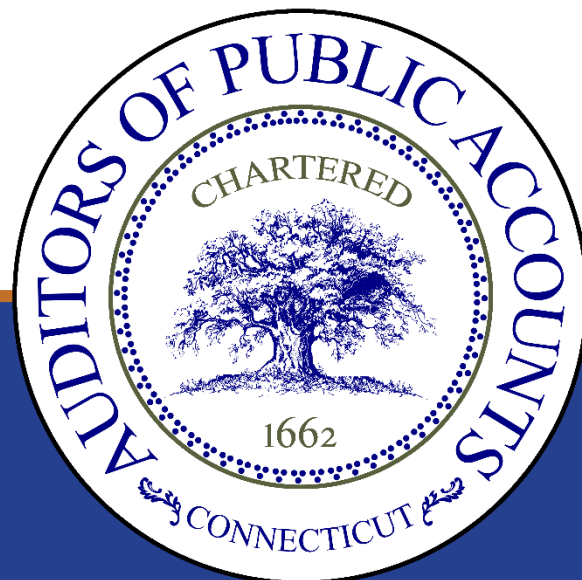


AUDITORS' REPORT

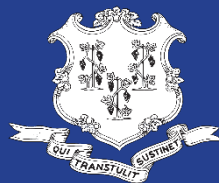
Department of Economic and Community Development Annual Reports Evaluation

2020, 2021, AND 2022



STATE OF CONNECTICUT
Auditors of Public Accounts

JOHN C. GERAGOSIAN
State Auditor



CLARK J. CHAPIN
State Auditor

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August 9, 2023

INTRODUCTION

In accordance with the provisions of Section 2-90c of the Connecticut General Statutes, we have evaluated the Department of Economic and Community Development (DECD) [annual reports for the fiscal years ended June 30, 2020, 2021, and 2022](#).

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Department of Economic and Community Development during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Bryne Botticelli
Rigoberto Escalera
Natercia Freitas
Kadie Suleski

A handwritten signature in black ink that reads "Bryne Botticelli".

Bryne Botticelli
Associate Auditor

Approved:

A handwritten signature in black ink, appearing to be "John C. Geragosian".

John C. Geragosian
State Auditor

A handwritten signature in black ink that reads "Clark J. Chapin".

Clark J. Chapin
State Auditor

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the DECD annual reports for the fiscal years ended June 30, 2020, 2021, and 2022 disclosed the following three recommendations, all which were repeated from the previous audit:

Finding 1

Omitted Statutorily Required Information

Criteria

Section 32-1m(a)(4) of the General Statutes provides that DECD's annual report should include an analysis of each business assistance or incentive program administered by DECD or Connecticut Innovations, Incorporated (CI) with ten or more recipients in the preceding fiscal year or credited, abated, or distributed more than \$1,000,000 in the preceding fiscal year. The analysis shall include:

- An overview of the program and an analysis of its estimated economic effects on the state's economy;
- An analysis of whether the statutory and programmatic goals of the program are being met, with obstacles to such goals identified;
- Recommendations as to whether any such existing business assistance or incentive program should be continued, modified, or repealed; and the basis for such recommendations and any recommendations for additional data collection; and
- The methodologies and assumptions used in carrying out the analysis.

Condition

The DECD annual reports did not include analyses of the estimated effects of CI programs on the state's economy or whether they met their statutory and programmatic goals. In addition, DECD did not recommend whether the programs should be continued, modified, or repealed.

Context

The reports included information about the Angel Investor Tax Credit and Sales and Use Tax Exemptions. In addition, the 2022 report included information about the Cannabis Angel Tax Credit Program. The reports also included links to CI annual reports which contain information on additional programs.

Effect	The General Assembly's ability to make decisions about business assistance and incentive programs is limited without complete information.
Cause	CI is not promptly analyzing the estimated effects on the state's economy for programs it administers.
Prior Audit Finding	This finding has been previously reported in the last two evaluations covering the fiscal years ended June 30, 2017 through 2019.
Recommendation	The Department of Economic and Community Development should work with Connecticut Innovations, Incorporated to obtain the data needed to estimate the impact of its programs on the state's economy.
Agency Response	"DECD agrees with the finding that they did not report all of the statutorily required information regarding CI in their 2022 Annual Report, and DECD will work with CI to include this information going forward. Please note that CI does collect the required information for such an analysis, per the independently prepared program evaluation report that is linked to on page 33 of DECD's 2022 Annual Report. This independent report covers years 2016 through 2020. Additionally, DECD's 2022 Annual Report linked to CI's Angel Investor report on page 19. These evaluations show CI's programs have a positive impact on Connecticut's economy, and DECD will include this information in future annual reports."
Auditors' Concluding Comments	The independent report in the 2022 annual report did not cover the required reporting period.

Finding 2

Unsupported Data

Criteria	Section 32-1m(a)(2) of the General Statutes provides that DECD's annual report should include an analysis of the department's economic development portfolio. The analysis must include total portfolio value, total investment by industry, portfolio dollar per job average, and portfolio leverage ratio.
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Condition

Our evaluation noted that DECD reported some amounts that did not agree with supporting documentation.

We noted the following differences:

- DECD overstated the Urban and Industrial Site Reinvestment tax credits awarded by \$10,000,000 (3%) in the 2020, 2021, and 2022 reports.
- DECD understated the fiscal year 2021 Brownfield investment by \$1,500,000 (21%) and funds leveraged by \$33,095,379 (18,285%). DECD understated the leverage ratio for fiscal year 2021 by 3.76 (18,800%).

Context

DECD reported \$349,755,184, \$330,092,676, and \$302,592,676 of Urban and Industrial Site Reinvestment tax credits awarded in the 2020, 2021, and 2022 DECD Annual Reports, respectively. We judgmentally selected seven companies to review, which DECD reported awarding \$81,000,000 in tax credits. DECD reported investments of \$7,297,314, funds leveraged of \$181,000, and a leverage ratio of 0.02 for fiscal year 2021 Brownfield activity. We reviewed all fiscal year 2021 Brownfield contracts.

Effect

The General Assembly's ability to make decisions about business assistance and incentive programs is limited without accurate information.

Cause

DECD reduced a company's maximum tax credit award by \$10,000,000 for failure to meet all job obligations, but did not reflect this reduction in the annual report. In addition, DECD omitted one Brownfield contract.

Prior Audit Finding

This finding has been previously reported in the last two evaluations covering the fiscal years ended June 30, 2017 through 2019.

Recommendation

The Department of Economic and Community Development should ensure that amounts in its annual report are accurate and adequately supported.

Agency Response

"DECD agrees with this finding and will correct these errors in the 2023 Annual Report. Overall, these errors did not materially impact the 10-year portfolio value for the programs evaluated."

Finding 3

Economic Impact Analysis

Background

DECD estimated the direct impact of its business assistance programs and some incentive programs. Companies typically commit to making capital investments and creating a particular number of jobs. The direct impact is the tax revenue generated by these jobs and capital investments net of the cost of the state assistance.

DECD estimated the indirect impact of some incentive programs. DECD analyzed the economic impacts using a model designed by Regional Economic Models, Inc. (REMI). The department entered the direct economic activities, such as project costs and the amount of assistance provided, as inputs into the REMI model. The REMI model then estimated the indirect impacts of the financial assistance.

Criteria

Section 32-1m(a)(2) of the General Statutes provides that DECD's annual report should include an analysis of the business assistance and incentive programs' impact on the state's economy.

Condition

Our evaluation of the economic impact analyses included in the 2022 DECD annual report disclosed the following.

- DECD overstated direct net state revenue to date for the Small Business Express program by \$22,830,027 (18%).
- Our evaluation of the tax credits and project costs used in the REMI model determined that DECD overstated various Film Infrastructure tax credit inputs by \$644,897. We did not determine how these differences would affect the amount of reported estimated net state revenue.

Context

DECD reported \$126,047,500 in direct net state revenue for the Small Business Express program. We reviewed the program totals for all elements in the reports' Small Business Express analysis. In addition, DECD reported (\$11,530,000) in net state Film Infrastructure tax credit revenue. We reviewed all Film Infrastructure tax credits included in the net state revenue calculation.

Effect

The ability to make decisions about business assistance and incentive programs is limited without accurate information about the programs' estimated impact on the state's economy.

Cause

DECD included repayments for Recovery Bridge Loans in the Small Business Express calculation despite the report indicating that it did not include Recovery Bridge Loans in the analysis. DECD also included ineligible acquisition costs for one Film Infrastructure tax credit recipient.

Prior Audit Finding

This finding has been previously reported in the last two evaluations covering the fiscal years ended June 30, 2017 through 2019.

Recommendation

The Department of Economic and Community Development should ensure that amounts included in its economic impact calculations are accurate.

Agency Response

"DECD agrees with this finding and will make the corrections in the 2023 Annual Report."

STATUS OF PRIOR AUDIT RECOMMENDATIONS

Our [prior evaluation](#) on the Department of Economic and Community Development 2018 and 2019 Annual Reports contained five recommendations. Two have been implemented or otherwise resolved and three have been repeated or restated with modifications during the current evaluation.

Prior Recommendation	Current Status
<p>The Department of Economic and Community Development should work with other state agencies to ensure that it includes all non-DECD administered business assistance or incentive programs in its annual report. In addition, the General Assembly should consider modifying the reporting requirements included in Section 32-1m of the General Statutes, or require the agencies administering the programs to provide the data needed to estimate the impact on the state’s economy.</p>	<p>REPEATED Modified Form</p> <p>Recommendation 1</p>
<p>The Department of Economic and Community Development should ensure that amounts in its annual report are accurate and adequately supported.</p>	<p>REPEATED</p> <p>Recommendation 2</p>
<p>The Department of Economic and Community Development should ensure that amounts in its economic impact calculations are accurate, and that the department includes all relevant factors in its analyses.</p>	<p>REPEATED Modified Form</p> <p>Recommendation 3</p>
<p>The Department of Economic and Community Development should work with Connecticut Innovations, Inc. to ensure that the number of jobs reported in the annual report are accurate. Section 2-90c of the General Statutes was amended subsequent to our previous evaluation and no longer requires auditors to evaluate subdivision (4) of subsection (a) of Section 32-1m.</p>	<p>RESOLVED</p>
<p>The General Assembly should consider amending the reporting requirements in Section 32-1m of the General Statutes to include information on uncollectible loans, and potential and actual loan forgiveness.</p>	<p>RESOLVED</p>

OBJECTIVES, SCOPE, AND METHODOLOGY

Section 32-1m of the General Statutes provides that, not later than February 1st annually, the Commissioner of Economic and Community Development shall submit a report that includes information regarding the activities of the Department of Economic and Community Development (DECD) and business assistance or incentive programs administered by Connecticut Innovations, Incorporated, during the preceding state fiscal year.

Section 2-90c of the General Statutes provides that, as part of each audit the Auditors of Public Accounts performs of DECD, the auditors shall evaluate the annual reports submitted since the last audit and the analyses required under subdivision (2) of subsection (a) of Section 32-1m of the General Statutes. Subdivision (2) pertains to analyses of the economic development portfolio of DECD that are included in the annual report. The auditor's evaluation shall include:

1. A determination of whether evidence is available to support the accuracy of the data presented in such annual report;
2. An evaluation of management practices and operations regarding the ease or difficulty for taxpayers to comply with the requirements of the incentive programs;
3. Recommendations for improving the administrative efficiency or effectiveness of the incentive programs; and
4. An evaluation of whether such annual reports satisfy the reporting requirements under subsection (a) of Section 32-1m of the General Statutes.

Our evaluation focused on determining whether fiscal year data presented in the annual reports for the fiscal years ended June 30, 2020, 2021, and 2022 appeared accurate and whether the annual reports satisfied the reporting requirements under subsection (a) of Section 32-1m of the General Statutes. We also evaluated the accuracy of portfolio data, including economic impact analyses, for 2022 which reflects activity from 2020, 2021, and preceding years. We evaluated the remaining requirements in a separate performance audit, which our office released on May 21, 2019, and followed up on April 6, 2022.

For the areas evaluated, we identified apparent noncompliance with Section 32-1m of the General Statutes.

The State Auditors' Findings and Recommendations section of this report presents findings arising from our evaluation of the Department of Economic and Community Development annual reports.