each economic development program. (1)</td>
<td>Varies a/</td>
</tr>
<tr>
<td>A narrative description of accomplishments for each economic development program during the preceding fiscal year. (2)</td>
<td>Varies b/</td>
</tr>
<tr>
<td>A detailed description of the parameters of operation for the economic development programs during the upcoming fiscal year. The description shall include the terms and conditions under which the economic development programs shall be administered. (3)</td>
<td>Yes c/</td>
</tr>
<tr>
<td>A description of the performance measurements and accountability factors to be applied and the performance targets or goals to be met for each economic development program. (4)</td>
<td>No</td>
</tr>
<tr>
<td>A description of long-range planning for the economic development programs through the next 5 fiscal years. (5)</td>
<td>No</td>
</tr>
<tr>
<td>A list of the loans, grants or credits approved for the economic development programs during the fiscal year. The list shall include a brief description of and details regarding each loan, grant or credit approved, including penalties imposed by the department. (6)</td>
<td>Yes d/</td>
</tr>
<tr>
<td>A review of pending projects. (7)</td>
<td>No</td>
</tr>
</tbody>
</table>

a/ None of the annual reports contained any financial audits of any of the economic development programs. Each report presented basic financial information for some of the programs; however, there was no financial information for other programs.
b/ The narrative for some of the programs included a cumulative description of the accomplishments since the inception of the program.
c/ The paper copies of the reports did not contain this required information. However, an Internet link to each program’s guidelines was included in the electronic version of the report, and these guidelines include the information required.
d/ DCED included a list of approved projects but did not include the penalties imposed by the department.

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12 Pa.C.S. § 303.
Response from Department of Community and Economic Development

The Department of Community and Economic Development’s (DCED) response to this audit report is reproduced in full beginning on page 53. DCED provided general comments about the audit report, as well as responses to each finding. In this section we provide our evaluation to DCED’s general comments. After the recommendations section of each finding contained in this audit report, we provide a summary of significant points from DCED’s response and our evaluation of those points.

Department of the Auditor General’s evaluation of DCED’s general comments to this audit report:

In its response, DCED states that our report is “peppered throughout with general comments that seem more like opinion than fact, incongruous in an audit and, in many cases, are not supported by the facts.”

We strenuously disagree with this DCED comment and note that DCED provides no foundation to support its opinion. Our performance audit was conducted in accordance with generally accepted government auditing standards which requires that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

*****

In its response, DCED states that “the time period for the programs reviewed and covered by the Audit is not clear,” and that the time frame should be stated in the Introduction and Background section of the report.

We disagree. The audit report clearly defined the time period covered in the audit as July 1, 2010, through June 30, 2013, multiple times throughout the report, including in the Introduction and Background section, as well as on the cover page, in the Executive Summary, and at the end of the report in the Objectives, Scope, and Methodology section.
Department of Community and Economic Development

Further, as we state throughout the audit report, while the audit period was from July 1, 2010, through June 30, 2013, to accomplish our objectives it was necessary to review those grants and/or loans awarded to businesses from 2007 through 2010 since businesses were typically given three years from the award date to create/retain all pledged jobs.

*****

In its response, DCED takes issue with what it calls “a snapshot of five programs between 2007 and 2010,” stating that three of those programs were consolidated into a new program and that the other two programs were merged. DCED views our analysis of these five programs as “limited scope.”

Our audit report clearly states in the Introduction and Background section of the report that we focused on these five specific programs because they required businesses to create and retain jobs in exchange for grants and loans. We also noted that these programs were consolidated and merged since our audit. However, the recommendations we made are still valid and relevant because they address DCED’s accountability, transparency, and oversight—concepts that are important to past and present job creation programs.

*****

In its response, DCED states that three of the programs are administered by the Commonwealth Financing Authority and not DCED and, therefore should not be included in the Introduction and Background section of the report. These programs are Alternative Clean Energy, First Industries, and Pollution Prevention Assistance.

DCED’s own program guidelines for these three programs state that the programs are jointly administered by DCED and the Commonwealth Financing Authority. However, to eliminate further confusion, we removed the reference to those programs from this final report.

*****

In its response, DCED stated that throughout the report we misused the term “business.” DCED suggested that we replace
We disagree with DCED that the term “business” should be replaced with the word “contract.” Our audit objectives covered business assistance programs and actual job creation and retention numbers for these businesses rather than contracts for these businesses. Further, we carefully chose the word business when writing this report to alleviate any confusion that might arise, and footnoted why we chose this word in the Introduction and Background section of this report. Also, the term “business” rather than the word, “contract” is used in DCED’s own program documents, on its website, and even throughout its rebuttal.
November 21, 2014

The Honorable Eugene DePasquale
Auditor General
Commonwealth of Pennsylvania
Office of the Auditor General
Finance Building, Room 229
613 North Street
Harrisburg, PA 17120-0018

Dear Auditor General DePasquale:

Attached is DCED’s response to the Auditor General Office’s Special Performance Audit of select job creation programs. The Auditor General’s report, which evaluates grants awarded prior to the Corbett administration, provides several constructive recommendations in which DCED can further fortify its already strong monitoring and compliance operations. However, there are areas with which we take issue.

DCED is proud of its record supporting private sector job growth, ensuring transparency and accountability in the expenditure of taxpayer dollars.

Sincerely,

C. Alan Walker
Secretary
General Comments:

The Auditor General’s Special Performance Audit of a few of DCED’s job creation programs made some constructive recommendations on areas in which DCED could further strengthen its monitoring and compliance operations and expand on or clarify information provided in certain reports to more fully capture the totality of what this agency accomplishes for the thousands of businesses it serves throughout the commonwealth.

However, the report is peppered throughout with general statements that seem more like opinion than fact, incongruous in an audit and, in many cases, are not supported by the facts.

Further, the time period for the programs reviewed and covered by the Audit is not clear. The Audit should state up front, on the cover page and in the Introduction and Background section specifically that grants and loans awarded between 2007-2010 were examined, the programs under question and the criteria that is being measured. This information is not mentioned until later in the report and not fully explained until page 37 of the document in Appendix A: Objectives, Scope and Methodology.

This Audit is a snapshot of five programs awarded between 2007 and 2010, four of which no longer exist. Three were consolidated under PA First in FY 2011-12 [(Customized Job Training (CJT), Opportunity Grant Program (OGP) and Industrial Development Program (IDP)] and the fourth [Small Business First (SBF)] was merged with other business assistance programs into the Pennsylvania Industrial Development Authority (PIDA). The opening sentence of the Audit states that the Auditor General “made a commitment to Pennsylvanians to perform an audit that evaluated the effectiveness of job creation programs administered by [DCED] to ensure those programs are an effective use of public dollars.” Nowhere in that opening statement or later in this section does it mention the limited scope of the report. In fact, on page three the report lists additional grant and loan programs (i.e. Alternative and Clean Energy, First Industries, and Pennsylvania First) which are not included in the scope of the report, leaving the impression that the scope is wider than it is.

Furthermore, three of the programs listed are Commonwealth Financing Authority (CFA) programs, not DCED’s: Alternative and Clean Energy (ACE), First Industries and Pollution Prevention Assistance (PPA) programs. Pennsylvania First should not even be mentioned since it was not in existence during the audit period of 2007-2010. [NOTE: If mention of these programs remains in the final document, it should be pointed out that ACE is primarily a grant program and should not be listed as a loan. Similarly, First Industries is primarily a loan program and should not be listed as a grant.]
Finally, throughout the report the term “business” is misused. What is actually being calculated are the individual contracts or awards given out under the five selected programs. In many cases, a business may have received assistance from more than one program for the same project. The report correctly points out (albeit in a footnote only) on page 6 that fewer than 600 businesses were actually awarded assistance. DCED, therefore, requests replacing the word “business” with the word “contract” when referring to the five programs reviewed to alleviate any confusion or misrepresentation of DCED’s record when it comes to assisting businesses.

**Finding One: DCED did not set any performance goals or measure the success of its job creation programs.**

Regarding performance goals, DCED’s job creation programs do have clearly defined job creation/retention goals. On pages four and five, the Audit itself references the job creation goals for the five programs reviewed. All but one program (CJT) have job requirements for which businesses must adhere to its commitments or return the funds to the commonwealth. CJT does require businesses to create jobs, but does not specify a minimum number. Quotes below are from the Audit.

- PA Industrial Development Authority (PIDA): “Businesses are required to create or retain one full-time job for every $35,000 loaned.”
- Small Business First (SBF): “Businesses are required to create or retain one full-time job for every $25,000 loaned.”
- IDP: “A business is required to create one full-time job for every $25,000 of assistance awarded or ten new full-time jobs (whichever is greater).”
- OGP: “Businesses are required to create or retain a minimum of 100 full-time jobs or increase its employment by at least 20 percent, with the maximum grant award of $5,000 for every job created or retained.”

If there are other performance goals related to job creation that the department does not currently employ, DCED would be pleased to understand what the Auditor General’s Office has in mind and would consider implementation of such goals to the extent feasible and measureable.

As for whether DCED measures the success of its job creation programs, the entire basis of our compliance and monitoring activities, indeed the entire function of the Performance Monitoring Division at DCED is to hold businesses accountable for their contract commitments. We measure the success of the programs referenced in this report, along with all the programs DCED administers, by many measures, including job
creation, but also private investment leveraged. If DCED does not “analyze statistics of actual job performance,” then it is unclear how the Auditor General’s staff was able to get the numbers to create the table on page eight. Regarding private investment, it should be noted that if private investment had been measured instead of just job creation, auditors would have discovered that private investment EXCEEDED commitments.

The basis for Finding Two, in fact, relates to the department’s response to businesses when they do not live up to their job commitments. This finding commends DCED for penalizing businesses when they do not achieve pre-determined performance measures. If we do not have performance goals or measures, then how could we penalize businesses that do not achieve them?

Regarding the Audit’s claim that “only 336 businesses, or 56 percent, met or exceeded their job projections as of June 30, 2014,” DCED again respectively disagrees with the use of the term “businesses” as it is misleading. More significantly, it distorts DCED’s job record because it does not factor in other job creation programs such as the Job Creation Tax Credit, which awards the tax credit only AFTER a business has created the jobs.

The table on page eight clearly shows that the five programs created or retained more than 96.8 percent of the jobs projected. Of the 137,749 jobs pledged to be created/retained, businesses created/retained 133,329 jobs. Considering these contracts were awarded during the second largest economic downturn in U.S. history, we consider this record to be worthy of praise, not criticism. Yet this statistics is not mentioned anywhere in the report.

Also on page 9, the report claims that DCED should measure indirect impact along with direct impact, clearly opining that “opting to forgo the development of criteria for measuring program outcomes due to difficulty is a disservice to the taxpayers.”

In fact, it is not within DCED’s purview to measure indirect economic impact. However, indirect impact is considered as part of the application process when a project is located, for example, in a rural area where the creation of even a few jobs will have a significant impact on the region.

Recommendation #1: DCED has issues with the premises on which both of the recommendations in Finding One are based. That being said, DCED will accept the recommendation in #1 to review financing and tax credit programs in other similarly populated states to determine whether those states have additional performance measures or goals beyond what DCED currently uses.

Recommendation #2: DCED already does regularly evaluate and monitor the results of each job creation program through its Performance Monitoring Division.
Finding Two: **DCED penalized businesses that failed to fully meet job projections as required by its contracts.**

DCED appreciates the Audit’s recognition of our agency’s Performance Monitoring Division (PMD)’s efforts in reimbursing the commonwealth for the $10.9 million in taxpayer funds that should be returned to the General Fund from companies who were unable to meet their job creation commitments, pledged as part of their legal contracts they must sign to receive funding. Such actions are an example of DCED’s good stewardship of taxpayer dollars.

Typically, a “finding” in reports such as these is considered to be an area in which change is required. Referencing the Audit’s own table (Page 13), DCED has collected and is in the process of collecting $6,131,819 of the total $10,894,382 owed the commonwealth for grants and loans made during the previous Administration. Only $540,817 (less than five percent) has been written off, leaving $4,221,746 in dispute and in the hands of DCED’s legal team.

It is true that, as an unsecured creditor, if a grantee files bankruptcy it is very unlikely that the Department would be able to recover grant funds. It is not true, as the report suggests, that only when a business files for bankruptcy is the matter referred to DCED’s legal team. The Office of Chief Counsel has enforced grant pay-back obligations against many non-compliant OGP/CJT/IDP grantees through litigation, the threat of litigation, and settlement agreements when the grantee has agreed to the Department’s demand for the return of grant funds. The Office of Chief Counsel’s efforts activities resulted in the recovery of $1,751,612 in 2013 from non-compliant grantees, and $962,887 to date in 2014.

**Recommendation #3:** DCED should continue to hold businesses accountable for creating and/or retaining the number of jobs pledged by continuing to impose a penalty when DCED determines that businesses did not fully comply with their contractual obligations. DCED appreciates the Auditor General’s “finding” that we hold businesses accountable for their job creation/retention commitments.

Finding Three: **DCED did not verify if 46 businesses awarded $16.9 million in PIDA or SBF loans actually created and/or retained jobs.**

This finding refers only to those loans that were paid off prior to the final scheduled job monitoring date. DCED does not monitor job creation/retention once the loan is paid in full. The Auditor General’s office makes a good point that an ability to pay off a loan early does not guarantee that the full number of jobs pledged to be created/retained was
actually realized. However, there are several reasons why DCED does not monitor in these instances. First, the penalty if a business does not meet its job commitments is raising the interest rate on the loan, which would not be available if the loan has been paid off. The only other recourse DCED has is if that business applies for another loan, in which case we could deny the assistance if there were not a satisfactory explanation for the failure to meet prior job commitments. It is worth noting that when a business that failed to meet its job commitments applies for another loan, the commitment on the second loan must include those jobs that were not created or retained under previous loan agreement in addition to whatever job requirements are laid out in the guidelines.

Recommendation #4: DCED should monitor ALL businesses awarded a PIDA or SBF loan for job performance. The Pennsylvania Industrial Development Authority is an independent authority; therefore, to accomplish this, changes to the contracts would need to be made, to which the PIDA Board would need to agree. Similar changes would need to be made to the SBF contracts as well.

Recommendation #5: DCED should ensure that PIDA and SBF loan agreements include a penalty provision that addresses the type of penalty DCED can impose, etc. DCED will work with PIDA and Area Loan Offices (ALOs) to determine what penalty, if any, is appropriate in the event a business has not fulfilled its job commitment and when that penalty could be imposed.

Finding Four: DCED’s Annual Financing Strategy Reports are incomplete, misleading and unreliable.

The Annual Financing Strategy Report is one of several sources of information, both for the public and the General Assembly. DCED also submits a Legislative Budget Presentation annually to the General Assembly prior to the annual budget hearings. In addition, DCED prepares an Annual Performance Report on the previous fiscal year to the Governor’s Budget Office that is delivered in December. This report includes projections for the next five fiscal years for all the measures we track including: jobs created/retained, businesses assisted, local governments assisted, export sales facilitated, private funds leveraged, public funds leveraged, persons receiving job training, new technology companies established, and estimated state and local tax revenues. This Annual Report is prepared and published on the Governor’s Budget Office website.

All of the components referenced in the Audit are covered between these three reports with the most comprehensive being the Annual Report and the Legislative Budget Presentation. The latter includes program descriptions, performance measures and accountability factors. It also lists contracts individually by program in detail.
Of the three, the Annual Financing Strategy Report is the least comprehensive. DCED is happy to comply with the Audit’s recommendation that we include additional information in that report.

The Audit refers to “misleading” headings in the FY 2012-13 Annual Financing Strategy, saying that use of the term “Actual,” “Available,” and “Budget” are not accurate. DCED accepts this point as it takes at least three years to verify job performance, so the FY 2010-2011 numbers would not be finalized by 2012-2013. Therefore, we suggest removing the terms Actual, Available and Budget and change the title of the chart to DCED FY 2012-2013 Program Performance Projections.

The Audit claims that DCED’s job numbers are inflated because we include those created through Local Share accounts, saying that the department is merely a “pass through” and that the funds come from gaming revenues, not state appropriations from the General Fund. First of all, DCED is not a pass through. We work with the applicants, review and recommend applications for Local Share funds using the same economic impact criteria and due diligence with which we handle all applications. There are no job requirements, granted, but that was set forth in the legislation, not by DCED. As for where the funds come from, this is irrelevant as the source for several of DCED’s job creation programs is not the General Fund, including the revolving loan funds PIDA, SBF, Manufacturing and Equipment Loan Fund (MELF). DCED is justified in including any program for which it reviews and approves applications as it does so based upon a clearly defined set of criteria aimed at maximizing economic impact.

Recommendation #6: DCED should ensure its Annual Financing Strategy Report includes all information required by law. While other reports are more comprehensive, DCED is happy to include all of the components listed in the Audit in its Annual Financing Strategy Report.

Recommendation #7: DCED should change the column headings in the data section of the Annual Financing Strategy report to show that the job numbers and funding amounts are projected. Agreed and accepted.

Recommendation #8: DCED should discontinue its practice of including the job numbers from the Local Share Account (LSA) in the overall totals. DCED Response: Since Local Share applications are reviewed and considered for their economic impact and because the program leads to the creation of jobs, DCED is
justified to include LSA projects in overall job projections regardless of the source of funds.

Recommendation #9: DCED should, as part of the detail on each loan, grant, or tax credit awarded, include the actual job creation and/or retention numbers compared to the number of jobs pledged to be created and/or retained. In most cases, actual job numbers are not available until three years after a business has received assistance.

Finding Five: DCED made significant improvements in its monitoring procedures for some of its job creation programs but failed to implement similar procedures in other job creation programs.

In Finding Five, DCED appreciates the Audit’s recognition of “significant improvements” the department has made in its monitoring procedures since 2007.

Recommendation #10: DCED should conduct interim job performance monitoring on all businesses awarded assistance. Since 2011 when CJT and IDP were consolidated under the Pennsylvania First program, these programs are monitored according the recommendations made in the 2007 audit. DCED recognizes the report’s finding that SBF and PIDA loans are not subject to interim monitoring, nor does the department require job creation reports when loans are paid off prior to the final monitoring date. DCED is committed to working with the PIDA Board and our Area Loan Offices to ascertain the appropriate means by which to certify the accuracy of job performance numbers as well as private investment commitments and obtaining the necessary additional resources for this level of review.

Recommendation #11: DCED should implement procedures to obtain payroll records from every tenth project file for all job creation programs. With regard to the process by which DCED verifies job creation/retention, the report claims that the department did not take enough steps to confirm self-reported job numbers. However, DCED’s Performance Monitoring Division does request payroll records for the PIDA program on a 1:10 basis like OGP, PA First and MELF. The only remaining program that we do not currently request payroll records for is SBF. DCED is open to ascertaining the appropriate means by which to attain such records, and obtaining the necessary additional resources for this level of review.

Recommendation #12: DCED should ensure that businesses provide actual payroll records, or similar documents that contain sufficient information to verify job creation. DCED agrees and is open to finding a better way to verify job performance.
Recommendation #13: DCED should work with other applicable state or federal agencies to obtain employment data to verify employment. DCED agrees and is open to working with our state and federal partners to obtain employment data to verify employment.
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